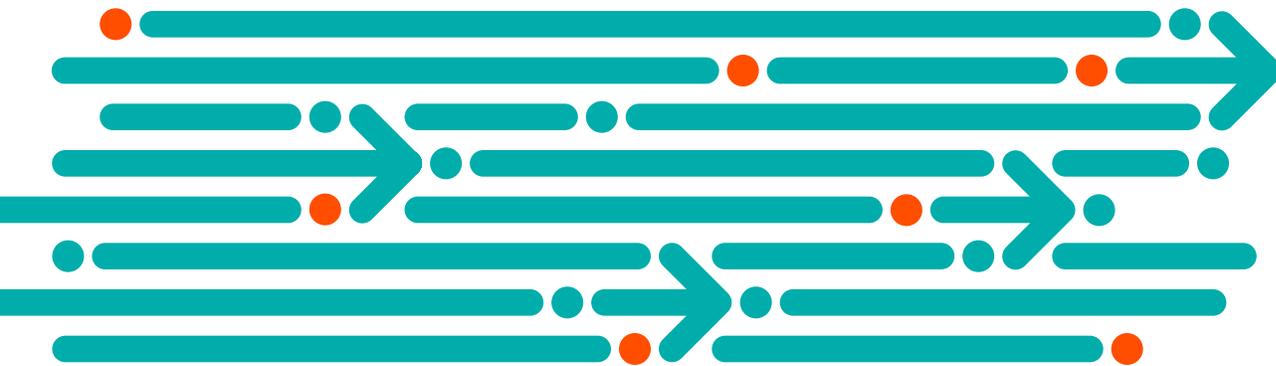


Promises kept: delivering untapped health system value to buyers

Executive summary

January 2017



Health systems that formed or expanded during several cycles of market consolidation did so with the promise of creating economic value, not just for providers, but for buyers (patients and payers). Provider value in the form of increased negotiating leverage with commercial insurers and the solidification of traditional referral relationships has been realized in the form of higher unit prices and market share. Less clear is the economic value for buyers.

There is little or no evidence that system membership reduces operating costs for hospitals—it may in fact increase them.^{1,2} Administrative savings realized through consolidation have been offset and in some cases exceeded by additional layers of system overhead, while clinical program consolidation has proven more difficult to achieve. Scale economies only translate to buyer value if lower costs lead to lower prices, but unit prices have increased following provider consolidation. Value to buyers must therefore come from reducing unnecessary utilization sufficiently to more than offset price increases.

The Vizient Research Institute™ assessed 209 multihospital systems nationally for five marker events identified by clinical experts from Vizient™ members. Each marker event is a category of discretionary utilization that merits attention if wide variation in use rates is observed. Health systems that are effective in standardizing care processes and reducing avoidable utilization would be expected to exhibit far lower intrasystem variation in the occurrence of marker events.

The five marker events adopted for the study were:

- Percentage of patients discharged to a post-acute care facility (rather than home) following uncomplicated lower joint replacements
- Percentage of nontrauma emergency room patients presenting with back pain who undergo major imaging studies (CT or MRI scans)
- Incidence of repeat major imaging studies of the abdomen-pelvis within 90 days (excluding cancer patients)
- Percentage of cancer decedents who received less than three days of hospice care
- Percentage of cancer decedents with an intensive care unit stay during the last 30 days of life

In every marker event studied, a sizeable minority of health systems were found to be operating at least one standard deviation below the average for all systems, with threefold to fourfold differences in use rates between health systems. More confounding than intersystem differences, however, was the persistent intrasystem variation. Some hospitals exhibited use rates in discretionary utilization categories that were three to four times higher than the rates of their system partners.

A value proposition cited so often by health systems that it's become part of the popular lexicon—the right care

at the right place at the right time—is a largely unmet promise. Consistency and reliability have been edged out by individuality and a general laissez-faire approach to system management. Too often, health systems perform more like cobbled-together networks of independent practitioners rather than integrated group practices. Fragmented episodes of care lead to enormous avoidable spending and suboptimal quality.

Reducing fragmentation in costly episodes of care is the most direct path to creating economic value for buyers. When possible, health systems should organize around multispecialty group practices. When group practices don't exist, systems should emulate them by standardizing care processes, measuring and assessing variation from standards of care and creating systematic accountability for adherence.

Delivering value to buyers need not be an entirely altruistic endeavor for health systems. By focusing on patient service and retention—making patients want to remain within their primary health system—savings and buyer value can come from reducing redundant or unnecessary utilization outside of the patient's home system. The primary health system then retains a higher proportion of the appropriate utilization, strengthens its relationships with patients and exercises greater control over episodes of care.

Those who argue that health systems offer no promise of value to buyers are wrong. There are billions of dollars in untapped value to buyers if health systems address avoidable variation in care processes and reduce unnecessary utilization. Doing so, however, requires that we stop making promises and begin delivering on them.

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 - 2 Goldsmith J, Burns LR, Sen A, Goldsmith T. Integrated delivery networks: In search of benefits and market effects [abstract]. National Academy of Social Insurance website. <https://www.nasi.org/research/2015/integrated-delivery-networks-search-benefits-market-effects>. Published February 2015. Accessed March 1, 2016.

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For more information, contact Erika Johnson at erika.johnson@vizientinc.com