

How Clinical Advancements Change the Business of Healthcare

A Conceptual Approach

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Desirability of “New Technologies”

- Irrefutable value of technological breakthroughs
- The Upside/Downside of these innovations
- Potential for high impact products
- Rarely do they come with financial justification



No Cornerstone on Innovation

- Innovation is fundamental to U.S. medicine (*vaccines, antibiotics, advanced cardiology, surgical advances, cancer care, etc.*)
- Product innovations now stemming from multiple technologies – *combination products*
- Cross-over application from many sciences – (*automotive, space exploration, agricultural, military, etc*)
- Development activities tend to be focused on quality of care, rather than cost of care



Challenge of New Technology

- Healthcare spending is 17.6% of GDP
- 40% - 50% of annual cost increases traced to new technologies
- Providers compelled to remain competitive, while avoiding the legal action of inadequate care
- Attracting quality personnel is viewed as an issue without participating new technology



National Agencies (AHRQ)

- Evidence-based Practice Centers
 - *BC/BS, Duke, ECRI, Johns Hopkins, McMaster U., MetaWorks, NEMC, Oregon U., RAND, Research Triangle Institute/UNC, UCSF/Stanford, U. Texas*
 - *Assessments include scientific literature, meta-analyses and cost analyses*
- National Guideline Clearinghouse
- U.S. Preventive Services Task Force
- Research and Evaluation



The Reality

- FDA approval does not provide for the efficacy of new technology
- Widespread usage of electronic clinical databases is non existent
- Third party agencies proving to be ineffective in handling the volume of new technologies
- Reimbursement issues have limited impact on local assessments



Hospital Technology Assessment

Local Committee Issues

- Limited representation of physician clinicians
- Lack of objective financial information on ROI expectations
- Final decisions made outside of committees
- New technology is political currency



Which Sets the Stage

- Employ clinicians to “drill down” on value of new products
- Demand automatic/arbitrary discounts
- Committee request to assess effectiveness of new technology
- In all cases it's a push-back



Historical Fragmentation of System

A long history of differing views and motivations that hinder collaboration

Let Us Consider

- **A Buyer's Perspective**
- **A Physician's Perspective**
- **A Suppliers Perspective**



A Buyer's Perspective

- ✓ Supplier's clinical relations undermine hospital efficiencies
- ✓ Lack of an economic profile with new technology impact good business decisions
- ✓ Instituting best practices requires quality and economic realities
- ✓ Difficulty in collaborating on standardization with surgeon community



A Physician's Perspective

- ✓ Bears the burden of liability
- ✓ Wants' to work with the “latest & greatest”
- ✓ Historical underlying tension with hospital providers
- ✓ Standardization equates to restricted access
- ✓ Looking for efficiencies to off-set payment reductions



A Supplier's Perspective

- ✓ Focus on procedural issues
- ✓ Not enamored with the prospects of retooling their sales forces.
- ✓ Has been little volume movement through price concessions
- ✓ Corporate pressure on local reps to address supply chain issues



Polarized Environment

With the underpinnings of this fragmented and seemingly hostile environment, there is little acceptance for the advantages of new technologies.

A Walk on a Different Side

Collaborate via Trial Assessment

Simplify an Industry Standard



A Conceptual Approach

- Collaborate rather than dictate
- Consider opening a platform to utilize new technology
- Control processes via quantifying projected results
- Establish success and failure expectations
- Predetermine outcomes based on contractual agreement



Building a Trial Program

- ❖ Physician/Surgeon champion determines level of impact from new technology
- ❖ Interview supplier on expected outcomes
- ❖ Create “plug-in” financial decision model
- ❖ Develop contracting template of expectations
- ❖ Ascertain “innovation fee”
- ❖ Obtain stakeholder acceptance
- ❖ Evaluation Timeline



Triage Innovation

Level I – Cosmetic

cost neutral objective

Level II – Incremental

notable reductions in expenses

Level III – Breakthrough

above plus revenue enhancement

Level IV – Game Changing

above plus additional advantages



Determining Expectations

- Physician/Surgeon champions level (objective)
- Supplier interview provides tech benefits
- Assign quantitative value to each
- Values then “plug-in” to pro forma financial decision Model
- ROI is a natural fall-out from Model
- *Review Interview Questions – Handout*



Transition to Decision Model

- Selected level presents the expectation
- Interview converts features to quantitative benefits
- Benefits transferred to a financial decision Model
- Pro forma Model assembled as a contracting component
- *Review one-page pro forma model - Handout*



Decision Model Elements

- Concept requires simplicity
- Tailored for acceptance locally
- Basic components required
 - *Incremental revenue considerations (DRG, 3rd Party Reimbursement, etc)*
 - *Incremental cost considerations (facility, personnel, supplies)*
 - *New tech product differential issues*
 - *Possible changes to std variable costs*
 - *Resulting contribution*
- Consider ignoring fixed/overhead costs
- Model determines “innovation fee”



Predetermine Outcomes

- Program Success
 - Continuation of pricing
 - White Paper Creditability (fee)
 - Proof of Concept Promotion
- Program Failure
 - Pre-determine discounts
 - Added cost off-set
 - Possible removal of technology
- Further Assessment
 - Retrospective agreement of extenuating factors



Contracting Template

Key Components

- Establish outcome valuations
- Formalize “innovation fee”
- Sign-off by both supplier & physician sponsor
- Timeline with milestone
- Include your standard T & C
- *Review items of interest - Handout*



Stakeholder Input & Acceptance

- **Selling Platform – “economic trial”**
- **Internal Path of Choice**
 - Administration
 - Physician/Clinical
 - Technology Assessment Committee
- **Promote Communications**
 - Internally
 - Externally
 - Suppliers



Q and A

A Learning Discussion

What's Good – What's Wrong

THANK YOU