

Adapting to Value-Based Contracting Requires a Strong Change-Management Strategy

Healthcare

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As leading medical device firms shift to value-based pricing strategies, other medical device companies must understand the intrinsic value of their products and adapt to the evolving reality of healthcare delivery to remain competitive.

In the shift, medical device manufacturers are tying select product costs to quality outcomes.¹ Under contract with either a payer or provider, the manufacturer gains preferential-product status, or even exclusivity, and is paid for a product that achieves a specific patient outcome quality metric. In exchange for the preferential status, the manufacturer assumes risk if the product does not reach the anticipated quality metrics, either through product reimbursements or costs associated with unplanned patient care.

This risk-sharing arrangement bases manufacturer revenues on the true value the product brings to the patient outcome, rather than a preset or, arguably, arbitrary market-based rate.

“We are moving, just like the rest of healthcare, to a value-based model, where we get paid in some fashion for actually achieving the outcome,”

Medtronic CEO Omar Ishrak told The Wall Street Journal.² “It’s a step we have to take to make sure that the value we create with our technologies is truly realized. And when it gets realized, we will get paid fairly for it.”

Under such terms, Medtronic signed close to 1,000 risk-sharing contracts for its TYRX antibacterial sleeve alone, a product traditionally viewed as an extra expense that cut into the reimbursement for a pacemaker or ICD implant procedure.

And in a joint press release³ with UnitedHealthcare, Medtronic shared that value-based care models are proving their value. Results from an analysis of over 6,000 members with diabetes on new insulin delivery systems and previous generation insulin pumps demonstrated 27% fewer preventable hospital admissions compared to plan participants who are on multiple daily injections of insulin.

While these are just two examples, they go to show that if large organizations like Medtronic and UnitedHealthcare can successfully implement these changes, so can your company.

1. Meg Bryant, “GE, Medtronic among those linking with hospitals for value-based care,” Healthcare Dive, March 29, 2018, <https://www.healthcaredive.com/news/ge-medtronic-among-those-linking-with-hospitals-for-value-based-care/519039/>.
2. Julie Spitzer, “Medtronic’s new business model: You only pay if it works,” Becker’s Hospital Review, February 21, 2018, <https://www.beckershospitalreview.com/supply-chain/medtronic-s-new-business-model-you-only-pay-if-it-works.html>.
3. Medtronic, Press Release, July 10, 2018, <http://newsroom.medtronic.com/phoenix.zhtml?iD=2357635&c=251324&p=irol-newsArticle>



Step 1: Create a problem statement

Adapting to value-based contracting requires a strong change-management strategy. It also requires getting your leadership and extended team on board. Just the thought of managing such an initiative can be overwhelming. To overcome inertia and internal resistance, it's helpful to focus on the basics, and sketch out your change-management plan using these six steps.

To begin, craft a detailed, objective “problem and opportunity” statement on which all other aspects of the change initiative are based. A compelling statement clearly presents the opportunity to be addressed, proposed actions to take, scope parameters, cost estimates, expected outcomes, and an articulation of what success looks like. For example, in the value-based contracting space, a problem and opportunity statement might look like this: The cardiac rhythm management market is becoming increasingly commoditized with relatively few product differentiators, leading to increased contracting competition, falling ASPs, and a 3% increase in sales costs to achieve the same revenue targets. Device pocket infections remain a small but steady complication for these procedures. Offering and executing a value-based contract with the TYRX sleeve will help flatten ASP decline and grow market share by 3%.

Performing an internal diagnostic with key company stakeholders at the beginning of a change-management project helps produce the most compelling opportunity statement. This helps clarify and document where senior leaders see the organization in the short, medium, and long term, as well as potential challenges that will need to be overcome. This exercise also helps identify internal stakeholders who will champion the initiative from concept through implementation.

Step 2: Make the case for change

To get your team on board, they will need to understand why the change is necessary, potential consequences of remaining status quo, and your vision for the future. They also will need to know how the change will improve the organization's performance and what benefits they will see personally.

In addition to leading competitors transitioning to value-based contracting, the go-to-market for most medical device companies is becoming increasingly difficult when selling to margin-squeezed hospitals.⁴ Historically, medical device companies have seen prices driven lower year after year through increased competition and customer pressure. In today's increasingly value-based market, this model poses several challenges, especially if an initial product price is out of line with other market players. When the upfront price is difficult to justify, particularly against lower-cost competitors, the product is automatically set up for diminishing returns, regardless of its real clinical and/or economic value. In other words, a compelling reason exists for you to change this dynamic.

Team members will need hard data to be swayed toward supporting the change. To make your case, collect data and highlight trends in performance metrics to show the need and potential of what change can bring, focusing on the core measures of product volumes and average selling price. Define benchmarks internal to your organization and across the industry, highlighting those considered best-in-class. Look for demonstrations of best practices to share.

For each type of benchmark, answer these questions:

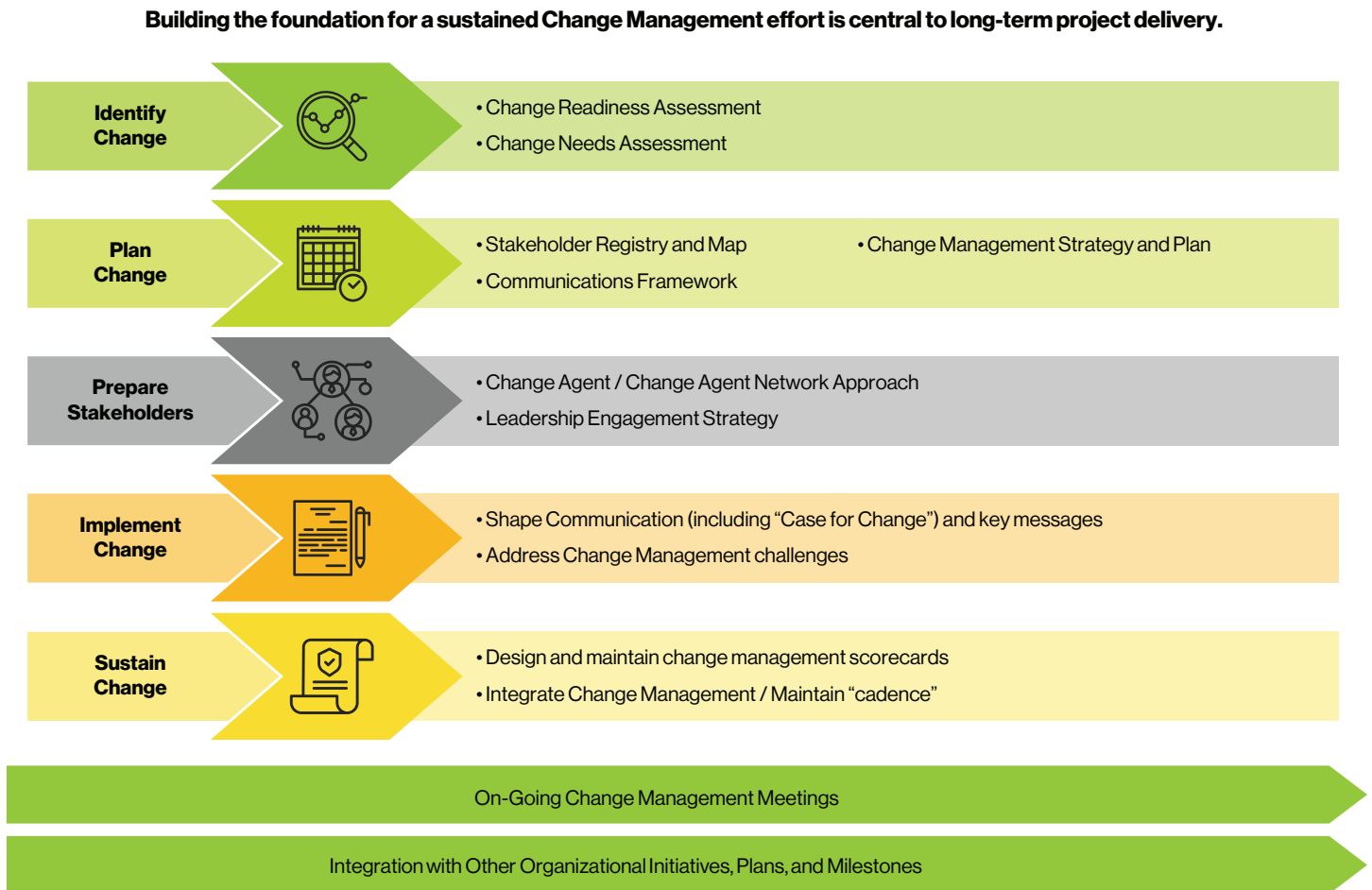
- **Internal** — What existing best practices can be replicated? What have we learned from past projects that can lead to better decision-making? Can we identify any parts of the organization already embracing the change?
- **Industry** — What are competitors doing well in relation to value-based care models? What are they doing better than us? Do they have any best-in-class approaches we should adopt?
- **Best-in-class** — Regardless of industry, who is doing this the best? What is different about the approach, the look and feel, or the process? How do they measure and maintain their level of excellence?

4. Jeff Goldsmith, Rulon Stacey, and Alex Hunter, "Stiffening Headwinds Challenge Health Systems to Grow Smarter," Guidehouse, September 2018, <http://images.e-navigant.com/Web/NavigantConsultingInc/%7B7900bba7-87bd-4a9b-9cec-54cf0b6ea9d4%7D%20HC%20HealthSystemFinancialAnalysis%20TL%200818%20REV08.pdf>.



This benchmark research will support the case for change and identify best practices for implementing the change initiative. Distilling the data into clear and manageable messages through dashboards or a PowerPoint executive summary [See Figure 1] helps the extended organization understand the importance of the change initiative and can help with broader communication of activities.

Figure 1: Dashboards help people quickly understand the goals and necessity of a change initiative.



Step 3: Develop a communications plan

Shifting an organization to a value-based contracting strategy doesn't happen overnight.⁵ No matter your organization's size, you need to help stakeholders envision a realizable future and build momentum through a compelling communication⁶ strategy. Communication should be consistent from the change-management leader through senior levels of the organization. Four key communication elements include:

- Who is the target audience for this particular communication?
- What is the purpose of the communication?
- When will it be delivered — regular intervals or on completion of milestones?
- How will you deliver it — email, town hall, etc. — and why is it the most appropriate delivery method?

5. Mike Coyle, "Transitioning to Value-Based Healthcare is Well Worth the Effort," Medtronic, <https://www.medtronic.com/us-en/transforming-healthcare/perspectives-insights-series/mike-coyle-transitioning-to-value-based-healthcare-is-well-worth-the-effort.html>.

6. Harvard Business Review, "Costs and Outcomes in Health Care," 2016, https://www.bullseyeresources.com/wp-content/uploads/2018/03/Event-Content_Types-of-Events_Customer-Conference.pdf

To begin drafting your communication plan, start with the results of the internal diagnostic described in Step 1. Think through how the change will benefit internal and external stakeholders and identify those who may be negatively impacted. Lastly, understand what won't need to change,⁷ as this becomes especially important to help reassure those most heavily impacted.

Record the key items that need to change⁸ to execute the vision and record them on your project plan, organizing them into:

- **Processes**, such as a new pricing and sales process to accommodate changing customers, e.g., physicians to administrators and payers.
- **Capabilities**, such as better health economics and outcomes research in clinical studies.
- **Structure**, such as a special sales force to call on changing customers.
- **Infrastructure**, such as adding abilities to measure the results of the value-based contracts.

Then, develop the plan by outlining formal project updates on progress and allowing for ad hoc communication needs. Understanding when these milestones will be achieved establishes the map upon which the communications strategy can be built.

Step 4: Rally support and manage resistance

Transitioning to a value-based contracting strategy affects many groups in the organization, including medical affairs, sales management, corporate accounts, and regulatory and compliance. Understanding where each stakeholder group stands versus where you need them to be for the change to be effective will help you develop an action plan. Again, the internal diagnostic from Step 1 will help you understand where and why there is resistance. From there, map out initiative supporters and resisters, and how important each is to its success. [See Figure 2] Keep this tool closely held as the information based on your own observations could be viewed as sensitive. No one wants to be described as “unsupportive” of a positive change initiative, but the reality is not all stakeholders are affected positively, which may influence their level of support.

Figure 2: Map of stakeholder groups

Stakeholder	Strongly Unsupportive	Moderately Unsupportive	Neutral	Moderately Supportive	Strongly Supportive
Medical Affairs				Current/Need	
Sales Management		Current			Need
Corporate Accounts			Current	Need	
Regulatory & Compliance			Current/Need		

For example, in value-based contracting, a strongly supportive sales management team is crucial. Yet, because the change could impact them greatly, such as through shifting commissions to new parts of the sales organization (e.g., corporate accounts, value-based contracting team), they might be the most reluctant to adapt. How can you convince them? Your goal is to address any of their concerns professionally and honestly, including holding difficult conversations, to eventually help migrate resisters to a positive position.

The key to understanding resistance and rallying support is clear communication with those stakeholders. What is the underlying concern? Which part of the initiative resonates with them, and what doesn't? Do they have any suggestions that could mitigate their resistance or build their support? Having these discussions is a powerful way of helping your stakeholders feel heard and valued as the change process begins.

In addition, revisit your communication plan from Step 3. Every milestone is an opportunity to change the level of support among stakeholders. What actions can you take to close any gaps? Are you addressing your resisters enough, highlighting successes, and communicating how much better the future state will be?

7. Merlijn Venus, Daan Stam, and Dann van Knippenberg, “To Get People to Embrace Change, Emphasize What Will Stay the Same,” Harvard Business Review, August 15, 2018, <https://hbr.org/2018/08/research-to-get-people-to-embrace-change-emphasize-what-will-stay-the-same>.

8. Todd Tetreault, “Value-based contracts - Creating win-win partnerships for health systems and suppliers,” Becker's Hospital Review, March 2018, <https://www.beckershospitalreview.com/healthcare-information-technology/value-based-contracts-creating-win-win-partnerships-for-health-systems-and-suppliers.html>



Step 5: Measure what matters

You need to track the initiative's impact and communicate progress to leadership, the broader organization, and customers. Developing a dashboard with metrics illustrating progress will help you maintain initiative momentum by illustrating progress along the project plan, spotting issues to troubleshoot, and holding the team accountable.

To ensure you are choosing the correct metrics, revisit and analyze the gap between your problem statement and future state vision. What behaviors need to change for the organization to evolve? Determine a fact-based, easy-to-understand indicator that measures what matters for each behavior, and explain why this metric will lead to the desired outcomes. Test and narrow these metrics with functional leads to build further buy-in and gain alignment for presenting progress to management.

In the transition to value-based care, lagging indicators could include improvements in sales performance and contract cycle time, while a leading indicator of improvement could be the number of meetings with payer and provider CEOs to explain new value-based contracting options. Dashboards can also help monitor the contract performance in real time as device firms assume more risk for better patient outcomes.

Figure 3: Sample dashboard

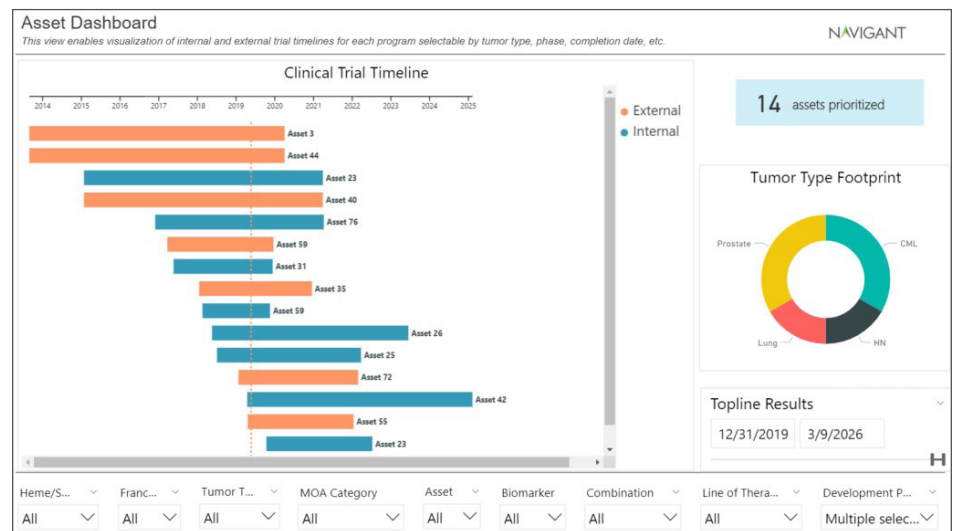


Figure 3 shows an example of a single-page dashboard used to monitor business conditions and change-management progress. Share dashboard updates consistently in progress meetings and with the extended team to maintain momentum.

Step 6: Make change stick

Effective change management ensures that improvements and process changes are sustainable. This means instituting controls — such as process automation, regular communication touch points, and training — that help prevent “backsliding” into old behaviors. In addition, evaluate the history of change initiatives in your organization to better understand if the company generally embraces change. If so, review what went well and how; if not, identify potential change-initiative pitfalls to sidestep.

Looking forward, identify and prioritize key risks that could undermine the change initiative, and develop mitigation strategies. Working with the operational groups responsible for implementing the change will help identify the greatest risks, determine appropriate solutions to pursue, and foster buy-in.

Work with the operational team to collect a pipeline of improvements to continue to optimize the new process, generating efficiency gains. Be sure to collect data on the new process, and monitor and flag any variation to ensure the change continues to be implemented. It's highly unlikely you will get it perfect the first time, and many opportunities to improve will unfold.

Surviving Change

Transitioning your organization to a new business model will be difficult — any significant change is. But it is achievable, and necessary to keep your organization relevant in today's burgeoning value-based healthcare marketplace.





How Guidehouse Can Help

Mismanaging the change journey is not an option in today's environment. We help our clients design and successfully implement future state transformation strategies through a project delivery approach that includes Organizational Change Management (OCM) and related disciplines. We integrate OCM into our work to ensure that the "people side" of transformation is actively considered in every project phase, and that desired changes stick. From organizational redesign, to business process re-engineering, to the adoption of change-management tools and techniques (i.e., change-readiness assessment, communications, training, and team-building disciplines), Guidehouse's team leads clients through the transformation journey.

Transformation is driving organizational, process, and other related changes across all of our target sectors. Contact innovation@guidehouse.com to join the conversation.

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