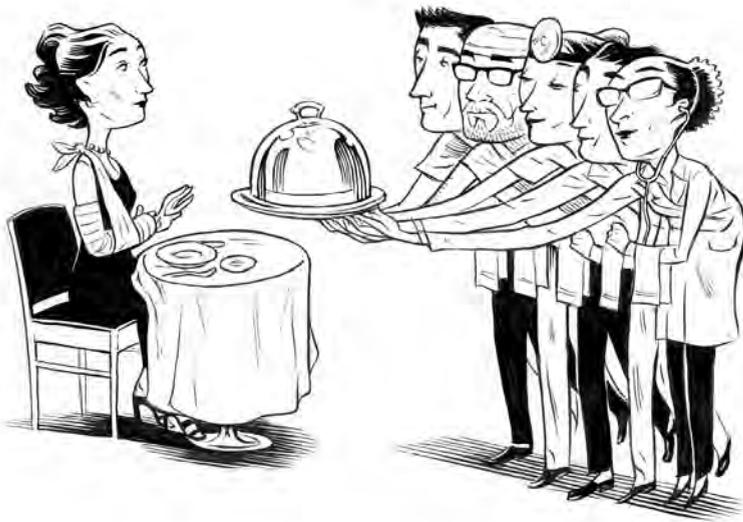


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Healthcare Shifts from *à la Carte* to *Prix Fixe*

A bundled approach to treatment offers higher quality, lower costs, and a better experience for patients.

BY GARY D. AHLQUIST, MINOO JAVANMARDIAN,
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To understand what's wrong with the current approach to healthcare in the United States, consider the experience of a typical patient with chronic knee pain. He goes to his general practitioner (for a referral), who then sends him to an orthopedist (for an initial diagnosis), who then sends him to an imaging facility (for an MRI). If the patient needs a knee replacement, he'll have the operation done at a hospital (with a new set of specialists, including an anesthesiologist and nursing staff), and once he's discharged, he'll visit a physical therapist (for rehab). Five separate facilities, five sets of "new patient" forms. Months later, the patient will

be back at the office of his general practitioner—who will have had almost no involvement since signing the original referral—and the doctor will ask, with genuine curiosity, "How'd it go?"

This is not a well-oiled machine for delivering quality care. It is, however, a very effective way to rack up charges, with little relationship to patient outcomes or experience. In fact, healthcare is a kind of *à la carte* hell for most patients (along with their employers and insurers). The system is extremely fragmented, because it's structured around the way providers offer services—each focused on one small part of the procedure—instead of the way patients actually receive care. No one has an overarching view of the entire process, with an eye toward improving customer

service, quality, or costs. Equally problematic is the fact that patients often become passive players in their own care—uninformed about the process, the course of treatment, or the expected outcomes.

But some innovative hospitals and health plans are working on a new approach: bundled healthcare. A "bundle" is a procedure or service that includes every step of the process for a specific treatment, in one package, at a set price. Bundled knee replacements, for example, typically cost somewhere between US\$20,000 and \$30,000. There's even a guarantee regarding results: If something goes wrong, the doctors fix it and don't charge anything extra (unlike the current system, where a follow-up operation costs just as much as the first one). Conceptually, bundles are akin to switching from an *à la carte* menu to a *prix fixe* menu. They involve hospitals, doctors, employers, and insurers all working together to improve outcomes, reduce fragmentation, streamline care, and reduce costs, while making the entire experience more consumer-friendly. They typically work best for acute conditions that have fairly standard treatments—such as joint replacements or coronary surgery—because as those procedures are repeated over time, the providers can learn what works best and wring inefficiencies out of the process.

Bundled care is still an evolving concept, with most programs in the pilot stage, but the early results are already drawing notice. Baystate Medical Center, an academic hospital in southern Massachusetts, launched a knee-replacement bundle and found that outcomes improved markedly. Patients had fewer complications and experienced fewer hospital readmissions—an indica-

tion of fewer post-operative problems. Costs went down (Baystate set a target of \$24,600 per procedure and beat that, getting total costs down to \$22,900), and Baystate simultaneously improved its quality ratings among patients.

Similarly, Geisinger Health System, a facility in Pennsylvania that is widely recognized as a model for integrated care delivery—it was cited on numerous occasions by President Barack Obama and others during debates over the Affordable Care Act (ACA)—launched a bundle program for coronary bypass surgery, which has yielded strong results. Post-op infections fell by 63 percent, and hospital readmission rates decreased by 30 percent. Meanwhile, total costs for bypass

experiments and innovations, and more than 450 provider organizations have signed up as part of the demonstration and piloting phase. Although the precise impact of the ACA is still playing out, there is mounting evidence that bundles will be a critical part of any solution for the U.S. healthcare system—a means to deliver a higher-quality patient experience, achieve better results, and reduce costs.

The Backstory

Bundles didn't materialize out of thin air. They are the culmination of 30 years of experimentation and innovation. In 1982, Medicare and Medicaid switched from a basic system, in which the government simply covered the costs of treatment

bundled care program in which its employees can receive treatment for a number of common procedures, including joint replacement and heart surgery, at leading hospitals such as Mayo Clinic, Cleveland Clinic, and Geisinger Health System. Because Walmart employees are located throughout the U.S., the flat fee for treatment includes airfare and lodging for the employee plus a companion. (International “medical tourism” is another example of this approach, with flat fees for procedures.)

It's worth noting that bundled care involves much more than merely grouping services with a single provider and setting a fixed price. The collaboration element among different roles is crucial, meaning that the method of delivering care will actually improve over time—akin to the continuous improvement concept in manufacturing. This isn't paint-by-numbers medicine; it involves scientifically validated best practices, which constantly get reviewed and refined. It also includes in-depth counseling and guidance for patients about what they can expect (clinically and financially) at each step in the process. And advanced IT plays a major factor in enabling bundled care by tracking actual care inputs, patient outcomes, and costs. Without the industry's new system of interoperable electronic health records and information exchanges (now being rolled out nationwide), this method of delivering care couldn't exist.

Although bundles are currently limited to a relatively small number of acute conditions, the idea could potentially apply to both inpatient and outpatient care, including chronic conditions that require behavioral and lifestyle changes (such

Baystate Medical Center launched a knee-replacement bundle and found that outcomes improved markedly.

surgeries dropped 5 percent, and hospital profits improved by nearly \$2,000 per case. Geisinger has since expanded its bundles to include hip-replacement surgery.

Booz & Company has been studying bundles for several years, and we have a unique perspective on what works well and what doesn't (see “*The HEALS Approach to Bundles*,” page 4). Moreover, we recently completed comprehensive surveys of stakeholders in the U.S. health system, including patients, employers, physicians and hospitals, and insurers. The results show that bundles are generating increasing momentum. The ACA is also fueling demand: It explicitly encourages bundling

retroactively, to a system involving something called diagnosis-related groups (DRG). That approach established fixed payments for the treatment of specific conditions. The basic idea was right, and the DRG system survives to this day, but it has proven to be overly complex and “game-able”: The number of diagnoses is now in the tens of thousands.

In the 1990s, Michael Porter and others argued that hospitals and physicians should move away from “services” and focus on packaged clinical “products.” More recently, private-sector efforts have involved regional and national hospitals working with selected large employers (and their insurers). Walmart, for example, now has a

as diabetes). In fact, the model could ultimately constitute the majority of revenues for hospitals, physicians, and other providers. If that were to happen, it would significantly bend the cost curve for healthcare in the United States.

Current Market Perceptions

To gauge the market perceptions of bundles, we surveyed various players in the healthcare system over the past year: consumers, employers, providers (hospitals and physicians), and insurers. The results were encouraging, and they show that the idea holds broad appeal.

Consumers are ready; employers are cautious. Our survey of more than 1,000 consumers revealed that a substantial majority (78 percent) find the concept of bundled care to be appealing, especially its potential for greater clarity and transparency, along with potentially lower out-of-pocket expenses. These attitudes held almost regardless of respondents' age, health status (sick versus well), or type of insurance plan (PPO, HMO, high-deductible, and so on). But consumers do have some concerns—for example, many have serious reservations about traveling any significant distance to receive care.

Qualitative interviews with patients who had already received treatment showed that their experiences with bundles had been largely positive. Consumers give high marks to bundled care for its clarity about the process, from diagnosis through treatment and rehabilitation. “One-price-covers-all is attractive, but even more attractive is the promise of a coordinated team providing care and treatment,” said one participant, a middle-aged man suffering from prostate cancer. The right plan will

clearly attract consumers, once they understand how it works and how it differs from the traditional approach to treatment.

A second survey, of employers, revealed interest as well, but it is generally concentrated among larger companies. Only 5 percent of employers are actively pursuing bundled care programs, and they all have more than 1,000 employees. Many respondents say they are taking a wait-and-see approach to assess results from the current wave of pilot programs. Not surprisingly, the biggest priorities among employers are lower costs, reduced absenteeism from workers requiring treatment, and better outcomes.

Large hospitals are rolling out programs; payors are hedging their bets. We also surveyed providers to gauge their bundled care efforts to date (if any) and their plans for future implementation. Roughly one-third of hospitals surveyed are already pursuing the model, and another 52 percent are interested in exploring it further. As with employers, the larger hospitals and health systems are jumping in first, and nearly all larger systems expect to develop bundles at some point. Of those that already have programs in place, nearly two-thirds reported cost savings. Notably, virtually all of those with programs in place say they are committed to expanding them to include more treatments and/or geographies, and most say this will happen within the next three years.

Finally, we surveyed health insurers, which are perhaps the most crucial link in the future of this concept. Insurers connect hundreds of millions of patients with millions of employers and hundreds of thousands of providers. We detected an

undercurrent of skepticism among a number of insurers, who believe that bundles may not be part of a long-term solution for the country, and that another “big idea” will somehow emerge to win the day. This seems unlikely. By improving outcomes and reducing costs, bundled care represents a rare win-win for the demand side (patients and employers) and the supply side (payors and providers) almost regardless of how the ACA plays out. In fact, the underlying philosophy of bundled care—better ways to treat patients, new partnerships, and new approaches to pricing—can function as part of many solutions.

Challenges for the Industry

Despite the promise of bundles, efforts to capitalize on these ideas so far have been limited to a few large employers and a handful of national name-brand hospitals—far short of what is required to truly transform healthcare. Over the next few years, the major challenge will be expanding the concept so that it covers a wider range of conditions and a broader demographic base: the “big middle” of patients and employers. Until most patients in most markets can receive bundled care for most of their needs, the strategy's potential will remain untapped.

This task falls primarily on payors and providers, who will have their hands full with the challenges of expanding and scaling up bundled care. The devil will be in the details—and there are *lots* of details. Providers must redesign care, develop standards and protocols, and put the right IT resources in the right hands, while also struggling with new risk management models and pricing mechanisms. For payors, the big hurdle will be coordination, be-

The HEALS Approach to Bundles

Drawing on Booz & Company's substantial experience in analyzing and creating bundled healthcare offerings, we have developed a unique approach, which we call HEALS (for healthy, acute, and long-term solutions). Like standard bundles, HEALS are all-in-one, end-to-end packages for specific medical conditions and procedures. They combine medical care, financing, and patient engagement into an integrated service at a flat fee, with a guaranteed outcome. To make this work, HEALS assembles a multidisciplinary team that collaborates to improve outcomes over time, along

with a care coordinator to ensure that patients are engaged throughout the entire process.

Several features make the HEALS approach distinctive. First, the products are designed specifically around customer preferences and needs. By contrast, other bundles focus more on the cost advantages. This approach even extends to the question of which procedures and services might use a HEALS model. For example, some payors and providers have specifically decided not to develop bundles for highly standard outpatient procedures like tonsillectomies and insertion of ear tubes, for which the results are generally consistent and satisfactory. However, we believe the principles are as appropriate for these relatively simple procedures as for their more complex counterparts. The principles give patients a simpler, more transpar-

ent service with better customer satisfaction.

Another key difference is the focus on eliminating unnecessary administrative waste. Other providers and payors working on bundled care look at the investments needed to transition to a new claims system—a significant expense. However, we believe that HEALS can reduce administration expenses by 15 percent.

Last, HEALS takes a results-based approach. HEALS programs can be complex and costly initiatives. The economic opportunity for the health system must be big enough to cover its investment during the transition, so HEALS programs are designed to get up to speed quickly, ensuring the health system's ability to thrive over the long term.

cause they will be dealing with hundreds of employers and a few dozen providers in any market or region.

Developing bespoke care protocols, payment formulas, and administrative systems for each program is unrealistic. Payors and providers will probably find many common areas of cooperation and development—most likely involving standardized care bundle definitions. There may even be new entrants that build businesses around publishing care protocols and providing sophisticated IT tools for managing bundles. Without this kind of cross-employer and cross-sector cooperation, bringing bundled care to the big middle will take decades, if it happens at all.

Business leaders outside the healthcare sector have a role to play as well. First, they can make sure that their health plan is considering bundled care as an option for em-

ployees. Second, they should take a long-term view. Given the novelty of this concept, the early benefits are apt to come in the form of better outcomes (such as healthier employees) rather than lower costs. Third, some large employers can be more active by leveraging their size in local or regional markets. This would involve working directly with the health plan and leading providers in that region to turbocharge the development and penetration of bundled care. By controlling a sizable group of employees—meaning potential patients—employers can drive more rapid development and implementation of bundled care for the big middle. Patience, knowledge, and a sense for when to act decisively will help their bottom line, their workforce, and the nation as a whole. +

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