Synergetics

Fall 2015 Spotlight:

The Role of Third Party Administrators in the Delivery of Healthcare

About Us

Synergetics is a privately held New England-based Management Consulting firm established in 1975. With office locations in the US and UK, Synergetics operates internationally and employs over 150 professional analysts, consultants, project managers, and subject matter experts. As one of the largest "Implementation Consulting" organizations, Synergetics has completed over 1,600 business process engagements across nine distinct verticals to build more than $8 billion in bottom line profitability and improve overall operating efficiencies. Synergetics works with a diverse client portfolio of leading industrial and service corporations across Private Equity, Small and Medium Enterprises, and Fortune 500 Companies. With customized services and solutions, Synergetics performs hands-on detailed management, financial, and operational assessments to develop and deliver specific cost savings and revenue enhancement initiatives.

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Synergetics quickly understood our business needs, mapped out a 'best practices' approach, and then executed a solid solution with professionalism and production-focused expertise. We realized tremendous returns on our investment in Synergetics – saving us millions in labor costs. Productivity was boosted, morale went up, and most importantly customer performance improved. We expected a lot from our partnership with Synergetics, and they delivered.

– Frank B. Murphy,
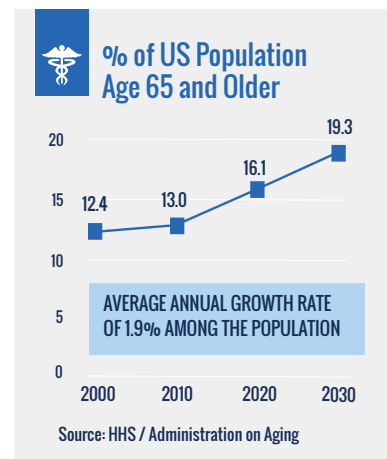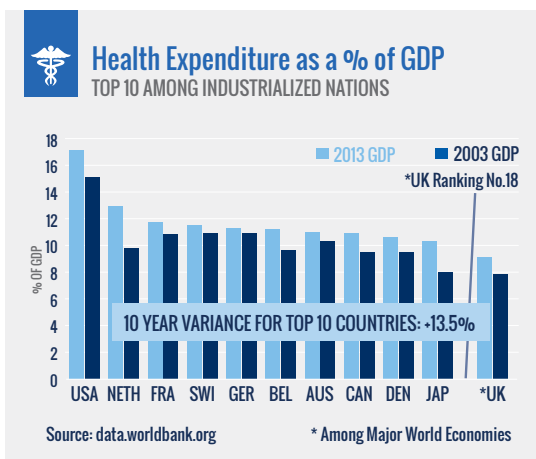 President, Physician Services
  Per-Se Technologies, Inc.

INTRODUCTION

To commemorate Synergetics' 40th Anniversary, we are pleased to introduce "Industry in Focus" – a rotating series of updates that we will publish quarterly over the next year. In this launch issue focused on **Healthcare & Life Sciences,** we will highlight significant trends and changes in the industry and demonstrate how Synergetics is uniquely positioned to deliver guaranteed, sustainable results across the most critical areas of the business. We pride ourselves on having built long standing relationships with our 500+ client portfolio. These relationships have driven our business, and having achieved an 85% extension and client referral rate is a testament to our success.

40 YEARS
Synergetics
REAL SOLUTIONS
SUSTAINABLE RESULTS

INDUSTRY OVERVIEW

From an industry perspective, Healthcare & Life Sciences is one of the largest and fastest growing business sectors internationally. The explosive growth of this area worldwide means that many opportunities exist to fill direct patient care roles, which in turn fuels those businesses supporting them. **Cost containment within the industry is a global challenge.** The need to confront this issue is most striking in the US, and it will continue to affect the Healthcare System as the population ages, requiring additional services and utilizing more resources.

Health Expenditure as a % of GDP
TOP 10 AMONG INDUSTRIALIZED NATIONS

2013 GDP   2003 GDP

*UK Ranking No.18

10 YEAR VARIANCE FOR TOP 10 COUNTRIES: +13.5%

USA NETH FRA SWI GER BEL AUS CAN DEN JAP *UK

Source: data.worldbank.org   * Among Major World Economies

% of US Population Age 65 and Older

12.4 — 13.0 — 16.1 — 19.3

AVERAGE ANNUAL GROWTH RATE OF 1.9% AMONG THE POPULATION

2000   2010   2020   2030

Source: HHS / Administration on Aging

While many companies struggle to stay current in providing health benefits and coverage for their employees, those businesses within the industry are also challenged with controlling costs, becoming more efficient, and increasing margins. **Synergetics has partnered with all types of businesses across the Healthcare Industry and understands the pressures they face:**

- biotechnology
- pharmaceuticals
- providers/services
- equipment/supplies
- technology
- tools/services (for Life Sciences)

THE COST OF CARE IS INCREASING WITH NO SIGNS OF EASING NEAR TERM. THERE ARE SEVERAL FACTORS DRIVING THESE COSTS.

Critical Factors Impacting the Cost of Care

Diagnostic Tools: Although used for early detection and treatment of medical conditions, greatly improved diagnostic tools are capital intensive to develop, operate and maintain with a highly skilled and competent staff

Improved Pharmaceuticals: The use of improved pharmaceuticals, although hugely beneficial in disease treatment, also generate high R&D costs which are passed on to the consumer

Medical Devices: Expanded use of medical devices in treating diseases further generates increased spending

Government Regulations: Increasing government regulation and bureaucracy require higher costs related to compliance, risk management, and litigation
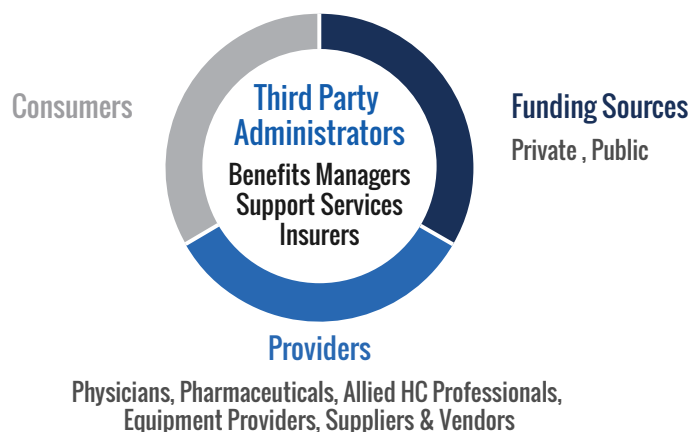
Baby Boomers: Baby boomers turning age 65 in large numbers are utilizing more resources to treat chronic conditions, with the average life expectancy now approaching 80 years with increased use of elder services

Advanced Medical Care: Advanced medical care in the treatment, cure and prevention of disease, further integrated with technology and information systems, increases the costs of service delivery and maintenance

Synergetics has worked extensively with those Healthcare companies managing health plans, coordinating care delivery and service options related to consumer benefits, and providing various support services across the industry.

One of those key entities operating in this administrative capacity is Third Party Administrators, or TPAs. Following is a brief summary of a few of the challenges they face in today's changing Healthcare landscape.

Existing Healthcare System Relationships

Consumers

Third Party Administrators
Benefits Managers
Support Services
Insurers

Funding Sources
Private , Public

Providers
Physicians, Pharmaceuticals, Allied HC Professionals, Equipment Providers, Suppliers & Vendors

Although the roles and relationships that comprise the overall US healthcare system can be depicted in a variety of ways, a Third Party Administrator could be viewed as an entity that determines how care is provided and administered among the 3 major components:

Providers provide the type and quality of care delivered

Funding Sources determine from what source and how much in financial resources that would cover the overall cost of care and through what means it is accomplished

Consumers are end users of healthcare-related services

THE CHALLENGING ROLE OF THIRD PARTY ADMINISTRATORS IN HEALTHCARE

Third Party Administrators (TPAs) are in a tough spot. As many may not view themselves as commodities, their end 'product' of Consumers utilizing Healthcare services is greatly affected by competition in the market place. The value that Consumers put on this service utilization is determined by both price and quality, both being critical in determining health plan affordability. **This value proposition for TPAs is difficult to balance among two customer bases with competing priorities: the many Consumers in the plan and Providers within the network.**

Employer-based health plans want an insurer with a broad provider network, yet one that will keep their costs minimized. Providers are reluctant to join health plan networks with lower than acceptable reimbursement rates. So then how does a TPA administering a health plan find a balance between reducing their Client expenses while being able to reimburse Providers appropriately? TPAs have increasingly had to find creative ways to maintain a positive income statement while meeting the conflicting demands of their two customer bases. But they also must look at other business practices to more effectively address P&L challenges.

THREE KEY REASONS WHY HEALTHCARE PAYERS ARE NOT MAXIMIZING EBITDA

1 TREATING ALL CUSTOMERS IN THE SAME MANNER

Like other industries, one way that Healthcare plans may grow margins is through market expansion. But with that comes the ever increasing challenge of appeasing a more diverse customer base, all of whom expect to be treated like they are the only customer.

World Class organizations have learned that customer bases should be segmented into tiers based on various criteria to serve all customers appropriately. Typically, we propose a mix of financial (revenue, gross margin) and non-financial (product mix, membership growth) criteria used in determining these tiers. Once the model is developed, the TPA then must decide on what levels of service each tier will be afforded. For example, a Tier One Customer may have access to a dedicated account manager, while all others may be directed to a regular customer service member.

2 MISHANDLING AND TAKING TOO LONG TO HANDLE CUSTOMER INQUIRIES

Labor and technology are likely the two largest expense bases for a TPA. Whenever new technology is adopted, CIOs must often justify the expense. Implementation costs, time and resources involved, ROI and payback period, etc., are all calculated. Yet we rarely see this same level of effort applied to the time and costs associated with managing the many tasks that require human intervention.

Claims, collections, call centers and medical teams often work against productivity targets, but these may at times not match industry standards. Or, work flows are not reviewed regularly to identify and remove process constraints.

Multi-disciplinary teams are often formed to examine process flow, apply Value Stream Mapping methodology, and implement best practices to address inefficiencies.

Resource requirements may not be based on actual historical data or legitimate volume forecasts. These examples may leave a business unit over-allocated with resources, yet still not able to meet agreed-upon SLAs for their customers.

Synergetics can help TPAs better understand their true resource requirements by introducing an observations-based model to their operations. This model helps administrators develop metrics-based task details, work inputs and outputs, and actual time requirements for completing specific work processes. By knowing this level of detail, organizations can make smarter decisions about how and when to hire resources.

3 TECHNOLOGY IS NOT ADEQUATELY LEVERAGED

Every business recognizes the value in reducing process time or the amount of paper that touches a human hand. **Although there is constant pressure to reduce the level of human interaction in low-risk processes, rarely is the same level of effort devoted to training employees on that same technology.**

In one example, new technology is rolled out, time is allocated to train employees in the new process, and the assumption is that one (or possibly two) training session(s) will teach employees all they need to know. These one-time events rarely drive user adoption to a level that ensures the project's ROI is ever met.

Synergetics' approach to technology training is two-fold:

I. **PHASE-IN NEW TECHNOLOGY** The big bang approach to system enhancements often proves ineffective. It is best to designate departments or teams that will be suitable as early adopters, and then stagger further rollouts over weeks or a few months. A phased approach works well to resolve unforeseen rollout challenges and also helps to improve employee engagement.

II. **INTEGRATE TECHNOLOGY TRAINING TO BE A RECURRING THEME FOR PERSONAL DEVELOPMENT** If companies want to drive long-term benefits toward new technology, they need to ensure employees are always learning more about how the technology can help them make better decisions. A well thought-out approach to map processes, develop a strategy to select and implement the right technology, and continuously train throughout the organization will reap long-term rewards.
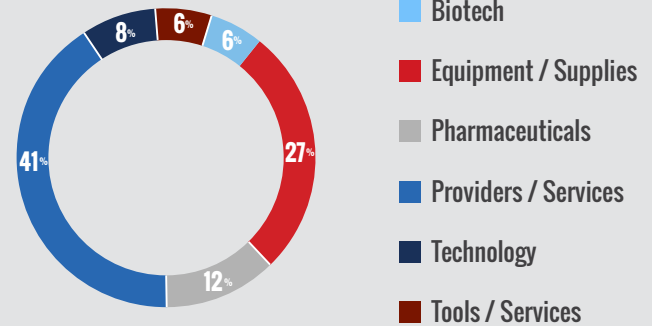
KNOWLEDGE IN THE INDUSTRY AND PROVEN PROCESSES ARE CRITICAL FOR SUCCESS

Synergetics excels in service delivery in today's challenging environment, guiding Healthcare companies to develop and implement their strategic initiatives, all of which are key to ensure long-term success:

✓ Building upon current operations
✓ Increasing overall efficiencies, to include labor
✓ Implementing best practices
✓ Improving overall profitability with revenue assurance
✓ Containing costs and reducing waste
✓ Assisting in the optimal use of technology / information systems

Differentiation of Synergetics' Client Types
Within Healthcare by GICS*

- 8%
- 6%
- 6%
- 41%
- 27%
- 12%

- 🟦 Biotech
- 🟥 Equipment / Supplies
- ⬜ Pharmaceuticals
- 🟦 Providers / Services
- 🟦 Technology
- 🟥 Tools / Services

* Global Industry Classification Standard

Synergetics: Key Highlights in Healthcare

HEALTHCARE IS 1 OF 9 INDUSTRY SECTORS IN WHICH WE EXCEL

Total Healthcare Clients in Business Portfolio **49**	Composition of Healthcare Clients in Business Portfolio **11**%

Average Number of Annual Major Engagements* **3-4**
"Major" typically applies to a duration of 6 mos or longer

EBITDA Improvements Through Project Implementation > $800M

3:1 Average Savings w/ Guaranteed ROI vs. Typical ROI **5:1**

Areas of Expertise within Healthcare Include:

Financial Services / Revenue Enhancement	Process Standardization & Productivity Improvement	Service Model Implementation	Sales & Operations Planning (S&OP)	Organizational Alignment & Design	Span of Control / Labor Efficiencies

A Three-Step Process for Guaranteed Results

Although individual business engagements may hold their unique set of challenges, Synergetics' approach typically follows a three-step process toward ensuring a successful client engagement

PRE-ASSESSMENT
Purpose: Understand operations & challenges - at Synergetics' expense

➡️

BUSINESS ANALYSIS
Purpose: Validate true opportunities through detailed analyses

➡️

IMPLEMENTATION PROCESS
Purpose: Plan & execute the implementation of objectives - guaranteed ROI of 3:1

FOR MORE INFORMATION

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