

Volume to Value: The CFO is at the Helm

Part 2 of a Series on Population Health

By now, almost everyone is familiar with the goals for increasing value-based payments in the healthcare industry. To improve performance now, while preparing them to assume risk in value-based payment models, hospitals have the opportunity to build a strong foundation by taking a few critical steps. These steps are focused on understanding underlying cost structures; managing variation in cost and quality; and delivering predictable, transparent outcomes. The CFO is a key player in steering their organizations in the right direction.



Healthcare delivery systems need to understand and manage their cost structure. As consumers face more of the financial burden with high deductibles, they are shopping around for health care services. Providing transparency of price and cost is a way to distinguish an organization for consumers as well as for payers and employers. In addition, greater insight into the underlying cost structure can offer organizations greater control over their ability to remain viable.

To begin, the CFO must define activity-based costs. These include the raw costs of goods and materials, overhead and indirect costs, the amount of time to deliver the cost and who specifically is delivering it. Most attempts by providers on defining costs have largely focused on staffing—their biggest cost—as opposed to evaluating and rethinking care delivery processes, which is the essence of activity-based costing in health care. With a clearer understanding of the precise costs for individual encounters, procedures and episodes of care, providers can drill down on specific clinical, technical and process elements, eliminating the non-value added waste or variation, all of which make up the total cost of health care.

Activity-based costing also allows more accurate assessments of the profitability of individual service lines, provider relationships or clinical management of specific patient populations. This type of information is important for making informed decisions about where an organization might invest, especially those interested in owning a niche. An added benefit of understanding an organization's underlying cost structure are the essential and meaningful benchmarks to further compete in a market where transparency is no longer the exception but the rule.

The move to population health management and expanded service coordination to every aspect of care, costing of services now extends beyond acute care facilities and physician practices to post-acute facilities and in-home care. It is therefore imperative to understand the costing that exists within the walls of the organization. This knowledge then positions an organization to negotiate at-risk pricing with more confidence.



**Connie Mack, Executive Director for
Community Care Alliance
discusses the shift from volume to value**

Evidence-based medicine is at the heart of managing variation in cost and quality. It is critical to be able to predict which treatments, services and drugs will be required for any given procedure with demonstrated outcomes. This involves predictive care paths that are the basis for analysis and elimination of variances that cost money and compromise quality.

A CFO should consider conducting a critical assessment of their organization's clinical and financial data to reveal process and capability gaps. This assessment will lead to improved care delivery and reduce variation in cost and quality, while strengthening the bottom line.

For any service offered, an organization needs to be able to clearly define what's included and what's not included. They need to provide quality guarantees regardless of where that service is offered along the continuum of care. CFO's who realize the importance of evaluating the cost and quality of care within the walls of their own institutions are then ready to look outside to form meaningful partnerships with external care providers and be well prepared for the volume to value shift.

Next month: Coordinating Care Beyond the Walls of Your Organization



Connie Mack
Executive Director
Community Care Alliance

866.986.3675
connie.mack@CommunityCareAlliance.com