Executive Strategy

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Preserving Net Revenue in an Era of Price Transparency

Price transparency has arrived. The emergence of high deductible health plans and mainstream media stories has provided consumers with a new flashpoint in the public debate about the cost of healthcare in the US.

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Whether or not the disclosure of hospital pricing information carries with it the proper context, increased awareness among consumers poses some significant challenges for hospitals. First is the public relations crisis created by exposing consumers to the finer details of hospital charge masters (i.e. $20 for a single codeine pill), and second is skyrocketing bad debt as patients with high deductible plans allow their hospital bills to go unpaid.

With all of the shifts related to healthcare reform, hospitals are adjusting to the fact that a greater percentage of revenue is now negotiated. Insert into the mix growing discontent among consumers, and you begin to realize just how quickly hospitals need to re-examine their entire approach to pricing. Otherwise the inevitability of price transparency will collide head on with efforts to maintain or increase net revenue.

In order to optimize net revenue in this era of price transparency, hospitals must combine detailed service line performance assessments with peer benchmarking metrics to identify areas of opportunity (and volatility) across their payors, products and service market(s). Having the right tools and a road map can put you in the driver's seat during the contract negotiation process to increase revenues and improve market position. Our road map for navigating this new era begins with some key questions:

1. Identify the top – and bottom – performing service lines
Are any considered high-performance 'outliers?'

2. **Assess current volume levels**
Where are the increases and decreases?
Is there a risk threshold?

3. Conduct external comparative analysis
Is your hospital performing ahead of the curve, at the median or behind?

Contract Performance

1. Quantify key statistics associated with each contract:
How much revenue does this payor represent to my organization?
What was the volume utilization by this payor last year?
How was revenue and volume distributed across inpatient, outpatient, and emergency care?

2. Conduct internal comparative analytics:
What payment volatility exists across contracts? What is driving it?
What is my realization rate (yield) of the contractual rates?

3. Prepare for active negotiations:
Are my expected payment models current?
What are the prospective target rates for the top three focal points in this contract?

4. Collaborate and communicate with internal stakeholders:
Could organizational change objectives jeopardize revenue due to contract structures?
Are we considering strategic service line capital investments or physician acquisitions?

Within the spotlight on price transparency, those hospitals which proactively work to lower the cost of healthcare delivery will leap ahead of the pack in the public's eye. But bold moves on the pricing front can't come at the cost of net revenue. Using the road map above to plot a new approach to pricing is the solution for optimizing net revenue amidst calls for price transparency.

INSIDER Expert

Michael Topchik specializes in network development and performance improvement consulting for hospitals across the country. He is a resource to hospital executive management teams and networks accessing iVantage's extensive databases, including public and private health data, economic and demographic data sets to support relevant benchmarking. Michael has lead research and consulting with providers seeking to evaluate ACOs, CCOs and shared savings opportunities in response to healthcare reform.

Navigate the New Healthcare

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