CASE STUDY

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next-generation vendor management
the experience of Centura Health

The benefits to providers of outsourcing collections are real and should be achievable. Centura Health's approach to vendor management captures those benefits where other approaches all too often fall short.

AT A GLANCE

Denver-based Centura Health implemented a new approach to working with vendors that deliver outsourced collection services. The approach requires:

> Engaged leaders with a comprehensive and communicated strategy
> Structure, process, and policies aligned with the strategy and designed to make it operational
> Technology to streamline and provide broad access to comprehensive account-level data

In early 2008, concerned with the yield from its outsourced collections, Centura Health in Denver considered replacing its entire self-pay collection network. But a deeper analysis disclosed that Centura's vendors were not the sole source of the problem; the health system's approach to managing its vendor relationships was also impeding performance excellence. The approach was inflexible, had poor financial and activity visibility, and consumed substantial resources with low-value administrative activities.

Centura therefore decided to develop a strategy for a "next-generation" operating model. Assisted by its vendors, Centura quickly devised and implemented the strategy, and went live by October of the same year.

Within a few months of launching its new approach, Centura realized a greater than 20 percent increase in cash yields over the same period in the prior year, record cash receipts, and a reduction in administrative and IT costs. The benefits of Centura's new approach to outsourcing collections were clear: It reduced risk, improved recoveries at a lower operating cost, provided greater flexibly in adjusting to market changes, and improved the overall patient experience. Under the new structure, Centura had the confidence of knowing that compliance concerns were being fully addressed and patients were being treated well.

To understand what led Centura to develop its new approach, it is helpful first to consider the approach that most hospital and health system business offices are using today and the particular challenges it poses.

Today's Business Office

Almost every U.S. hospital or health system outsources at least some collection activity. These providers contract with vendors for everything from self-pay collections to small-balance managed care follow-up to physician billing to Medicaid eligibility assessment. The vendors have the scale to invest in special technology, the focus to achieve operational excellence, and the ability to develop specialized human resources and training systems. The providers realize the flexibility to seek out best-in-class performers and add more specialists. Providers are also able to eliminate a fixed cost and move to a variable cost "pay-as-you-deliver" pricing model.

Unfortunately, this approach is often falling short of providers' expectations. All too often, providers tolerate problems that drive up costs, impair collection performance, place compliance with institutional policy at risk, and undermine patient goodwill. The following problems are commonplace.

Inventory inaccuracy. It is common to find reconciliation issues on 5 to 40 percent of accounts held at vendors. Issues can range from simple balance mismatches to errors of more grave concern, such as accounts classified as charity that are still in collections.

Account-recall breakdowns. Often, unbeknown to providers, accounts may remain at agencies beyond stated time frames. This issue can be a problem when Medicare cost reporting and bad debt reimbursement is involved, as it would cause the provider to report inaccurately in these areas, leading to potential compliance concerns.

Invoice reconciliation gaps. Most providers are unable to fully and quickly reconcile monthly cash and fee totals given adjustments, fee schedules, reversals, and receipts.

Financial reporting challenges. The difficulties of reconciling vendor reports, inconsistent definitions, and homegrown spreadsheets make month-end reporting a challenge for provider staff.

Performance analysis limits. Vendor-specific measures and limited access to account-level data impede the provider's ability to analyze and understand collections performance.

Lost and stalled accounts. As many as 20 percent of accounts involve extraordinary processing requests—such as requests for payment plan approval, dispute resolution, or additional information—that can cause the accounts to become stalled or lost in the handoffs.

IT maintenance burden. Many providers maintain different file layouts for each vendor, making the maintenance of connectivity a larger issue with constantly changing IT systems. Lack of standard data formats also impedes a provider's ability to bring vendor data back into the patient accounting system. All too often, implementing a fix for these connectivity problems is a low priority for a hospital's busy IT department.

Outdated and incomplete policies and procedures. Few organizations routinely update their policies, yet doing so is increasingly important in today's challenging consumer environment. Policies include settlement options, use of legal action, access to credit files, handling of disputes, and many other items.

Attributes of Next-Generation Vendor Management

Despite these challenges, the benefits to providers of outsourcing collections are real and

Signs Your Vendor Solution Needs to Be Updated

> Team of employees focused on basic administration (i.e., invoice and inventory reconciliation, performance comparison, or month-end closing reconciliation)
> No ready access to activity detail on individual accounts
> Cost to collect is rising as a percentage of cash or cash yield has not improved in many years
> Significant number of exceptional processing requests from vendors on accounts
> Operational objectives with vendors held back due to IT infrastructure
> Lack of an improvement plan for overall performance built with vendor input
> Policies, procedures, and guidelines have not been updated in several years

should be achievable. The next-generation approach to vendor management adopted by Centura Health captures those benefits by addressing daily operational frustrations so commonly experienced by providers and their outsource partners.

To successfully adopt Centura's approach, a provider should view vendor management as an organizational capability that needs to be cultivated, allowing the organization to adjust its vendor solution easily as circumstances change. Next generation vendor management is not simply issuing an occasional request for proposal (RFP). A lower fee in absence of a larger effort only motivates vendors to skim the provider's accounts, treat patients unevenly, and cut corners.

Next generation vendor management has three basic requirements:

> Engaged leaders with a comprehensive and communicated strategy

> Structure, process, and policies aligned with the strategy and designed to make it operational

> Technology to streamline and provide broad access to comprehensive account-level data

Engaged Leaders and Strategy

To begin, a provider's leaders must set a clear and comprehensive strategy for vendors and daily operations. This strategy should take into account the following basic considerations.

The objectives and metrics by which the vendor network will be measured. Much more than simply cash yield, these measures should be concerned with issues such as patient satisfaction, operational efficiency, and continuous improvement. The strategy should also clearly state which measures are priorities and which are secondary.

The specific activities that will be outsourced and the phasing for any plan. Employees and vendors should understand why specific functions are being outsourced, over what time frame, and to how many different entities.

The mechanisms that will be used to promote competition and generate new energy. Companies tend to perform better in competition. Energy can be refreshed by replacing vendors occasionally or simply introducing new vendors to test new ideas.

New Regulatory Attention on Hospital Collection Practices

As if the current challenges hospitals face with managing their collection practices are not enough, regulators and consumer watchdogs are turning up the heat. Contributing to this increased scrutiny are reports in the media suggesting that medical debt is at the center of up to two-thirds of all consumer bankruptcies. Another contributor is the rapid escalation in the volume and value of deductibles, copayments, and coinsurance. In addition, the Fair Trade Commission 2009 Annual Report notes that consumer complaints about feeling harassed by collectors almost doubled from 2007 to 2008. How bad will 2010 be given the worsened economic position of most consumers?

These circumstances do not sit well with legislators, and they are taking action:

> President Obama has proposed a Consumer Financial Protection Agency to oversee adherence to the Fair Debt Collections Practices Act (FDCPA) and related consumer financial activity.

> The Government Accountability Office released a report on collection practices for consumer debts, which included the insight that the FDCPA is out of date with respect to current technologies.

> The Federal Trade Commission is developing recommendations to address several areas of collection activity including litigation, arbitration, and FDCPA rule making and enforcement.

> Several states have adopted more detailed regulations with respect to oversight and management. For instance, Illinois has set detailed response time lines for dealing with patient billing issues, while Maryland is requiring that hospitals be capable of monitoring collection vendor activity.

Beyond setting strategy, leaders need to maintain ownership for performance and stay engaged. It's not enough to design the network, implement it, and then walk away. The relationships between providers and vendors are dynamic, and changing marketplaces can bring changes in performance and new challenges. Provider leaders need to know when things change and when to revisit decisions.

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Provider leaders should hold regular performance and strategy reviews with their vendors one-to-one and as a group. During these reviews, the leaders should identify what is working and what is not. The leaders should also find out as much as possible about the vendors' ongoing improvement programs, including where are they focusing their activity, what problems are they seeing, and what new technology is most interesting. Routinely meeting with new vendors once a network is established is an excellent way to find out about leading practices and new technology.

Structure, Process, and Policies

With a clear strategy, the vendor network can be built and maintained to align with the strategy. Too often, espoused strategy and actual structure are disconnected: A provider declares customer service to be a priority, for instance, and then takes the lowest-priced bid from a company with limited technology. Or the structure presses vendors to accelerate collection rates, but then denies them any flexibility on settlement limits to help motivate patients.

The first structural concern is to engage the right set of vendors. There are hundreds of collection vendors in the United States, with significant differences among them. For a provider, finding vendors that are a good match starts with a well-structured RFP.

The RFP should probe the vendor's characteristics in the following areas:

> Application of the principles of ***PATIENT FRIENDLY BILLING®***
> Use of analytics to structure and accelerate work effort
> Operating technology, including dialers and workflow engines
> Number of lines of business offered
> Number of offices and size of each
> Business growth rates and approach, (e.g., organic or business acquisition)
> Account management routine
> Regions served
> Customer service representative turnover and training
> Approach to supervisor and management development
> Monitoring of patient satisfaction
> IT and data security
> Legal and regulatory compliance programs
> Corporate governance

The next critical step is to define daily, weekly, and monthly operating processes. The provider should review how the most common special requests and special handling situations will be addressed and engineer detailed processes to keep handoffs to a minimum and get requests immediately to the right resources. Having fewer handoffs reduces the potential for losing accounts or stalling proper collection activity.

Clear standard reporting measures should be established for use by all vendors. Measures unique to individual vendors should not be accepted. As the client, the provider has the right to define the conditions for reporting, and vendors must adhere to those conditions.

The provider should use this exercise to update and complete policies and procedures and ensure alignment with the overall structure and strategy. Policies and procedures should cover much more than issues such as how long an account can age before it is declared bad debt. They should also include the following:

> Settlement limits (How much and when can agents or vendors offer discounts relative to balance due?)
> Payment plans (How long and what minimum/maximum plan is allowable by balance? What happens if a payment is missed? How many missed payments before the plan is terminated? At what point does the balance default to bad debt?)
> Interest charged (Does interest accrue? If so, when does it start and at what rate? When can interest be waived?)
> Extension limits (Under what circumstances can an account be kept as an active account receivable beyond standard timing? How long should the extension be?)
> Account holds (Under what circumstances can an account collection process be suspended? How long can suspension continue before action must be taken?)
> Dispute resolution (What is the standard process for reviewing and resolving patient disputes?)
> Deceased (How are accounts handled when the guarantor dies after discharge? Does the provider want to pursue the estate and at what balance levels?)
> Bankruptcy (Does the provider want to pursue households that declare bankruptcy after discharge? What are the guidelines?)
> Liens (At what time and under what circumstances should legal action be taken?)

Technology to Streamline and Enable Account-Level Data

For the vendor network to function properly, the provider requires well-structured technology to efficiently move accounts around the network, deliver useful accepted data, and quickly identify potential problems. The technology should support a range of vendor types using a common file format and be able to maintain comprehensive activity and financial transaction information at the account level.

The benefit of a common file format for different types of vendors is multilayered. First, it reduces the IT burden for everyone. Second, it supports easy access to solid and current account-level data from both vendor and provider, facilitating activity reconciliation and problem diagnosis. Third, it enables performance reporting and analysis, financial and invoice review, process simplification, policy monitoring, and inventory management.

Technology can also promote exception-based management routines, pushing accounts that require special handling to the right desktop for fast resolution. It can identify activity that is outside of policy and push such situations to the appropriate manager (e.g., why is this account being held beyond stated guidelines?). All such activity is tracked and monitored so that accounts do not get lost.

Centura Health Case Study

When Centura first envisioned building a new vendor model, the health system was outsourcing almost all self-pay revenue collection activity to third parties. All of the vendor relationships had existed for several years, and the contracts included detailed fee schedules, activity expectations, and commission payments. Although significant time had been devoted to developing the contracts, they had not been recently updated and adherence to contract terms or schedules could not be verified because neither Centura nor its vendor partners could access the information needed to do so. Centura's systems did not capture vendor account-level activity, nor was there a standard database containing data for all vendors. Any account-level activity review entailed several phone calls and manual steps.

Two employees were tasked with reconciling invoices and open inventory for month-end close. Their processes relied on Excel spreadsheets and manual data entry from reports submitted by the vendors. The standard routine was to get close on key end-of-month measures and assume the rest was unspecified adjustments.

Other employees were tasked with taking information from multiple, very different vendor and business office reports to calculate top-line cash performance and yield rates. Drill down was not possible, and problems could take months to percolate upward, by which time, small items could have grown large.

In terms of IT, Centura passed accounts to vendors electronically. The system worked fine from IT's viewpoint as long as no changes were requested. Unfortunately, changes were all too common and much in demand. Each vendor had its own standards for data, so as vendors updated their systems, work was created for Centura and vice versa. Further, new vendors meant new IT work for Centura resources. As with most provider IT departments, Centura staff were so busy with larger system issues that updates or modifications around vendor connectivity tended to be a low priority. Changes often were limited to manual workarounds for extended periods or put off indefinitely.

The business office team's original strategy for improving net recovery was simply to introduce new vendors and create a healthy competition among them. But they quickly realized that improvement was also needed in daily operating and administrative areas. With the recognition that this effort required much more than simply a one-time vendor switch, Centura's revenue cycle leaders decided to engage other critical constituents in developing a master plan.

Leaders at both the corporate and facility level were briefed on the situation and the path forward. The plan, in addition to laying out overarching benefits to Centura, provided the road map for facility operations, legal, IT, and supply chain areas to keep step with the effort and maximize the value they added.

The plan had three primary objectives:

> Refresh and expand the vendor network to bring in more expertise, generate new energy, keep fees in line, and increase competition.
> Update policies, procedures, and processes to ensure appropriate patient service, compliance, and consistency, and give vendors the tools to succeed.
> Deploy vendor management technology to relieve the IT burden and automate account placement, reporting, and exception processing and eliminate the need for routine manual intervention.

Refreshing the vendor network. An RFP was the vehicle to test incumbents while injecting some new ideas to operations, resetting rates, and creating ongoing performance tension. The structured, step-wise process challenged the assumptions of Centura's leaders about what constitutes "good performance." It also gave the vendors the opportunity to learn more about Centura and what it would be like to work with the health system.

All vendors—incumbents and others by invitation—quoted rates significantly lower than current levels. However, the goal of the process was not to pick the lowest rate but to choose the vendors with the right mix of performance, operating philosophy, economics, passion for improvement, and energy to work with Centura over the long term.

The winners were committed to Patient Friendly Billing; used analytics, account segmentation, and dialers to engage patients more effectively; tracked customer service and could demonstrate how their activity uncovered issues early; and had comprehensive human resources policies and training regimens. Overall, Centura saw the winning vendors as like-minded partners.

Updating policies, procedures, and processes. Centura had long had policies and procedures in place across its network, but because of the difficulties involved, no one had monitored vendor performance for some time. Led by the platform technology team who would code the technology system to monitor activity and route accounts, Centura and the new vendors reviewed every consideration, from dealing with payments missed by patients to handling requests for additional information.

All involved came to understand the dependencies between Centura business office employees and vendors. In a number of situations, the discussions led to the implementation of simpler processes within Centura's business office to sign off on vendor requests. More communication could occur faster between vendors and the experts on the business office team.

The exercise also identified a number of policies that were incomplete or out of date.

Using technology to automate and structure the effort. Centura recognized that vendor management was a data-intensive capability and would require a technology solution to power the new network and policies. With a major system conversion under way, building a solution was out of the question.

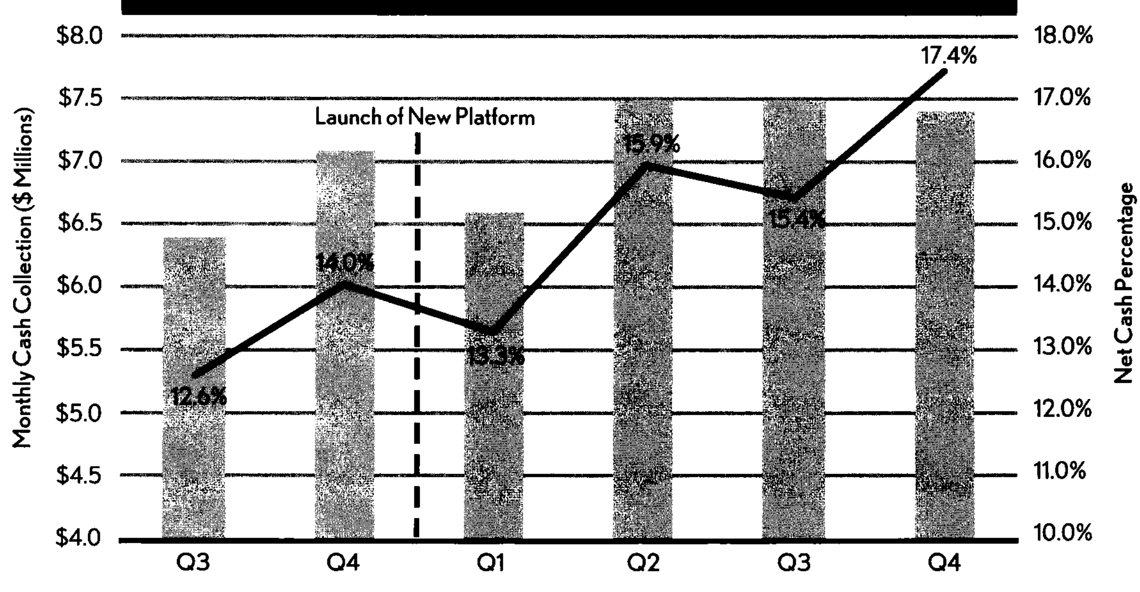
Key features of the requisite technology included:
> Single connection for Centura IT
> Easy connection with any vendor
> The ability to access account-level data, including collection activity, to support monitoring, measurement, and analysis
> A flexible rules engine to make policies and procedures operational and monitor them
> Ability to reconcile inventory and invoices to reduce administrative audit and monthly closing burdens
> Web-hosting to reduce the set-up and maintenance challenges for Centura's IT staff

Technology implementation was synchronized with vendor selection and contracting. First, the technology team worked with the operators and vendors to document and map policies, procedures, and processes. The team identified the exceptional requests that occurred with regularity among their thousands of new accounts (e.g., requests for settlements outside of standards) and developed processes that the platform could execute to push such requests right to specialists.

Formally delegating authority on specific requests was new for Centura and proved highly effective. The process reengineering made decision making more consistent while reducing handoffs, faxes, e-mails, and other delays.

Once everything was documented and mapped, the technology team focused on connectivity and vendor integration. The team replaced Centura's historic multiple vendor connections with a single connection to the new platform. Vendors received training in the use of the platform as

EARLY OUT MONTHLY CASH COLLECTIONS, BY QUARTER



they were connected to it. Centura saw the simplicity of this vendor integration process as a significant indicator of the model's long-term value.

Business office personnel also were trained on the platform as it related to their jobs. Because the platform pushed requests directly to specialists in the business office, different people had different needs and access rights. Initially performed in person, training was updated over time through phone support.

The benefits of the new model came quickly and continued to accrue over time:

> A more than 20 percent increase in net cash collection rate versus prior year performance
> Record setting cash receipts
> Reassignment of several employees that did reporting, analysis, and monthly close
> Confidence that vendors were being paid appropriately given all the financial transactions
> Streamlined weekly inventory reconciliation
> Clear "apples to apples" vendor performance information with drill-down ability
> More consistent patient service as a result of vendors having better information
> Automated notification of any account activity outside policy and procedure
> Flexibility to continuously update policies, procedures, and vendor community

Lessons Learned

Centura's experience highlights several lessons learned for establishing successful, ongoing working relationships with collections vendors. First, strong vendor relationships require a day-to-day and month-to-month investment, similar to the investment business offices make in forging relationships with facility operators. Second, a provider's choice of collections vendors and its understanding of how to empower them both flow out of the provider's strategy for its self-pay and other outsourced product lines. A good strategy involves making choices, as no one can do everything. Third, the structure of technology is a superb vehicle for rigorous process reengineering. Fourth, getting it right from the beginning is hard, so whatever solutions are put in place must be able to

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develop and mature as circumstances change and vendor and business office teams develop. Fifth, outsource collections partnerships are long-term relationships, and collaboration is critical to keeping those relationships healthy and productive.

Finally, as with all initiatives, embarking on a vendor management program requires solid project management and leadership skills. Early communication of the master plan to key constituents across Centura made it easier for functional areas to collaborate and deliver maximum value. Facility CFOs and operators had clear timelines for change, and their expectations were set in advance. Such open communication from an engaged leadership is perhaps the most important ingredient for success. ●

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