



BENCHMARKING TO
MAXIMIZE
REIMBURSEMENT
AND PROFITABILITY



With the advent of pay-for-performance models, healthcare providers will now be measured against certain indicators and their peers. Data, how to use it, and how to interpret that data will take on added importance. Although much data is readily publically available, the challenge is how to use it, interpret it and turn it into actionable information that can help drive decision-making. In the following pages, we'll examine the process of benchmarking and how it can be used to tell a story that can help you maximize reimbursement and profitability.

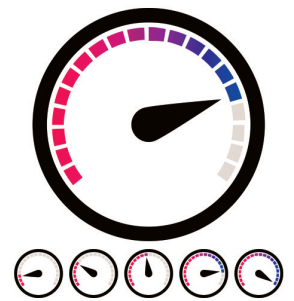
Benchmarking to Maximize Reimbursement and Profitability

There are numerous definitions of benchmarking. A definition that seems to capture the basics very succinctly comes from the Benchmarking Exchange: Benchmarking is the process of measuring an organization's internal processes and identifying, understanding and adapting outstanding practices from other organizations with similar processes considered to be best in class. One small addition to the definition would include improvements coming from within the organization or borrowing from other industries.

Why do it? By undertaking and implementing a benchmarking process, your organization can evaluate critical questions and identify problem areas by removing the guesswork. It allows you to build confidence by validating or disproving previous assumptions, uncovering unforeseen challenges and gives the information to prioritize improvement opportunities. In addition, some organizations have reported that it changed the way they thought internally, serving as an excellent reporting platform and promoting raising the bar throughout the entire organization, creating a competitive atmosphere which fosters improvement and growth within the departments, and challenging staff to work smarter, not harder.

Here are a few important questions to ask:

- How well are we performing compared to other organizations?
- Do we know how our competitors perform? If not, how do we gain access to this information in order to do a benchmarking study?
- What are the best practices?
- Do we look to other leaders in our industry? Or do we draw processes and analytics from outside industries?
- What improvement opportunities should we focus on?
- What are our strengths and weaknesses?
- How do we prioritize our weakest areas?



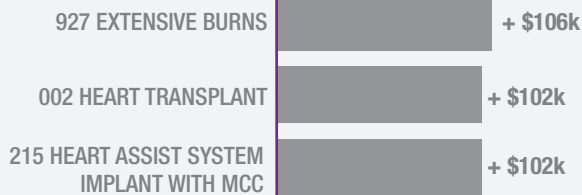
Benchmarking:
The process of measuring an organization's internal processes and identifying, understanding and adapting outstanding practices from other organizations with similar processes considered to be best in class. This would include improvements coming from within the organization or borrowing from other industries.

NATIONAL TRENDS

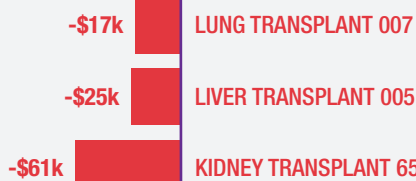
Benchmark your performance against national averages

Medicare Severity Diagnosis Related Groups (MS-DRGs)
Profit per Case

3 Most Profitable Groups



3 Least Profitable Groups



Source: Centers for Medicare & Medicaid, U.S. national discharges, 2011-2013

Let's take for instance the example above which lists the most profitable and least profitable (per case) MS-DRGs. In reviewing this data, your organization can explain or answer some basic questions. Are we performing any of these procedures in order to maximize profit or minimize loss? Do we enhance our ability to perform these cases, or conversely, limit certain cases to positively affect our margin? Also, based on the national profit data you can ascertain where you fall in terms of your own profit and loss in these areas.

A word of caution about some pitfalls of benchmarking. There can be a danger of complacency and arrogance that can evolve from a benchmarking exercise. How? Many organizations tend to relax after excelling beyond competitors' standards, allowing complacency to develop. The realization of having become the industry leader can lead to arrogance when considerable scope for further improvement may remain. Always remember, "Complacency will be the architecture of your downfall," and keep striving to improve further. Finally, many organizations make the mistake of undertaking benchmarking as a stand-alone activity. Benchmarking is only a means to an end, and it is worthless if not accompanied by a plan to change or improve.

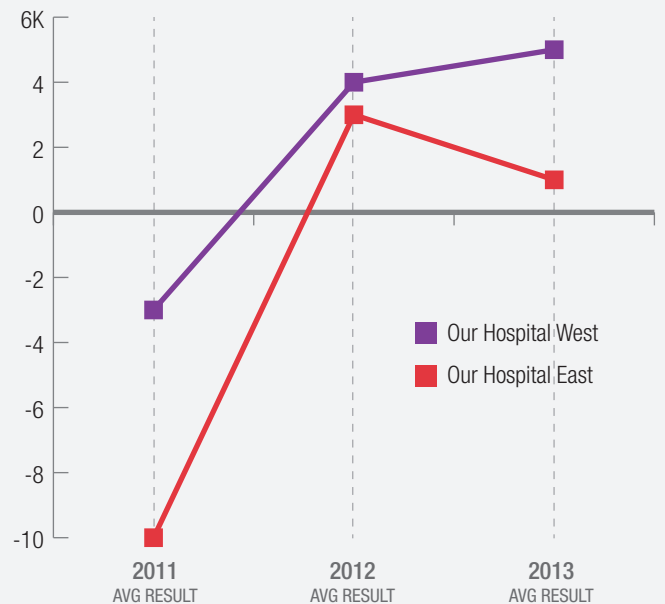
Types of Benchmarking

As stated previously, benchmarking can be done internally, externally or a combination of both. In terms of internal benchmarking, in a free-standing organization, you may benchmark among similar processes, operations and functions. In a large organization, you may choose to benchmark within any organization in network that has processes similar to the ones you are addressing. For example, your organization is looking at the profit per case of MS-DRG 466 revisions of hip or knee replacements. For the past three years your facility's west location is below the performance of your facility's east location (see graphic below). What is this data telling you? Are processes the same at each facility? Is the situation ripe for a standardization initiative?

BENCHMARK PERFORMANCE

within your own organization

466 Revisions of Hip or Knee Replacement

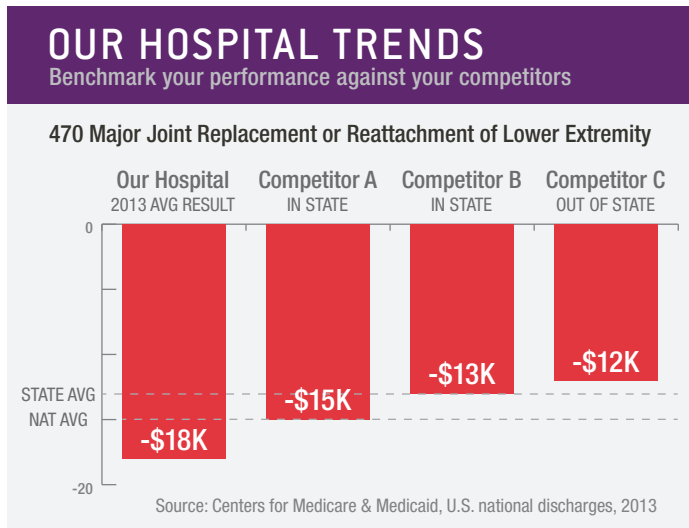


Source: Graphic is an example for purposes of illustration only.

This leads us into the topic of competitive benchmarking, which involves comparing processes, products and services with your closest competitors.

BENCHMARKING TO MAXIMIZE REIMBURSEMENT AND PROFITABILITY

For example, your organization is looking at the profit per case of MS-DRG 470 major joint replacement or reattachment of lower extremity. What was your performance compared to the competitors in your state and even competitors outside your state? (see graphic below)



When you begin to analyze this data, it can help you set your goals and objectives. Things to examine here include:

- Identifying major improvements.
- Positioning your services in the marketplace.
- Defining your competitive advantage.

It can be a quick and low-cost way of showing the comparative advantages and disadvantages of specific practices among similar organizations. This facilitates the exchange of information and can lead to significant improvements. However, some difficulty can come in finding truly comparable partners and processes or an organization willing to share data or information.

It is important to understand the various types of benchmarking in order to effectively plan your projects. However, regardless of which type you choose, it is also important to understand that benchmarking is not a once-a-year undertaking. To achieve and maximize your benefits, benchmarking should be performed on a consistent basis. This includes data collection and analysis as well as identifying new opportunities for benchmarking activities. Benchmarking consistently allows for greater process improvement throughout your entire organization.

Key Performance Indicators

In any benchmarking exercise, the identification of proper key performance indicators (KPIs) is essential. A KPI should be quantifiable, reflect critical success factors, show progress towards, or possibly away from, organizational goals and evaluate the performance over a designated time period. When introducing KPIs, it is important to involve key stakeholders in the identification of KPIs, and for them to understand that, fundamentally, the KPIs should be recognizable and inherently understood by all parties involved. Technology allows KPIs to be viewed on dashboards as well as providing quick updates to the decision makers within an organization.

Results can be recorded monthly, weekly or even in real time. For example, for the cases we have examined relative to reimbursement and profitability, financial KPIs can include:

- Number of MedPAR discharges by MS-DRG.
- Payment and profitability by MS-DRG.
- Cost and charges for lab, pharmacy, medical surgical supply costs, etc.
- Expenses in clinical ancillary areas to discharges, net revenue or patient days.

KPIs measure performance by showing trends to demonstrate that improvements are being made over time, and are used to determine whether the organization is meeting predefined targets. Appropriate benchmarks are necessary to determine how a healthcare organization's performance compares against its own desired goals and objectives and against other, perhaps competing, healthcare organizations. KPIs, with proper guidance, provide monitoring and insight into the critical components of process and policy that need to be improved to achieve the overall goals of healthcare improvement.

There are many links to publicly reported information related to KPIs including Health Insurance Query Access guidelines, the Health Information and Quality Authority, the ASC Association's Outcomes Monitoring Project and many others. It is important to understand there is no need to reinvent the wheel when it comes to identifying or building KPIs, but if you are going to partner with an outside organization, be sure that their offerings and costs align with your organization's needs and goals and ensure proper reimbursement and financial stability.

Conclusion

Should you benchmark? Some type of benchmarking is imperative for an organization to continually improve its processes and performance. The new healthcare reform era demands it and through value-based purchasing, the Centers for Medicare and Medicaid Services (CMS) has mandated it.

By undertaking benchmarking initiatives, healthcare facilities can adopt strategic initiatives/policies that optimize financial performance and implement best practices with confidence and the backing of data and real world examples that support their decision making.

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