5 DYNAMICS IMPACTING CHILDREN'S HOSPITALS IN 2018

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Amid disruption, healthcare organizations face many pressures that are transforming the industry. This is especially true for children's hospitals as they grapple with pressure from consumers (ie., patients and families), insurers and even other healthcare organizations. While there's no easy solution to overcoming these challenges, children's hospitals that think, plan and act differently can fulfill their mission and succeed today and for years to come.

1. Payments classifications and models are changing

The financial operations of children's hospitals are changing. Payment models are shifting from fee for service to value based, payment classification systems are changing from per diem to All Patients Refined Diagnosis Related Groups (APR-DRGs) and consumers are responsible for a larger portion of their healthcare bills due to an increase in high-deductible insurance plans. Children's hospitals are adapting to these significant changes while ensuring they are reimbursed appropriately.

Address these shifts by:

- Developing models. Through modeling and understanding the old and new costs structures including Enhanced Ambulatory Patient Grouping (EAPG) systems, APR-DRGs and value-based payment plans, you can ensure reimbursement remains consistent across payment models and payment classification systems.
- Managing patient care in the appropriate setting. To do so, continue to educate medical staff on determining patient status of care (observation, inpatient, outpatient). This allows you to provide high-value care in the right setting, which is critical as families act more like consumers and become more sensitive about the cost of care and value-driven growth continues to gain popularity.
- Focusing on a long-term strategy. Rather than looking at short-term return on investments, organizations must plan by addressing the changing environment and identifying what their needs will be in the future. Areas of consideration include physician investments, building broader in-house capabilities (i.e., durable medical equipment services), employer-risk based contracts, primary care clinic investments, durable medical equipment services and partnerships with adult facilities.

2. Consumer choice is informing healthcare decision making

Parents are accustomed to quick scheduling, short wait times, simple price comparison tools and kid-friendly experiences when signing their children up for extracurricular activities or planning family vacations. They want a similar experience in healthcare delivery and when this doesn't occur, they will look elsewhere for care. These new demands from consumers pose a challenge to children's hospitals as they must not only focus on high-quality care, but on every aspect of the consumer experience.

Become more consumer-centric by:

- Improving care access across primary care and specialty areas. Identify ways to get patients seen by physicians more quickly. One way to do this is to confirm that physicians see the appropriate patients – ensuring their time is allocated appropriately.
- Offering price and quality information. Make pricing and quality metrics easily accessible. This will be key in differentiating your children's hospital from others by showing your expertise and value.
- Investing in a customer relationship management (CRM) system. CRMs improve the consumer experience by creating more personalized interactions using data to navigate complex care and manage interactions between various specialists.
- Using a variety of communication channels to connect with consumers. Use social media messages, text messages, phone calls and emails to engage consumers, keep your organization top of mind and improve their experience.

3. Models of alignment are evolving

Mergers and acquisitions are continuing as large systems scoop up independent hospitals and systems combine to capture efficiency and scale. At the same time, many organizations are forming joint ventures, investing in start-ups and exploring other nontraditional collaborations. These ventures are changing marketplace dynamics and pose a threat to independent children's hospitals.

Keep up with these changes by:

- Evaluating your place in the market. Determine if your organization should remain independent, collaborate with another organization or join a healthcare system. As you develop an alignment strategy, many factors including your ability to connect patients to research and how easily you can reach a large population of children should be considered. If collaborating or joining a system will help make this happen or alleviate financial pressures facing your children's hospital, it may be the right choice.

4. Competition is increasing

Children's hospitals face pressure on numerous fronts. Insurers are creating narrow network health plans that often do not include children's hospitals. At the same time, community hospitals and healthcare systems are ramping up their presence in the pediatric space. Retail clinics and telehealth services are also providing parents with alternatives for getting their kids care at a time and place that fits their needs.

Overcome this pressure by:

- Evaluating your cost structures and becoming more efficient. As insurers incentivize patients to receive care in the lowest cost place, children's hospitals must be able to compete on value. By becoming more efficient will you will be able to maintain margins without raising costs and in some cases even lower prices, so you can remain competitive.
- Differentiating yourself in the marketplace. Traditional tiered branding strategies that hospital marketing departments have relied on will need to be replaced by more comprehensive and personalized approaches to outreach. Children's hospitals must demonstrate their unique attributes to the market.

5. Reduced margins are adding financial pressures

As deductibles continue to rise and more consumers take on high-deductible insurance plans, more consumers are sensitive to the cost of healthcare. As federal reimbursement rates continue to decline, supply costs increase and drug prices continue to skyrocket. These factors all leave hospitals with reduced margins.

Adding to the financial challenges is uncertainty around state and federal funding. Children's hospitals must be prepared for the future where funding sources are not always guaranteed.

Mitigate these significant challenges by:

- Educating the public on the importance of programs like Children's Health Insurance Plan (CHIP). While this may not lead to drastic changes in the short term, public awareness and support of this topic can help provide children's hospitals with this critical funding for the future.
- Tapping into donors and philanthropic organizations. To do so, assess your philanthropic activity and identify if broader community outreach is appropriate.

As your children's hospital continues to provide care to some of the most vulnerable patients, finding ways to overcome obstacles through innovative care delivery solutions, strategic planning and a focus on your organization's mission will allow you to not just care for these children, but provide better outcomes at a better value.

Key Takeaways

Children's hospitals must take action to own their future and navigate the changing environment.

THINK DIFFERENTLY.

Look at and envision the future environment your organization will operate in.

PLAN DIFFERENTLY.

Optimize current investments and opportunities internally before market conditions force a change. Create a long-term strategic plan, reassess this plan, increase efficiencies and align spending to strategic plan priorities.

ACT DIFFERENTLY.

Focus on all aspects of your consumer experience.

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