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THE VALUE OF BUNDLES

By Brett Spencer, MD, and Sanjay Saxena, MD

A COMBINATION OF PRESSURES FROM payers, policymakers, and consumers are pushing U.S. health-care providers to focus increasingly on value—delivering the best possible health outcomes at the lowest possible cost. Cleveland Clinic's CEO, Dr. Toby Cosgrove, has called value-based health care a "breakthrough that will change the face of medicine."

Despite the promise of the value-based approach, however, U.S. hospitals and health systems face significant obstacles in making the transition. To improve health care value, they need to take responsibility for the actual health outcomes they achieve rather than just the services they provide. To fulfill that responsibility, they must influence key aspects along the full cycle of care that together drive high-quality outcomes. Finally, for incentives to be fully aligned, health care systems need to take on more financial risk through new risk-based reimbursement mechanisms that reward them when they improve health care value and penalize them when they do not.

Taking any of these steps isn't easy in the current U.S. health-care environment. Despite considerable experimentation with linking reimbursement to outcomes, the vast majority of providers in the U.S. are still paid according to the traditional fee-for-service model, in which there is not only little financial incentive to improve the quality of care—there is an actual financial disincentive.

To be sure, a few U.S. providers—notably, Kaiser Permanente, Geisinger Health System, and Intermountain Healthcare—have long-standing, well-established integrated financing and care-delivery models that assume full responsibility for the health of a given population along with full insurance risk. Additionally, a growing number of hospitals and health systems—Baylor Scott & White Health, Catholic Health Initiatives, and UPMC, to name just a few—are evaluating options that would allow them to compete for a larger portion of the health-insurance-premium dollar, including acquiring or expanding health plan capabilities.

Nevertheless, the vast majority of providers are a long way from implementing an integrated model. Given the high fixed costs at most hospitals, the near-term costs associated with shifting to a focus on population health and shared savings are considerable. What's more, the managerial challenges—of competing across all service lines, building networks and partnerships with other providers, developing strong outpatient- and primary-care systems, and creating integrated care management across the full spectrum of care—are daunting.

How can the vast majority of U.S. providers begin to compete on value given their starting point today? The Boston Consulting Group believes that the most promising approach is what we call *value-based bundling.* Bundling is a way for providers to start benefiting immediately from improving health outcomes without having to establish an integrated system across all their clinical services. And at a time when many providers are seriously exploring the possibility of assuming more financial risk, bundling can be an effective way to do so in an incremental and carefully managed fashion.

The Value-Based Bundle

A value-based bundle is a product that integrates all the care for a specific episode or procedure over a given period of time under one comprehensive, prospectively determined price and with a guarantee or warranty for a specific outcome. Prospective pricing creates the upfront price transparency that consumers are increasingly demanding. Meanwhile, the warranty aligns incentives among providers for improving outcomes.

One U.S. provider that is actively developing such products is Dallas-based Texas Health Resources. THR's new bundled products are the result of a partnership with its clinicians to create episode-related packages for specific medical procedures—for example, lumbar laminectomy (a surgical procedure performed primarily to alleviate leg pain caused by lumbar spinal stenosis) or pregnancy and delivery (all services for pregnant women from the discovery of the pregnancy through postdelivery recovery).

The primary goal of such bundled products is to deliver high-quality care and an improved patient experience through a more efficient and more streamlined care-delivery process. But value-based bundles can also generate significant cost savings. Take the example of coronary-artery-bypass grafting. Most bundle pilots for this procedure have delivered savings of more than 20 percent. About half those savings come from quality improvements—for example, decreased complications leading to shorter lengths of stay and reduced readmissions. The other half came from more-efficient care processes. And this leaves out the potential financial value to health systems of increasing their share of patients and, over the long term, streamlining administrative costs such as billing and concomitant care-management processes.

We estimate that approximately two-thirds of all clinical services can be bundled effectively, including nearly all outpatient procedures and the majority of nonemergency inpatient care. The most attractive options, however, are distinct episodes of care in which patient risk distribution is manage able through care redesign and there is a clear starting and ending point to care.

When designing a value-based bundle, it is also important to define it not only from the perspective of the providers involved but from the perspective of the consumer receiving the service. In other words, a well-designed bundle provides a fully integrated care experience, with one bill and one price for the patient, and incorporates all the relevant services—inpatient, outpatient, support, and any others—whether those services are all delivered by the provider offering the bundle or not.

The Advantages of Value-Based Bundling

The chief advantage of value-based bundling is that it allows providers to be rewarded financially for improving quality while also effectively managing risk. Instead of having to transform the full range of its service lines, a provider can focus first on what it is good at, competing from a position of strength.

What's more, the approach allows providers to take advantage of new consumer incentives that are, in part, a result of the Affordable Care Act (ACA). One consequence of the ACA is that more and more people in the U.S. are covered by high-deductible health-insurance plans. High deductibles give consumers a strong incentive to seek health care services that deliver significantly higher value for the dollar and that have up-front transparency on price and quality. Value-based bundles squarely address this growing market.

Finally, employers and payers increasingly view such offerings as a method to share risk with the health system while getting high levels of transparency for the outcomes delivered. In addition to offering its bundles directly to consumers, health systems can also market them to employers and insurance companies as ways to enhance the attractiveness of new narrow-network plans designed to better coordinate care and control costs.

Three Key Success Factors

What does it take to compete effectively in the emerging market for bundled products?

First, a provider must make sure that its bundles create significant value for all the stakeholders in the system—cost savings and improvements in the quality of care for patients and plan sponsors as well as increases in patient volume and some share in the financial upside for clinicians. Put another way, effective value-based bundling requires strategic commitment. It's not enough just to experiment with a few haphazardly chosen pilots. Choosing precisely what to bundle is a strategic decision that requires careful thought.

- Are you bundling enough clinical services that your bundles represent a meaningful set of offerings to make the shift apparent and worthwhile to your organization?

- Are you covering the services and procedures that are the major sources of costs for consumers who are shopping for care with their deductible dollars?

- Similarly, are you addressing a large enough portion of payer and employer spending to make your bundles attractive additions to their plans?

- Finally, are your bundles in areas of clinical practice where your clinicians have a tradition of and reputation for excellence?

Second, successfully implementing value-based bundling requires a shift in the way providers think about pricing and how they manage risk. Pricing needs to be fully transparent and intelligible to consumers, eliminating the cryptic bills and ex-post-facto surprises of the traditional fee-for-service model. To achieve this goal, providers will need to start focusing on the value created rather than on the costs of each and every activity in the bundle. And setting prices effectively across the full spectrum of patients will require mechanisms for assessing the risks of a given patient prospectively and adjusting prices accordingly. Based on our work with clients, we believe that it is possible to develop effective techniques for prospective risk management—that is, quickly determining the basic risk profile of patients in advance of a given procedure, and then assigning them to one of several tiers, each with a different risk-adjusted price.

Third, and perhaps most important, any bundling strategy must have strong buy-in from the institution's clinical community. Clinicians must take a leadership role in creating the right kind of patient experience and in defining the innovations in clinical practice that will deliver cost-effective improvements in health outcomes. Over time, embracing a bundling strategy will have implications for precisely what kind of clinicians a provider organization recruits and retains. There will be a shift away from specialists who focus primarily on performing a high volume of procedures toward clinicians who focus on delivering high-value care and whole-population health.

Stable State or Intermediate Point?

Will the emerging market for value-based bundles end up being a stable end state or simply an intermediate point on the road to a more fully integrated value-based health system? Only time will tell.

Some providers may embrace value-based bundles as their primary way of competing on outcomes in the new world of value-based health care. Others will see bundles more as the first step in the long-term transition to more fully integrated models of care. In either case, bundling will prove to be an effective approach for providers to meet the growing demands of payers and consumers in a way that makes financial sense given the current realities of the U.S. health system.

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