spring street exchange

Managed Services Organization: Market Option Summary


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As the shift toward value-based reimbursement encourages health care systems to take on more risk for the care of populations, the lines between payers and providers are blurring (and becoming more complex to administer and measure), and new opportunities are developing for partnership and collaboration. Those players with experience in managing risk and insurance administrative functions are seeking ways to leverage this expertise through Management Services Organizations (MSO).

Indeed, collaborative models between health systems and health plans have topped most annual trends lists in healthcare for the past five years. Number one on the list of Deloitte's predictions for 2019 was: "Convergence and collaboration between health systems and health plans will become more important."

For a variety of MSOs, the administrative options have been designed to support these potentially challenging arrangements over the last decade. Services typically included within an MSO offering vary greatly, making it difficult for prospective buyers to evaluate and compare between approaches, including whether to outsource some aspect of services or to develop the capability internally.

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Spring Street Exchange set out to determine the services that these organizations could be looking for, and to understand the vendor landscape in supporting these needs.

Methodology

Spring Street Exchange met with a range of organizations to gather insight on this marketplace. Our team was led by three industry veterans with deep expertise in health plan operations and relationships with thought leaders with perspective on this topic. These investigators included Cathy Eddy, founder and former President of the Health Plan Alliance, and a leader on the unique dynamics of provider-sponsored health plans; Mike Comick, an expert on health plan infrastructure, operations, and core administration technology; and Frank Reilly, a former CEO and CFO of a provider-sponsored health plan and consultant on health plan operations and infrastructure

Given the many variables associated with an MSO offering, we discussed the following questions with representatives from twenty organizations about their views and perspectives of the MSO market. Spring Street Exchange leveraged its relationships in the industry to secure access to key decision makers.

A "one size fits all approach" does not appear to be viable for services offered to this market. Therefore, we grouped

the organizations we spoke with into three categories representing different sectors of the healthcare market. Priorities, service needs, and messaging varied by organization type:

Category	Examples
MSO Suppliers	Provider-sponsored MSOs Stand-alone MSOs "Disruptor" health plans National aggregators
Prospective Buyers	System without a health plan System with a health plan - new Line of Business Distressed health plan
Consultants	Strategic business Various healthcare Subject Matter Experts (SMEs) Vendors Other

Interview questions covered the following topics:

Quantitative:

1. Interest in MSO offering for specific lines of business (LOBs)
2. Financial considerations:
   √ Fees vs. current costs
   √ Performance-based/shared equity
3. Price point measures, such as per member per month (PMPM), $, % of revenue, other

Qualitative

1. Interest in a "similar-like entity" (strategic alignment)
2. Interest in hybrid option offerings
3. Concern over "leakage" when (and where) control is lost
4. Interest level if offering is program-only vs à la carte
5. If applicable, variables for a shared equity arrangement
6. Assumptions for initial investment expectations
7. Experiences to date around economics/pricing
8. Building pricing models that make sense/provide a recognizable value proposition to clients
9. Experience in other markets and understanding of target market dynamics

Observations & Findings re: Market Realities and Expectations

The research identified a substantial number of both internal and external factors that significantly impact the ability to compare offerings across vendors and influence the selection process. These factors include:

1. **Price is generally not the initial area of focus:** Interviewees set out a range of variables as having greater priority than pricing in the selection of MSO services. Common mission between plan and vendor (particularly if considering equity partnership) was cited as a potential "go/no-go" check. Proven performance, especially being able to adapt to different market conditions, along with the financial viability and expected longevity of the vendor, are typically initial considerations for a buyer – as are, where applicable, prior relationships with potential vendors.
   Other elements evaluated early by buyers were related to infrastructure, including subject matter expertise, the state of underlying technology and tools, and a history of supporting sufficient quality metrics (e.g., STAR ratings). The capacity to support prospective buyers within the relationship was a noted factor.
   Many of those interviewed were seeking a Partner relationship with someone willing to share some investment or risk, while others were more price-sensitive and primarily focused on a more traditional Vendor relationship.
2. **The character of MSO suppliers** raised several key concerns. The scope of portfolio offered by the supplier and the buyer's alignment with the supplier's culture and approach can significantly impact the purchasing, contracting and implementation of MSO services. Some buyers will need support to translate the service portfolio into a quantifiable value proposition that makes sense in the buyer's business framework. Pricing is further complicated by whether the MSO supplier views strategic consulting as a key revenue opportunity versus marketing investment.
   Other pricing factors include whether the MSO supplier has an appetite for incurring loss leaders as a means to gain market share, whether the MSO supplier is willing to forgo short-term cash flow for certain services, such as implementation, by spreading out costs over the life of the contract, and the minimum duration of a contract and provisions for an early contract exit.
3. **Program-only:** Generally, MSO suppliers prefer to offer a "Program-Only" option which typically includes little

to no à la carte services or one-off pricing. Yet, many buyers want to select which offerings are included.

4. **Pre-contract services:** Start-up pricing often includes some level of pre-launch activities for work required to scope service needs, and before there is any enrollment; however, there is a high level of variance regarding how much of these costs can be deferred and included in PMPM fees over the life of the contract.
5. **Criteria for distressed entities:** Prospective "existing entity" buyers (e.g., a health plan in distress) of MSO services appear to evaluate pricing on a minimum of two criteria:: the variable of comparing "offered price" with current costs being realized by the prospect, and he need to compare offering price with competitor prices, which can be difficult to align
6. **Supplier limitations:** Most suppliers will only offer their services to prospects that agree to a minimal base of service support and base pricing so that fixed costs are covered.

Due to the complexity of the product and services portfolio being considered, buyers (and for that matter, suppliers that are competing against each other) are significantly challenged in ensuring that any comparative analysis measures "like" offerings. **In summary, an early determination of alignment between an MSO's approach and buyer's strategic direction is a critical component to early consideration of MSO options.**

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Pricing Benchmark Findings

During discussions with suppliers and prospective buyers, we identified five different pricing methods:

1. One-time (fixed) and per hour fee-based provisions, primarily for strategy and other professional services.
2. Per member (or employee) per month fees for operations-based activities.
3. Various at-risk arrangements, including performance-based bonus programs, for both administrative back office activities – generally governed by quantitative service level agreements (SLAs) – and various "cost-saving" provisions for positive impacts to medical loss.
4. Shared equity programs.
5. Some percentage of top line revenue methods were also mentioned but appeared to be used less frequently.

Some specific pricing numbers were referenced for the administration of various health plan operations, but the predominant responses from interviewees reflected the belief that any "retail-posted numbers" were highly impacted by a large number of variables and working assumptions.

The four general areas of cost which were normally accounted for and, where applicable, recovered via pricing, include:

1. Initial MSO start-up: This cost is often considered a sunk investment cost which is not recoverable in pricing.
2. Sales cycle: Generally not recoverable; however, portions of the sales cycle are considered by some to be really strategic business consulting and are potentially fee-based.
3. Implementation/integration: Generally covered with some level of margins. There is a wide variance between immediate recovery of implementation costs and amortizing these costs across PMPM fees over time. The term of the contract could impact this.
4. Operations: Generally covered with PMPM fees plus various incentive programs; there appears to be little sensitivity to the impact of costs and pricing for engagements that are more à la carte in nature, such as those that have increased integration/maintenance costs and lead to more exception processing.

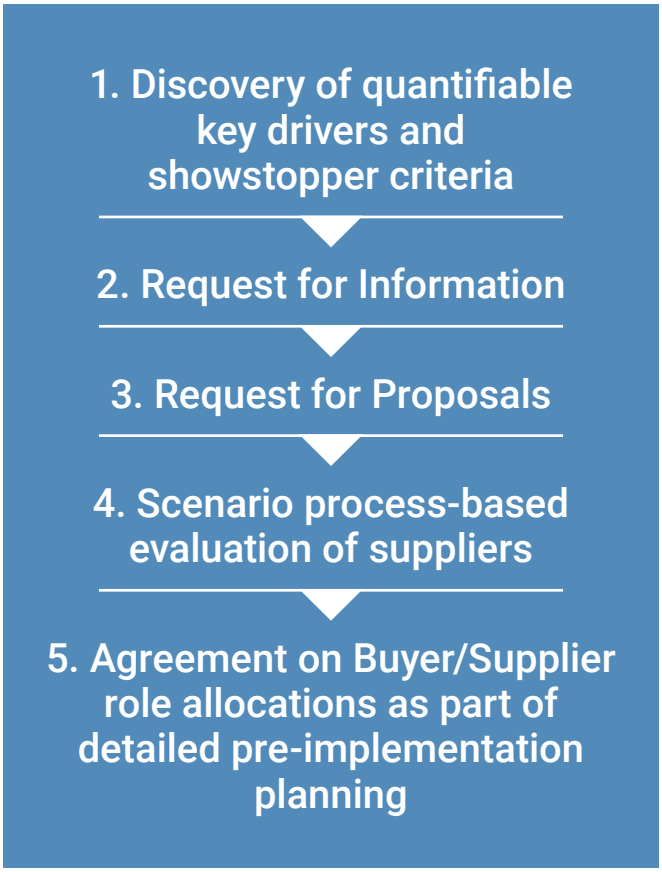
How to Choose the Most Effective MSO for a Prospective Buyer

There are numerous suppliers for organizations seeking a vendor to support MSO service needs. One means to simplify the procurement process can be to engage in a threshold analysis. In this method, we engage with leadership of the prospecting client to determine the key drivers and showstopper criteria in an MSO partner. We then issue a Request for Information (RFI) to a broad range of vendors. This process allows us to eliminate many vendors that are not optimally aligned in the threshold criteria. After this step, we engage in a Request for Proposal (RFP) and scenario-based procurement process. The goal of this latter effort is to determine not which MSO has the best solution,

but which MSO supplier is the optimal match to the unique needs of the prospecting client. The evaluation process is long enough already. These steps help to administratively reduce the timeline and the operational risk associated with such an important decision.

Final perspective

Choosing the best option from the growing list of MSO suppliers can be a daunting (but not overwhelming) experience. Given the significant number of variables associated with option evaluation, care is needed in the initial development of top-down alignment criteria that can be used to measure the strategic fit between Supplier capabilities and Buyer needs.



A refined procurement process that identifies initial showstopper criteria and risk threshold parameters can help to ensure that a Buyer's underlying foundational requirements are identified prior to any detailed analysis. This approach ultimately helps to retain a Buyer's strategic focus and helps to economize a potentially complex assessment process to one that is manageable and measurable.

This "solution elimination vs. choice" framework can include up to 5 discrete steps:

1. **Buyer Leadership defines quantifiable key drivers and showstopper criteria** of a potential MSO partner (this may also include the intangible aspects of previous experiences/relationships with potential suitors).
2. **Buyer then issues a template-driven Request for Information (RFI)** to a broad range of vendors. This process allows for elimination of many vendors that are not optimally aligned in the risk threshold criteria.
3. After subsequent further elimination of "bad fits" among the suppliers, **Buyer develops a Request for Proposals (RFP)** to define/confirm the expected stage for scope, roles/responsibilities, timelines, and contractual approaches.
4. **Buyer conducts a scenario process-based** evaluation to match Supplier generic capabilities with Buyer's specific requirements.
5. Finally, and perhaps most importantly, **Buyer and Supplier reach agreement in the allocations of Buyer vs. Supplier roles over defined periods of time** – this exercise is normally outlined during the collaborative development of a resource-based implementation and initial operations go-live project plan.

In summary, the confirmation of strategic objectives, along with the initial development of scope definitions and variables that can be effectively measured, will help to make this critical and complex effort a more effective and manageable exercise.

About Spring Street Exchange

Spring Street Exchange was founded in 2016 to offer a better services partnership approach to the healthcare industry. We work with all kinds of healthcare companies through strategic and operational transformation in a relentless pursuit of what right is for consumers. Spring Street Exchange relies on healthcare careerists, with decades of experience and contacts in the industry. We believe in structured tools and approaches when tackling big infrastructure projects, but also find that we are able to accelerate alignment and action by relying on the expertise and contacts of our operational leaders, and by applying custom SSX methodology.