



This new direction takes the business model that companies use to partner with high performance suppliers and applies it to the way employers purchase health care.

A New Direction

Patient Advocacy and Best in Class Specialty Care

in Health Care Purchasing

IN FEBRUARY 2004, THE MINNESOTA CITIZENS Forum on Health Care Costs, appointed by Governor Pawlenty and led by former U.S. Senator David Durenberger, issued its final report. Part of that report recommended that a broad alliance of purchasers (both public and private) work together to increase health care quality and efficiency using innovative but effective purchasing strategies. To that end, Minnesota Governor Tim Pawlenty announced in November 2004 that an alliance of health care purchasers has been formed to provide their collective weight (60 percent of the Minnesota population) behind a new approach to purchasing health care. The “Smart Buy” Alliance announced by the Governor includes the State of Minnesota as Employer and their Medical Assistance Program, the Labor Management Health Care Coalition of the Upper Midwest (LMC), the Buyers Health Care Action Group, the Minnesota Business Partnership, Minnesota Chamber of Commerce, and Advocates for Marketplace Options for Mainstreet (includes rural purchasing alliances). One of the Alliance’s four priorities for health care reform includes the recommendation that “health care purchasers demand that care providers meet specific standards of care and contract only with those that demonstrate best in class performance.” This new direction takes the business model that companies use to partner with high performance suppliers and applies it to the way employers purchase health care.

A Paradigm Change

The time is right to embrace a different, more effective business model for purchasing health care. (See comparison chart on page 6.) Continuing double-digit health care costs that threaten company profitability, jobs, wages, and good labor relations cannot and, should not, be tolerated. A new business model for purchasing health care is a step in the right direction.

Today, most manufacturers and other businesses use a common process to identify and select high-performance suppliers based on quality and value. They do not do business with every supplier in the yellow pages! Supply chain management and procurement evolved over recent decades as an effective business process for both purchasers and suppliers. In the quality arena, businesses have found that evolving from inspection-based processes to performance specifications, which embody capable processes that consistently are in control, ensures that the end product or service will be defect free. When defect-free services and products are delivered, all parties in the supply chain benefit. The product or service meets requirements (it doesn’t have to be re-worked, etc.) and costs are far less.

BY SEAN KENNEY, Ph.D.

In health care, national leaders have characterized the variability in quality and patient safety not as a gap, but as a huge chasm. This chasm results in 98,000 or more lost lives annually due to preventable medical errors that occur in the hospitals alone. (We do not know how many lives are lost due to mistakes in outpatient care.) Perhaps the most significant findings in recent years are that some 30 plus percent of health costs are due to poor quality and that in most high-cost specialty care service areas, better quality costs less.

A recent *Harvard Business Review* article (Porter et.al, June 2004) indicated employers are focusing on the wrong level to make competition work. The researchers concluded that instead of leveraging volume in negotiating health plan coverage and premiums, purchasers should negotiate with the best-performing specialty care diagnostic and provider systems.

Applying the New Model

As in business strategy, the place to begin is where the biggest impact can be made in the shortest amount of time. In health care, about 15-20 percent of the covered population accounts for more than 80-85 percent of the costs. A large portion of this 80 plus percent is spent for specialty care, including organ transplants, high-risk pregnancy and low birth weight babies, heart care and cancer care. These service areas are also fraught with problems such as high variability in diagnostic and treatment processes, clinical quality outcomes and costs.

There can be huge quality of care differences in specialty care centers, and generally poorer quality care will be more expensive for both employers and employees—both indirect and direct costs will be higher. Also, generally, metropolitan areas have overcapacity, high-revenue-producing specialty care services, such as cardiology and cancer, as these are among the more lucrative revenue sources for providers and suppliers.

Another reason to focus on these high-cost specialty care areas is that employees and their family members, when diagnosed with a new condition such as a heart problem or cancer, do not have a relationship with a specialty care provider. The new model would help employees or family members work with their primary care doctor to get to the best-performing specialty center as determined by a certification process. This process uses evidence-based information that is supported by the respected medical specialties and health care quality research literature and guidelines.

(Continued on page 6)

Facts about the Labor Management Health Care Coalition of the Upper Midwest.

- Began in 2001
- Over 36 Health & Welfare Funds, Public Sector and School District Members
- 175,000 Actives and 400,000 Covered Lives
- Joint Labor and Management Governance
- Products Available or Under Development
 - Pharmacy (PBM)
 - Dental
 - Vision
 - Health Value Partnership/Centers of Excellence
 - Diagnostic Imaging
 - Group Medical Advantage Plan (GMAP)-For Retiree/Medicare Coverage

The chart below shows how employers and Health and Welfare Funds currently buy health care as compared to what it would look like if they applied their core business methods for supply chain management and procurement.

The Certification Process

First of all, each employer does not have to implement this approach alone. In health care, unlike manufacturing and other businesses, employers and other purchasers all share common suppliers. Therefore, the best approach is to work in a purchaser coalition to get the ball rolling.

The LMC works in partnership with Health Systems Management (HSM) to certify specialty care providers for its beneficiaries. HSM grew out of the leadership efforts of the Corporate Health Director and Honeywell Medical Director (Dr. John Burns, president in 1982 of the Ramsey County Medical Society prior to his work at Honeywell) who pioneered the “Centers of Excellence” approach in the 1980s. The Coalition has selected the four specialty areas that produce the highest costs—organ transplants, high-risk pregnancy and low birth weight babies, heart care, and cancer care—for concentration. Currently, the work has been done for organ transplants, providing an unparalleled national network for organ transplant patients.

In Minnesota, heart care was the next condition to tackle. Minnesota has 12 open-heart surgery centers with various annual volume experiences. National medical recommendations suggest that a center perform at least 450 coronary artery bypass graft (CABG) surgeries each year in order to establish proficiency. Only three centers in Minnesota reach this threshold. Minnesota needs only five surgery centers to perform at the recommended level.

The Coalition issued a request for information (RFI) to all heart centers in Minnesota last year, and four major heart centers agreed to certification. These include Mayo Clinic, St. Mary’s Duluth

Old health care purchasing model	New health care procurement model
• Off-the-shelf purchasing	• Specifications-driven procurement
• Minimal thresholds for performance	• Maximum thresholds and optimal performance
• Wide variation in process and outcomes	• Reduced variation is rewarded
• More expense for poor quality and re-work	• Less expense through quality suppliers
• Health systems that provide inappropriate and poor quality care	• Better quality and performance rewarded
• Inventory, defect rate, and costs and pricing controlled by providers and suppliers	• Purchasers use evidence-based medicine and operations in purchasing specifications
• All the buildings and programs the health care industry wants	• Build only as necessary
• Potential suppliers include all with a shingle or listed in the yellow pages	• Select, qualified, certified suppliers

Clinic, Park Nicollet Health Care Center, and an additional east metro area center, which is currently in the process of being reviewed. The certification includes extensive sharing of data on clinical structure, process and outcomes. These data are then compared to national medical benchmarks. On-site visits by two experts for three to five days at each center are a key element of the certification process. The qualifying centers’ cooperation was tremendous, and we expect they were anxious to participate because they had monitored their performance continually and knew they had the right data and processes to demonstrate exemplary quality.

The Program in Action

LMC will use benefit design to urge members and their primary care doctors to use these three to four certified centers. The program has at its core a patient advocacy support system (PASS) that operates 24 hours a day, seven days a week to assist members and their families with specialty care referral and provider scheduling.

The Operating Engineers Local 49 Health and Welfare Fund was the first to

implement the program (August, 2004). They are among the largest of Coalition members with some 13,000 members and over 30,000 lives across Minnesota and the Dakotas.

Early results show that workers and their families will travel in order to get to the best care. As an example, a worker in far northern Minnesota was due to have a complicated esophageal cancer surgery. When the family found out from PASS that a surgeon’s volume experience makes a difference in outcomes, they traveled to Mayo in Rochester because the surgeon there had performed numerous such procedures last year, while the local surgeon had performed only a few in the past year. While the patient received the best quality care, the health fund can expect to pay less for care that does not include complications, infections, and the need for additional surgery, all of which occur less frequently in a high-performance specialty medical system.

Another case involved a wife of an operating engineer who was diagnosed with a brain tumor by her local specialist. When medications did not improve

her neurological problems, it was recommended locally that she would need brain surgery. She learned of the Fund's "Centers of Excellence" program and called the patient advocacy number operated by Health Systems Management, the Coalition's and Health Funds partner and vendor for specialist referral information. It is always the patient and/or the primary care doctor who acts on the information to make the referral.

After hearing details of her medical condition and impending surgery, Health Systems Management provided information to the woman that led her to self-refer to a Center of Excellence. The subsequent brain scan and examination revealed that she was provided the wrong medication previously, she did not have a tumor and surgery was not indicated. Now, what was the quality return to the member and cost savings to the Health and Welfare Fund! Self-insured Health and Welfare Funds, particularly in the construction industry, "get the fact" that re-work and complications are not only poor quality, but also the Fund ends upon paying for these avoidable events. Glen Johnson, IUOE 49 Fund trustee and Business Manager of Local 49 estimated that the program could conservatively save the fund between \$250,000-\$300,00 or more per year.

In March the United Food and Commercial Workers (UFCW Local 789), another large member of the Coalition, bargained for the Centers of Excellence program. The trust fund includes over 7,500 workers (18,000 covered lives) in retail stores, health care and meat processing in Minnesota. The Union told Management Trustees that they wanted to implement the program. Management agreed. The Coalition believes providing the best quality to members and savings to Funds and Employer contributions is a perfect intersect of interests between Labor

and Management. This past month state employee/labor groups also bargained for the program and following a review of potential vendors, the program is expected to be available to 120,000 state employees and dependents in 2006. Other Fund Trustees are considering the program as well.

In the heart care area, it is estimated based on a study conducted in Minnesota, that as much as \$15,000 to \$25,000 can be saved per case by having care provided by a certified heart center. This is beneficial not only for management and labor but also for providers, who as a result of doing the best job, receive higher referral volume.

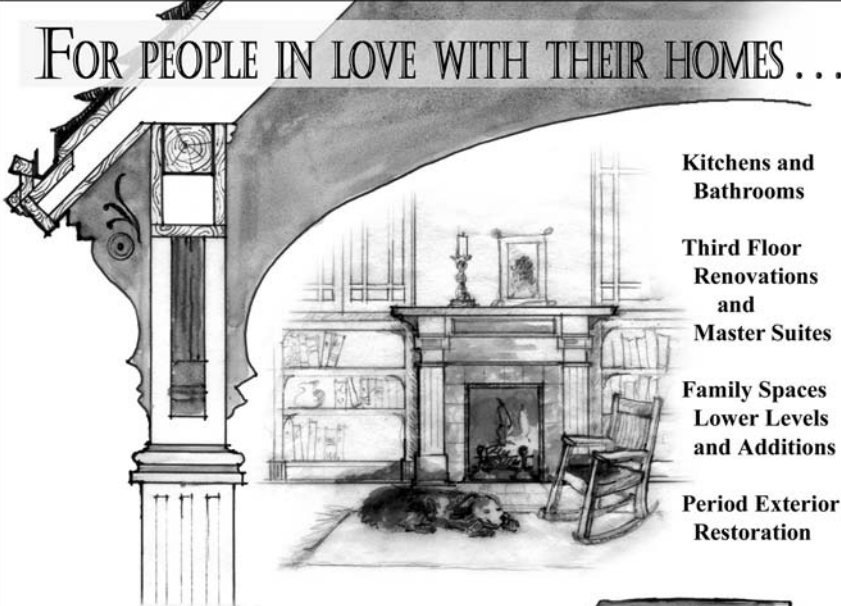
Bringing it Together

Top business leaders should examine the potential of using the core business strategies that they use in their extended enterprise with suppliers, to purchase health

care. Such an approach would benefit companies, employees, dependents and retirees. Other organizations, such as the "Smart Buy" Alliance announced by the Governor, are mobilizing around this new approach. Support from statewide leadership will reinforce efforts and encourage the public sector (including cities, counties, and school districts) to adopt a similar approach. If you or your organization wishes more information on the suggested approach, the Labor Management Coalition or the statewide "Smart Buy" Alliance, feel free to contact the author. ♦

J. B. "Sean" Kenney, Ph.D., is executive director of the Labor Management Health Care Coalition of the Upper Midwest, based in the Twin Cities and is a co-chair of the Minnesota "Smart Buy" Alliance. Years ago, Mr. Kenney served on the medical school faculty at the U of MN as Director of Graduate Studies for Family Practice and Community Health. You may contact him at skenny@jrec.net or 612-419-1013.

FOR PEOPLE IN LOVE WITH THEIR HOMES . . .



KRAMER & MARTIN

Home Renovations
Saint Paul, Minnesota

telephone Scott Kramer or Peter Martin
at 651-225-4777 for more information

**Kitchens and
Bathrooms**

**Third Floor
Renovations
and
Master Suites**

**Family Spaces
Lower Levels
and Additions**

**Period Exterior
Restoration**

