



Value Based Contracting

Karen Niven, RN, MS, BSN, CVAHP

Premier healthcare alliance

Director - Performance Groups

Supply Chain Services

karen_niven@premierinc.com Premier, Inc. (NASDAQ: PINC)



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



What is Value Based Healthcare

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*

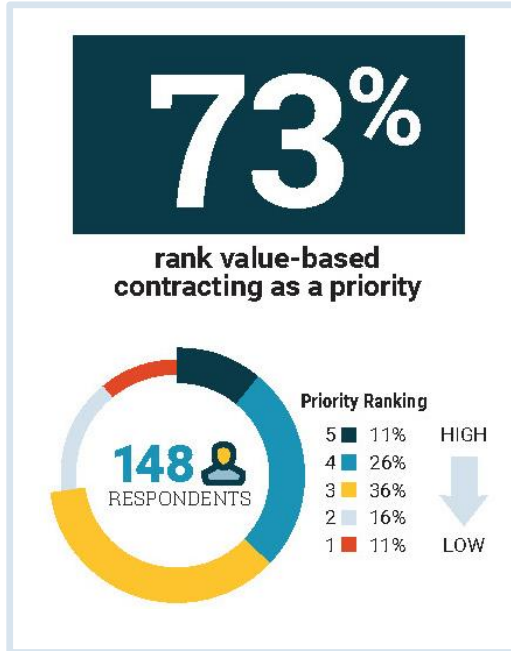
**Clear, concise
and specific
value proposition**

**Mutually
established
goals**

**Baseline
Metrics**

C-Suite Survey: Value Based Contracting

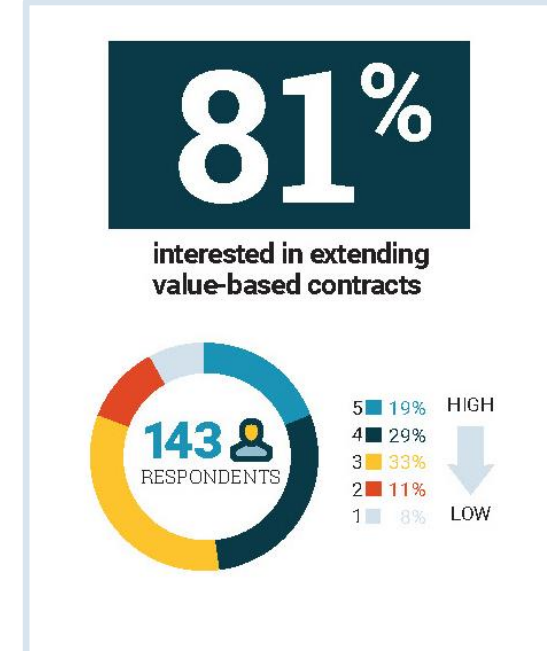
How high is value-based contracting on your priority list of initiatives to improve your contracting ROI?



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



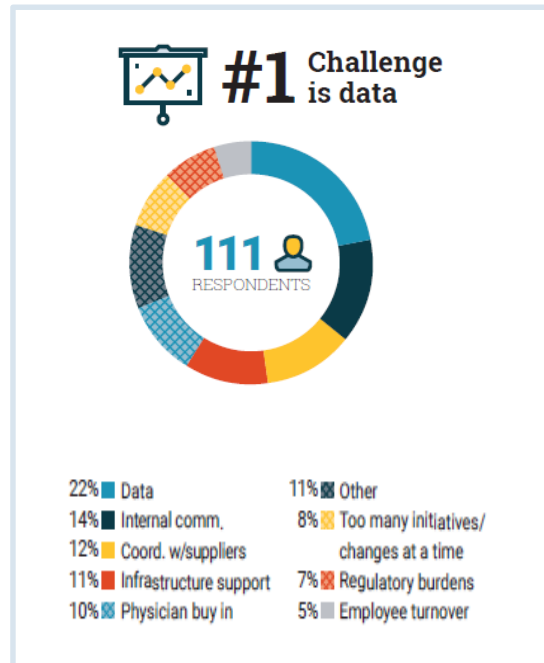
How interested would you be in more suppliers offering value-based contracting options?



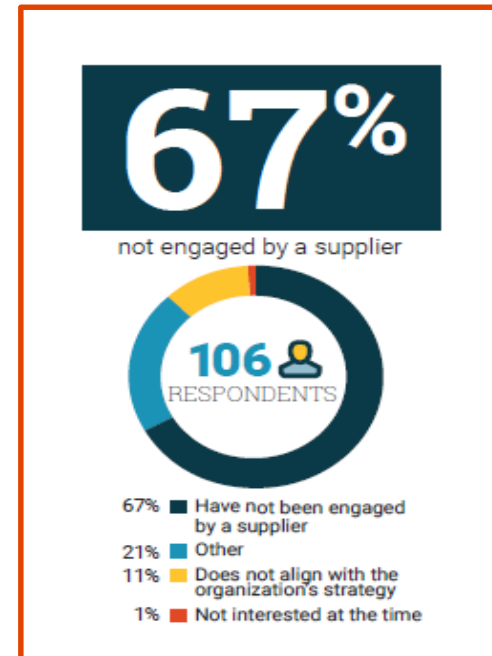
Source: Premier 2018 Value-Based Contracting Trends Survey
N: 203 C-suite leaders, both non-members and Premier members

C-Suite Survey: Value Based Contracting

What have been the main challenges?



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



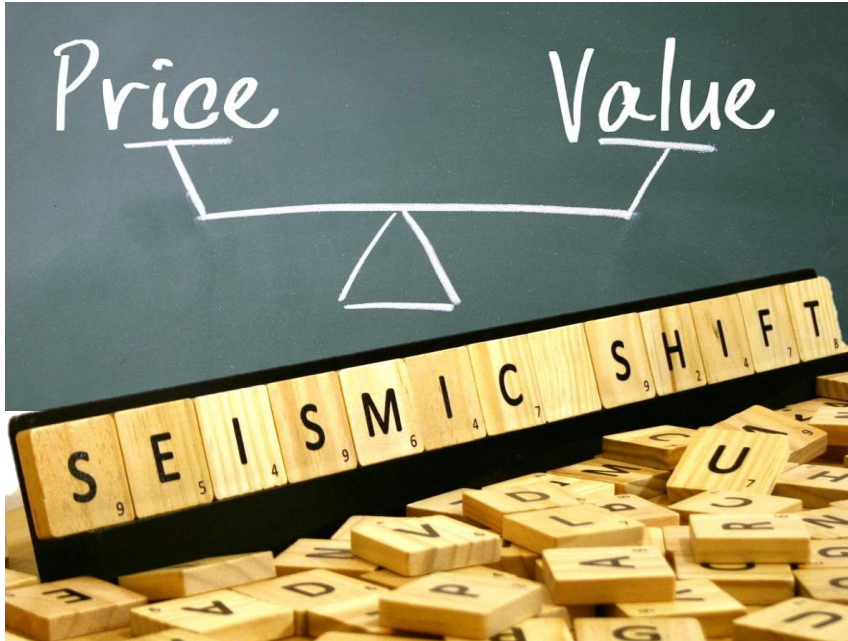
Source: Premier 2018 Value-Based Contracting Trends Survey
N: 203 C-suite leaders, both non-members and Premier members



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

Evidence based care discount

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.

Product or service guarantee

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

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.

Risk share by alternative payment program

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

Service Line	Problem Statement / bucket	Category
Food	Nutrition	Clinical Nutrition
Nursing	Infection	Skin Integrity
Diagnostics	Reduction in Antibiotic Usage	Lab
Facilities	Waste Reduction	Waste Management Products and Services
Pharmacy	Pain Management	Multi-Modal Pain Management/Ofirmev
Perioperative and Interventional	Infection	CRM
Food	Nutrition	Clinical Nutrition
Facilities	Skin Breakdown	Reusable Textiles
Perioperative and Interventional	Waste Reduction	Patient Warming - Blankets
Nursing	Skin Breakdown	Skin Integrity

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

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

