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OUTCOMES-BASED CONTRACTING: HOW PHARMA COMPANIES AND PAYERS CAN MAKE IT WORK

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For several years now, pharma companies have been talking about and even entering into outcomes-based contracts with healthcare payers. The problem: There really has not been all that much "walk behind the talk".

Certainly, outcomes-based contracts, also referred to as risk-sharing or value-based contracts, hold plenty of potential. Under these arrangements, both parties – payers and pharma companies – work together toward common goals. In essence, risk-sharing contracts link coverage of and payments for a drug or device to health outcomes and reductions in downstream costs, such as emergency room visits, physician services and hospitalization.[1]

According to the National Pharmaceutical Council, the benefits of risk-sharing contracts include:

- Reducing payers' risk of a sub-optimal purchase.
- Providing earlier access to biopharmaceuticals for patients and consumers.
- Offering more efficient pricing mechanisms.
- Serving as a catalyst for generating enhanced real-world medical evidence.[2]

With all these advantages, it's not surprising that drug manufacturers and payers are jumping into the outcomes-based contracts fray. For example, manufacturers can use such contracts to differentiate and demonstrate the effectiveness of their product versus their competitors. Payers can utilize value-based contracts to gain experience with a product, reducing uncertainty regarding clinical value, performance and financial impact.[2]

But here's the rub: While pharma companies and payers have acknowledged these advantages and have entered into risk-based contracts in theory, many have yet to implement and benefit from these contracts in practice. To go beyond the talk, drug manufacturers and healthcare payers need to:

- **Acknowledge that risk-based contracting requires taking a strategic approach.** As value-based care started to permeate the industry, many healthcare organizations – including pharma companies and payers – entered into risk-based contracts because they wanted to stay on top of industry trends. To deliver on outcomes-based contracts, however, healthcare organizations must go beyond the surface and develop an approach and specific strategies that make risk-sharing more tangible (see sidebar).

- **Agree on parameters.** There are significant complexities when pharma companies and payers enter into risk-based contracts. Unfortunately, these companies often think they are "on the same page" in relation to the specifics of the contract when they actually are not.

  For example, life sciences companies might think of risk in terms of low patient starts; no uptake/influence among healthcare providers; non-adherence; misdiagnosing or underdiagnosing; or not providing overall value. At the same time, payers might think of risk in terms of patients' total cost of care increasing and overall costs skyrocketing, leading to lower overall patient health. The challenge, however, is to get both sides to define risk in the same exact way.

- **Go beyond a cursory understanding of patient populations.** To better manage outcomes, healthcare organizations need to fully understand the patient populations that they are dealing with.

  Data analytics can help. More specifically, socioeconomic, demographic, clinical, behavioral and attitudinal data can be combined to categorize patients according to their personas. Examples of personas include: healthy and affluent, balanced adults, high utilizers, quality driven, cost conscious, chronic older adults, and high-cost baby boomers. By grouping patients into such persona groups, pharma companies and payers can better understand how to effectively interact with them.

- **Assess prospective risk.** In addition, it's possible to evaluate the risk associated with the patients in a specific persona group. A risk score can be derived by assessing the number of care gaps that are open, as well as the number that could be closed in the next 12 months due to the patient's care and the cost associated with addressing those gaps. Data can be used to develop risk scores for metrics such as number of chronic conditions, inpatient utilization, emergency room utilization, inpatient paid per member per month, and emergency room paid per member per month. In essence, by using data analytics to develop risk scores, organizations can get an idea of how likely it is for members of the population to become diagnosed with a condition such as diabetes or how likely it is for members who already have diabetes to become more ill over time.

- **Target specific patient populations.** Data analytics can also be leveraged to build propensity of intervenability models, which access the likelihood of the patient or population becoming actively engaged in their own care. As such, healthcare organizations can better assess the probability for compliance vs. non-compliance with various persona groups. For example, healthcare care organizations can determine how likely or unlikely certain personas are to be with medication regimens or various other interventions such as educational programs.

- **Zero in on a subset of the population.** Data analysis also can help healthcare organizations target the subset of the population that presents the greatest impactability (the likelihood that particular interventions will have an impact on outcomes). For example, when working with a specific population, healthcare organizations could determine if an increase in the frequency of case management services would actually make a difference in the utilization of the emergency department or the number of inpatient admissions – or if it would merely be a "nice to have."

- **Use the right carrots.** An analysis of the targeted patients can also determine the type of rewards that would be most effective when trying to encourage compliance with specific initiatives. For example, if the targeted population consists primarily of college-educated, 45-to-55-year-old, white collar females and males, it would be safe to assume that many of these patients have children who play sports. So, it could be worthwhile to encourage compliance by offering a gift certificate to a sporting goods store when certain milestones are reached.

- **Hit the right tone.** Data analysis can also be used to determine the type of marketing messages that will resonate with a particular patient population. As such, payers can provide this messaging to primary care providers who can, in turn, engage patients and elicit the desired behaviors. For example, when working with patients who are in their mid-forties, it would most likely be wise to zero in on messaging around what these patients need to do to stay healthy and mobile 20 to 30 years from now, as these patients are starting to worry about the aging process.

- **Take a phased approach.** When implementing outcomes-based contracts, it's best to start with a subset of the population that presents the greatest opportunity for success. Then, if the desired outcomes are achieved with these most impactable and intervenable patients after a few months, move on to the next tier.

By using data analytics to develop prospective financial risk scores, assess impactability and intervenability, healthcare organizations can develop optimal interventions for high-opportunity populations. That is, they can target individuals with the greatest potential reduction in costs and the highest likelihood of compliance. And, for groups, they can develop evidence-based condition specific programs based on their cost and the complexity of interventions required. Perhaps most importantly, pharma companies and payers can go beyond merely talking about outcomes-based contracts and hey can walk – or even run – toward success under such contracts.

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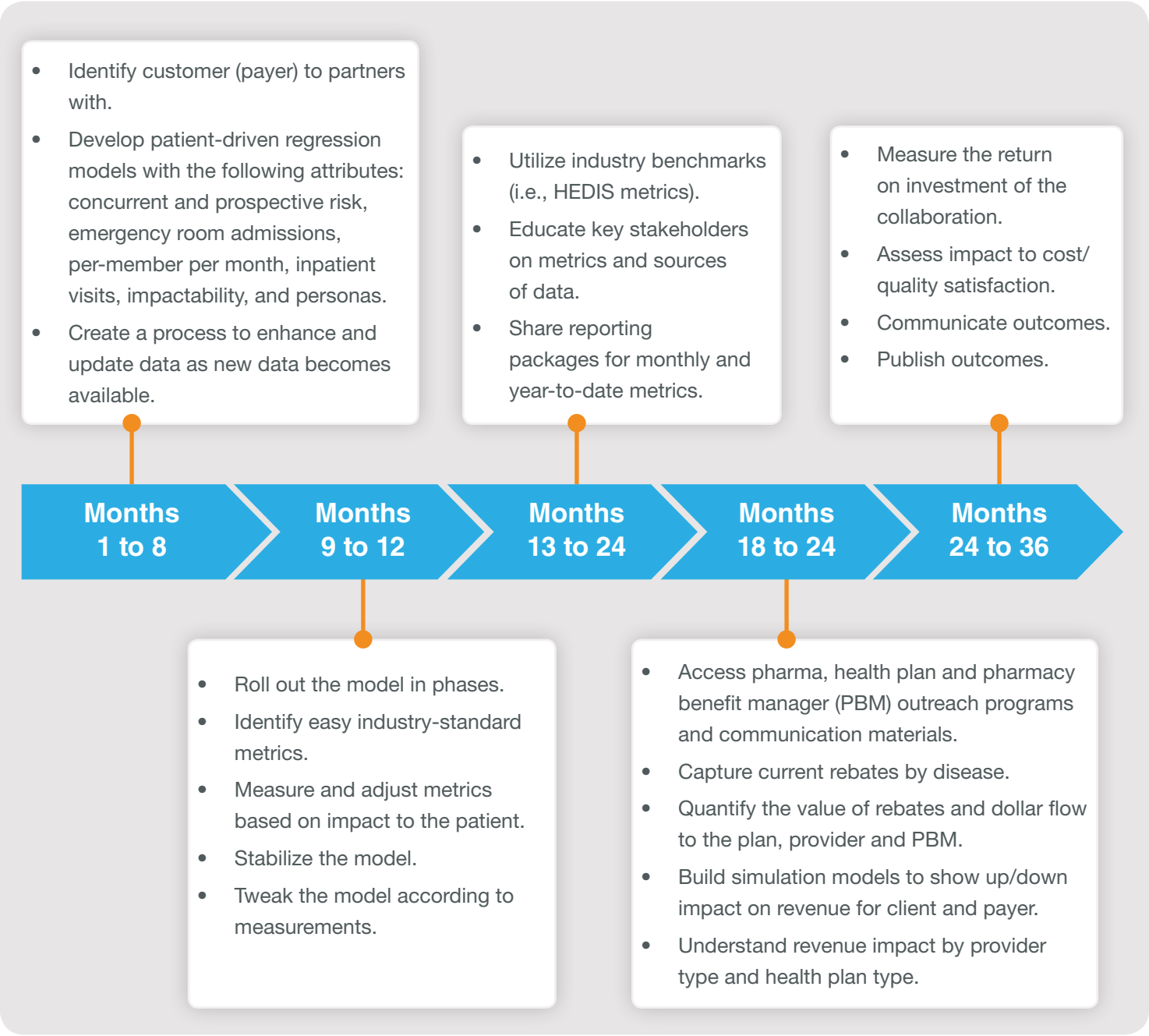
Outcomes-based Contracting Timeline

Pharma companies looking to enter into outcomes-based contracting with payers could experience success by following this roadmap:



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SCIO provides predictive analytic solutions and services that transform data into actionable insights, helping healthcare organizations create the understanding that drives change and proven outcomes. SCIO delivers more than $540 million in client value annually through the elimination of healthcare waste and improved performance associated with its reimbursement and care optimization solutions.

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