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Benchmarking as a Strategic Tool for Regional Health Insurers

In the face of looming and imminent transformation of the healthcare environment, regional not-for-profit providers – most notably the "Blues network" – are in many cases searching for their competitive identities. In the new world of healthcare, what will the differentiator be? Price? Product? Service experience? Or some combination of all three?

Whatever direction is taken, prioritizing appropriate people, time and dollar resources to drive improvement will be essential to the Blues' ability to execute their operational strategy. Opportunities exist to use outsourcing and nearsourcing to reduce costs, enhance flexibility and scalability, and facilitate business transformation. An effective outsourcing strategy can also deliver results quickly – an essential benefit in a business environment increasingly characterized by a sense of urgency. But before embarking on their sourcing journeys, the Blues need to understand where they're starting from and where the key opportunities lie.

This ISG white paper examines how benchmarking and comparative analysis can be applied to address a wide range of business challenges facing healthcare payer providers – specifically the regional Blues carriers.

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BENCHMARKING BENEFITS

Benchmarking, used effectively, provides a transparent evaluation of the existing operation's performance and quantifies the potential improvements that can be made. This insight serves as the foundation for a confidence-inspiring business case and an effective sourcing strategy.

Benchmarking involves data collection (quantitative and qualitative) around a hierarchy of metrics that represent the operation assessed. That data is then analyzed in a comparative context against a reference standard of peer top-performing organizations inside or outside of the healthcare payer market and representative of the Blues' environment. This process yields deep insight into performance gaps and enables the formulation of actionable improvement plans with quantifiable targets.

An effective benchmark analysis:

1. Provides a transparent baseline of current performance.

2. Analyzes current performance against that of world-class organizations, industry peers, similar organizations outside the payer market, or the organization's own performance over time.

3. Quantifies the gap between existing and optimal performance, thereby defining the scope of the potential opportunity in terms of cost savings, headcount re-allocation, or improved cycle times, quality, or productivity.

4. Identifies the root causes of performance gaps at a granular level, enabling analysis that leads to an action plan to enhance efficiency in the operation or process.

Benchmarking analyses can be applied to sourcing decisions in a variety of ways. At a high level, a benchmark provides a contextual understanding to justify a particular course of action. For example, if a benchmark shows that a provider's pricing and service quality meet competitive standards, a client can build a business case to justify renewing an agreement with the incumbent provider or continued investment in in-house service delivery. And if the analysis reveals a significant gap between the provider's services and the market, then a decision to re-bid and pursue a new agreement is similarly quantified.

At a more detailed level, a benchmark can be used to formulate and define specific actions that drive improvements in operations. While a high-level benchmark might show that an organization's costs are more or less in-line with market conditions, a more detailed "drill-down" analysis often reveals anomalies at a deeper level. By addressing these anomalies, an organization – either outsourced or internally managed – can achieve significant and measurable efficiency gains.
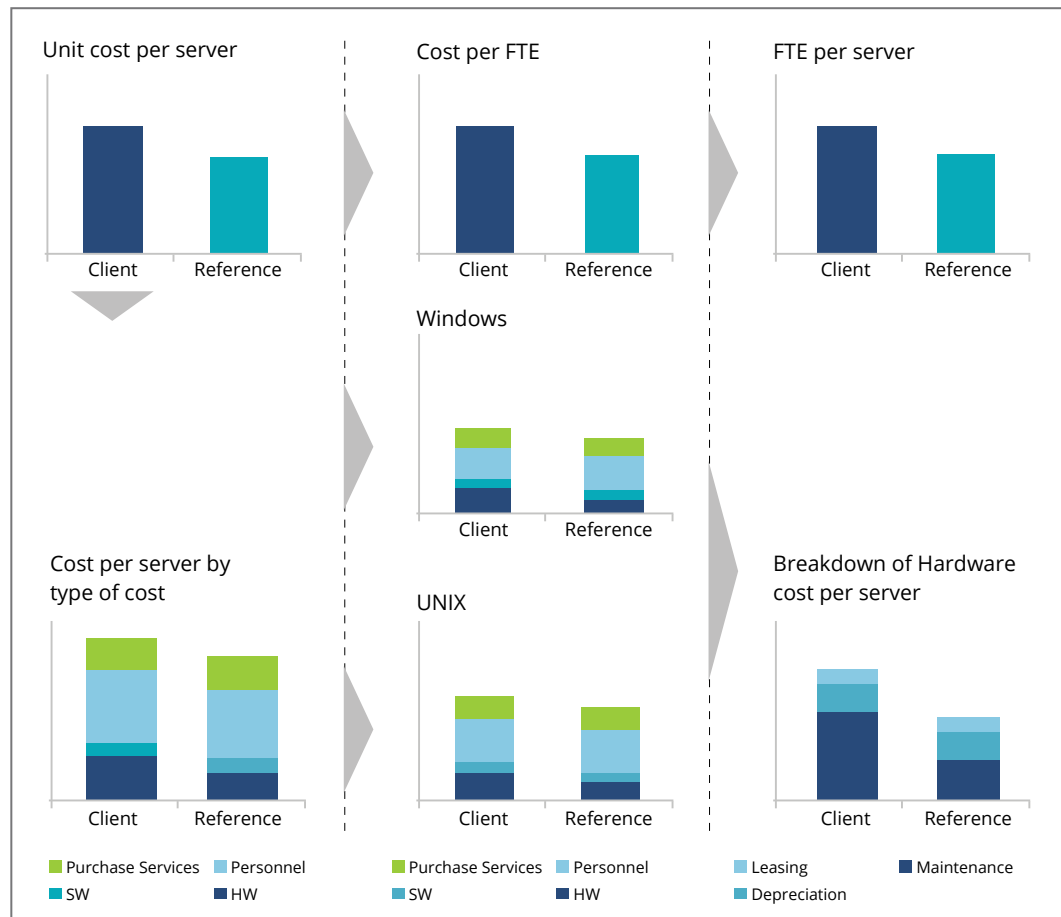
IT OPERATIONS

Benchmarks are commonly applied to IT operations. As an example, the hierarchy of metrics within server environments (shown on the next page) can be used to illustrate how benchmarks work.

The high-level metric of "unit cost per server," based on a compilation of a myriad of performance indicators, shows that the client's costs are somewhat higher than the reference average. Digging a bit deeper, we see that the higher costs are driven primarily by hardware.

At the next level of analysis (middle graphic) the client's hardware costs are shown to be high across both Windows and Unix environments. A further breakdown of "hardware costs per server" shows that leasing practices are the root cause of the cost gap, indicating a need to review existing contracts.

The benchmark also provides insight into personnel costs and management practices. While "cost per FTE" is lower than average, "FTEs per server" is higher than average, suggesting that the benefits of labor arbitrage are at least somewhat offset by low productivity. ISG frequently observes this dynamic in offshore environments. In such instances, the benchmark analysis reveals a largely hidden opportunity to drive significant productivity gains and achieve additional value from the offshore initiative.

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BUSINESS PROCESS BENCHMARKING

Benchmarks can be similarly applied to assess and improve business process performance. Such initiatives extend beyond a discrete operational tower (such as the server environment described above) and examine the linkages between business activities, processes, and personnel, and the IT systems that support them.

Consider this example: A benchmark analysis of the functions and processes involved in administering/adjudicating a health insurance claim shows that overall costs are competitive. On a more detailed level, however, we see that personnel costs are higher, and IT investment is lower, than reference standards. Moreover, personnel costs are being driven by higher levels of effort, including time spent fixing IT problems or chasing down business rules, and time spent checking documentation. The true root cause of the problem lies at the lowest-level metric of policy documentation checks, which shows a dramatically higher volume of manual checks relative to industry top performers.

In this instance, the benchmark reveals that a combination of antiquated systems, lack of automation, and inefficient processes results in low productivity and high error rates. The insight provided by the benchmark, in turn, informs an improvement initiative to invest in IT systems that automate document checks.

BENCHMARKS AND TRANSFORMATION

In addition to driving incremental improvements in operations, benchmarks can provide insight into how operations can be fundamentally transformed. In other words, rather than simply showing a business how to do things better, a benchmark can show how to do things differently.

For example, a benchmark analysis of "ACME" reveals an inordinately high number of disparate legacy applications (shown on the next page), which result in above-average application maintenance costs. One option would be to take a tactical approach and optimize processes and practices around application maintenance.

Benchmarks can provide insight into how operations can be fundamentally transformed.

# Of Applications	ACME	Reference
Call Centers	14	11
New Business	5	3
Premium Processing	6	4
Policy Servicing	14	4
Claims	5	2
Payments	4	3
Correspondence	7	2
Hr/Fin/Other	33	17
Total	**88**	46
ACME supports almost twice as many applications as the Reference Group		

However, the benchmark findings raise a more provocative question: *Why are we supporting so many applications? And, more to the point: Can we standardize, consolidate or eliminate redundant applications and thereby improve our operation? Can we better align new business processes with enabling technology and asset allocation?*

Top-performing organizations apply both incremental and transformational strategies. As a result, they continually hone the efficiency of existing operational towers, while at the same time developing long-term change plans that identify optimal future states, chart a path toward the transformation, and realize cost, quality and productivity benefits along the way.

BLUES BUSINESS ISSUES

The "wait and see" attitude of many regional Blues carriers – characterized by gridlock on change plans and unrealistic hopes for deadline extensions – is becoming increasingly untenable. The Supreme Court's recent ruling only underscores the inevitability of dramatic change. In addition to regulatory issues, the looming specter of forced consolidation, as well as competition from or acquisition by Tier One providers, is forcing even the most reluctant players to take action.

In an environment where leadership teams have little experience with the convergence of issues and are generally not well-equipped to make sweeping decisions, benchmarking can be a particularly effective way to take a fact-based approach to address business challenges. Because many of the regional Blues are undertaking a "version 1.0" approach to developing a business strategy, benchmarking can play a critical role in clarifying overall objectives, identifying the type of model most appropriate to specific needs, assessing constraints and defining what functions should be outsourced and what kept in-house.

More specifically, due to their relative isolation from market and competitive pressures over the years, many Blues lack a clear understanding of how their current environments stack up against industry top performers. As such, benchmarking can be indispensable in terms of providing context against the market. And, many don't know what type of change will be required or is realistic, or the best way to implement that change. Here, benchmarking can model the impact of alternative scenarios over time and help to identify an optimal approach.

A reluctance to move jobs out of the regions they serve is one specific and significant constraint faced by the Blues network. An effective benchmark will factor this and other operating constraints into its analytical model to normalize the comparison against top performers. In other words, the benchmark will show the optimal course of action to take within the bounds of what is feasible and realistic under a given set of business conditions and constraints.

Benchmarking also provides a fact-based and objective perspective to what is often a highly charged and emotional discussion on how to change the business. This ability to de-politicize the process is particularly important in the business environment faced by the Blues, where tradition and a "we've always done it this way" mentality present significant obstacles to change.

While most Blues are focusing their nascent sourcing strategies on their IT environments, a few of the more progressive players are developing sophisticated business process outsourcing strategies aimed at consolidating back office operations. In one instance, a Blue Cross organization has spun off a for-profit service provider to other Blues, thereby taking a proactive approach to addressing the competition that will, in one form or another, inevitably come from the Tier One providers.

Today's regional Blues healthcare providers are poised at a crossroads in defining a business strategy to compete in an uncertain but clearly changing environment. While many are reluctant to take significant action, action is essential, and operational analyses based on benchmark comparisons against industry peers and market standards can lend clarity and purpose to a change strategy, and position an organization to compete more effectively.

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