

'The readiness is all'

A strategic approach to managed care

The managed care industry, acting as the cost management tool of employers and government, has focused relentlessly on controlling cost. Managed care organizations (MCOs) have lowered payment rates and inserted themselves into the doctor-patient relationship. In many markets, physician practices have — or believe they have — little leverage in the marketplace.

Yet to successfully negotiate contracts in this type of environment, physician practices must understand MCOs' goals and customers, and use this knowledge to develop strategies. As with any relationship, it works best when it offers mutual benefits.

Strategic evaluation of the market, your practice

In devising a strategy to succeed in a managed care environment, temper your practice's objectives with market realities. For leverage with MCOs, groups must know:

- Their competitors;
- Their hospitals;
- Their employers; and
- The MCOs.

Understand your cost structure

Also crucial is your cost structure. Weigh MCO rates in relation to the practice's costs to produce the care.

To understand your costs, implement a cost-accounting system, allocating costs to various products and allowing management to generate profitability statements by product or service.

If your practice lacks a cost-accounting system, you'll have to rely on estimates derived from educated guesses. You can manually allocate costs and revenues to various services, model the profitability of

various contracts and define the profit goal for each contract.

Define objectives

Now that you've analyzed the market and your group's strengths, begin to develop a strategic approach to the marketplace. Ask what your group wants from a relationship with an MCO. Most groups select a subset of the following:

- Rates that allow a reasonably well-managed practice to make a profit;

Why should a managed care organization want to pay you a reasonable fee when others will accept less?

By John E. Hill and David W. Miller



about the authors

John E. Hill and David Miller, partners, Healthcare Strategy Group LLC, Louisville, Ky., jhill@healthcarestrategygrp.com and dmiller@healthcarestrategygrp.com

This is not a one- or two-time shot. You want to develop relationships that will grow in value over time.

- Inclusion in networks;
- Tolerable level of administrative costs and complexity;
- Clear expectation of patient volume from each contract;
- Clear payment terms that indicate expected cash flow; and
- A working relationship that allows input into the MCO's decisions.

Develop core strategies

How will your group allocate resources to differentiate itself in the marketplace? Why should an MCO want to include your group in its network? Why should it want to pay you a reasonable fee when others will accept less? Understanding the market and your practice's capabilities reveals how you can differentiate your group in a way that provides value.

The average employer wants five things: quality care for employees and their families, affordable prices, geographic distribution of providers, good service and a benefit design that balances employee needs and cost.

MCOs want these five plus two others: relationships with providers that will help them achieve their goals, and rational behavior from those providers. So how can your group convert those desires into a strategy for dealing with managed care? The following questions can guide you.

Does your group have a quality advantage understood and valued by the customer? We didn't ask if you perceive your quality to be higher, nor did we ask you to achieve better outcome measures. The requirement is to have higher quality understood and valued by the MCO.

In the absence of good measures of quality, only large, aggressive groups have been

able to develop quality brand positions. Some have differentiated themselves by providing unique services. Word of mouth can also help set a group apart.

Does your practice have desirable geographic location(s) or dispersion? Employers want their employees to be able to obtain health care close to work or close to their homes. This forces MCOs to contract with geographically dispersed providers. If your group can provide geographic reach, you have more negotiating leverage.

Does your practice have efficiency-of-care advantages? Obviously, MCOs want efficient providers — efficiency helps them deliver lower-cost products and allows you to negotiate better rates.

Does your group size provide a competitive advantage? Size dramatically increases negotiating clout. Your group may need to consider a merger to increase leverage.

Have you defined your contracting requirements? Groups lose money by not having a strategic approach to contracting. Equally significant is inconsistent behavior, which weakens negotiating position.

Do you know the managed care executives who can help you achieve your goals? Relationship building is key to any successful long-term business deal. Do you have relationships where you need them?

Use contracting guidelines

Your answers to the first four questions may lead to a variety of strategic approaches. But to develop contracting guidelines with MCOs, you must address the last two questions. Those guidelines should address criteria varying by the number of covered lives. If an insurer represents 20 percent of your revenue, you need to give it a better deal. If it's a new entrant into the market, it probably needs you more than you need it.

A contracting policy cannot anticipate every issue in a managed care negotiation. However, it does lay out specific parameters that become the basis for negotiation. The table on the next page shows a matrix to guide discussions and negotiation.

Such guidelines accomplish two objectives for the group. First, they ensure that leadership has determined what it will agree to in light of the organization's profitability needs.

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By doing that, the group reduces the risk of signing a contract that won't cover costs.

Second, guidelines can mitigate the impact of random action on the insurance market. Without guidelines as a benchmark, a group risks giving the best deal to the most aggressive MCO, rewarding the biggest bully. By having lower physician rates, an MCO can either sell its product for lower premiums or have higher profits to reinvest in expansion.

Engage the MCO

Relationship building also is a core strategy for any MCO. Once you've defined your objectives, understand the market, evaluated potential strategies and have some ideas of your contracting policy, it's time to engage the MCO's senior leaders.

First learn how the MCO perceives your practice. If it has a perception, that's a good start. If not, it sees your group as a commodity.

In talking about their perception of the group, ask MCO leaders:

- Do they perceive the group as good quality?
- Do they perceive the group as necessary for success in the marketplace?
- How do they perceive the group's efficiency relative to competitors'?

- What strengths and weaknesses do they perceive?

Next, confirm your understanding of the insurer's goals and needs. Our two favorite questions: How are you working to improve your products? What can we do to help you meet your goals? As we noted, developing a managed care strategy is about identifying mutual interests.

Finally, seek to understand the MCO's quality and cost data for your practice. That will drive much of its perception and willingness to work with your group.

Hold a preliminary discussion to get a feeling for the MCO's leaders and to understand their perceptions; a follow-up meeting will help solidify your plan. Before that meeting, the physician group should define initiatives to pursue with the MCO, such as:

- Advising MCOs on diagnostic or therapeutic decisions;
- Simplified billing;
- Increased rates;
- Removal of precertification requirements; and
- Involvement with exclusive networks that the insurer is developing.

The group should define its objectives, both short-term and long-term.

Negotiations and monitoring matrix

Percent of business	Volume > 5%	Volume 1%-5%	Volume < 1%
Rates	No less than Medicare	110%-140% of Medicare	140% of Medicare or more
Pre-certification	Individually negotiated	If stringent, require higher payment to cover costs	None
Payment terms	Individually negotiated, agree to mutually monitor	State requirements, manage aggressively	State requirements
Physician evaluation criteria	Understand, negotiate role that allows influence	Understand, negotiate role that allows influence	Understand
Termination terms	Flexible	Flexible	Flexible
Fee schedule	Defined and attached	Defined and attached	Defined and attached

Forthrightly ask the insurer about what it is trying to accomplish. Practice leaders should probe to learn what the MCO can do to help achieve the group's objectives. For example, if you want to eliminate pre-certification, ask MCO leaders what level

of utilization the group must have to pursue that goal. Inquire if the insurer will experiment to see if the group can manage within those parameters. Don't be shy about asking for special treatment, but be willing to deliver.

Recognize that this is not a one- or two-time shot. You want to develop relationships that will grow in value over time.

Target any MCO that represents more than 3 percent or 4 percent of your volume. Appoint physician liaisons from your group to work with those MCOs — they should act as the group's representatives on clinical or business issues and participate fully in rate discussions. The liaisons' consistent focus will keep your practice in the minds of MCO executives. As they encounter problems in your specialty, they are likely to pick up the phone and ask for your opinion. The liaison function will increase your physicians' understanding of managed care and its objectives. In the best of situations, both sides can gain mutual understanding of goals and problem solving. ❌

Three ingredients in a strong managed care strategy

Developing a strong managed care strategy has three essential components to gain influence with the managed care organization (MCO). The medical group must:

- Differentiate itself in the minds of the MCO's leadership. The group may need to be especially responsive, provide higher-quality care or better outcomes, or differentiate itself in some other valuable way;
- Foster trust and mutual respect with the MCO. Physicians don't readily trust managed-care executives, and vice versa, but by focusing on small mutual wins and following through on commitments, you can begin to develop mutual respect; and
- Establish mutual benefit. The MCO won't give your practice everything it wants just because you ask, and it will expect something in return. See the MCO as a customer your group wants to serve.