Value Based Contracting

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Defining Value-Based Contracting (VBC)

Holistic Approach

to *assess* healthcare manufacturer product and/or service price, discount incentive, and/or risk-share proposition’s impact on member’s *Priority Needs*
Value-based healthcare is a healthcare delivery model in which providers, including hospitals and physicians, are paid based on patient health outcomes.

Under value-based care agreements, providers are rewarded for helping patients improve their health, reduce the effects and incidence of chronic disease, and live healthier lives in an evidence-based way.

Value-based healthcare differs from a fee-for-service (FFS) approach, in which providers are paid based on the amount of healthcare services they deliver.
Why Value-Based Contracting?

• Rapid growth and evolution of value-based payment models has hit a tipping point in healthcare

• Providers are being pushed toward two-sided risk arrangements. In these arrangements:
  – Financial risk is shared between two parties (ie, the payer & provider or provider & manufacturer).
  – In this model, each party could have financial loss with under-performance and financial gain with over-performance.

• Pressure from commercial, employer and government payers is driving the movement toward more risk

• Organizations need the right infrastructure to achieve financial success in value-based care and payment models
Anatomy of a risk-sharing deal

How does your product/service impact:

- **Cost in an episode of care**
- **Clinical quality**
- **Safety improvement**
- **Patient experience**

Clear, concise and specific value proposition

Mutually established goals

Baseline Metrics
C-Suite Survey: Value Based Contracting

How high is value-based contracting on your priority list of initiatives to improve your contracting ROI?

73% rank value-based contracting as a priority

148 respondents

Priority Ranking

5: 11% HIGH
4: 29%
3: 36%
2: 16%
1: 11% LOW

Have you participated in value-added (i.e., service price guarantee) or risk-based contracting with suppliers or pharmaceutical companies?

38% engage in value-added or value-based contracts

190 respondents

Yes: 39%
No: 61%

How interested would you be in more suppliers offering value-based contracting options?

81% interested in extending value-based contracts

143 respondents

5: 16% HIGH
4: 26%
3: 33%
2: 11%
1: 4% LOW

Source: Premier 2018 Value-Based Contracting Trends Survey
N: 293 C-suite leaders, both non-members and Premier members
C-Suite Survey: Value Based Contracting

What have been the main challenges?

- #1 Challenge is data: 111 respondents (22%)
- Data
- Coord. w/suppliers: 106 respondents (12%)
- Infrastructure support: 106 respondents (11%)
- Physician buy in: 106 respondents (10%)
- Internal comm.: 100 respondents (14%)
- Too many initiatives/changes at a time: 92 respondents (11%)
- Other: 36 respondents (4%)

Why haven’t you participated in value-based or risk-based contracting with suppliers?

- 67% not engaged by a supplier: 106 respondents
- Have not been engaged by a supplier: 72 respondents (67%)
- Other: 24 respondents (21%)
- Does not align with the organization’s strategy: 12 respondents (11%)
- Not interested at the time: 1 respondent (1%)

Source: Premier 2018 Value-Based Contracting Trends Survey
N: 203 C-suite leaders, both non-members and Premier members
Questions around previous attempts
Range of Value-Based Contracting Options

- Evidence based care discount
- Product or service guarantee
- Risk share by product
- Risk share by alternative payment model
More common among pharmaceutical companies, these contracts provide a discount off the purchase price in exchange for the reliable performance of an evidence-based clinical intervention.

For instance, a perioperative nutritional supplement maker under contract with Premier gives a price discount if health systems can document that they are discussing perioperative nutrition as part of their standard care model.
These contracts reimburse health systems for the purchase price of a product in the event of a quality or performance failure. One interventional device company under contract with Premier guarantees that the use of its product will reduce pressure ulcer rates by a specific percentage. If that commitment is not met, the providers are eligible for a rebate.
Range of Value-Based Contracting Options

Risk share by product

These contracts reimburse providers for another, added cost in the system as a result of a poor outcome, as opposed to the actual cost of the product. For instance, one cardiovascular device company under contract with Premier reimburses health systems for the cost of treating a specific type of infection if a patient contracts it within six months of receiving their intervention.

For instance, a device company will reimburse a lump sum to a hospital if a specific type of hospital readmission occurs after use of their product. This covers the delta between the cost of the readmission and the average reimbursement to the hospital.
This model is aspirational and future-state. Manufacturer discount is exercised if provider does not achieve upside gain share in a 2-sided risk model (i.e., reduce episodic resource use measured as per-capita cost compared to a predetermined cost threshold).

In today's healthcare environment most Integrated Delivery Networks (IDNs) have patients both in and out of shared risk payer models, making it difficult to operationalize a two-sided risk contract. As the evolution continues towards value-based care, it may become more feasible to implement these types of contracts.
### Contracts Examples

<table>
<thead>
<tr>
<th>Service Line</th>
<th>Problem Statement / bucket</th>
<th>Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>Nutrition</td>
<td>Clinical Nutrition</td>
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<tr>
<td>Nursing</td>
<td>Infection</td>
<td>Skin Integrity</td>
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<tr>
<td>Diagnostics</td>
<td>Reduction in Antibiotic Usage</td>
<td>Lab</td>
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<tr>
<td>Facilities</td>
<td>Waste Reduction</td>
<td>Waste Management Products and Services</td>
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<td>Pharmacy</td>
<td>Pain Management</td>
<td>Multi-Modal Pain Management/Ofirmev</td>
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<td>Perioperative and Interventional</td>
<td>Infection</td>
<td>CRM</td>
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<td>Skin Breakdown</td>
<td>Reusable Textiles</td>
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<td>Patient Warming - Blankets</td>
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Firelands – Skin Breakdown Prevention with Avadim

Firelands’ clinically integrated supply chain, with representation from infection prevention, operations, supply chain, and value analysis, has made a significant impact on the hospital’s clinical and financial outcomes. They have achieved low infection and readmission rates, and avoided costs related to the treatment of HAIs. Standardization has improved patient safety in other ways as well, including lower risk for product utilization errors.

University of Tennessee Medical Center – Nutrition with Nestle

“ERAS has been a remarkable addition to our patient experience. We have shorter length of stays, fewer readmissions, less pain issues and fewer infections.”

~ James M. McLoughlin, MD, FACS, Division of Surgical Oncology, University of Tennessee Medical Center
What’s Next?

We’re early in this journey, but it’s important we start now.