The Internet explosion is here, and that is no surprise. However, the slow and unfocused response by health care providers is. It may be that providers are still waiting to see who the Internet health care users are and trying to figure out where they can make money. Providers need to look ahead and plan their strategy to pre-empt the national online companies. Internet health information retrievers tend to parallel, in general, all Internet users except in a few key areas: fewer minorities, and more are married, better educated and have a higher income. Most health information retrievers want disease information and its subset categories: diet, nutrition, and treatment. The best news is that the sources of online health information most preferred by customers are: their own doctor (62%), national medical experts (61%) and their hospital (58%). This profile of health information retrievers points providers to evaluate strategic opportunities along the lines of market segments. The key will be to generate return visitors to their web sites.

While some experts have suggested that the Internet will expand service areas and eliminate geographic boundaries, we disagree! We believe health care is still local with the public seeking an online link with their local physician and hospital. Since most consumers are seeking disease information for themselves, a parent or a friend, the greatest strategic opportunity of the Internet is within the local market.

Therefore, providers must focus on the market segments in their service area and develop marketing to pull them to their web site with the goal of becoming the portal or “one stop favorite site” for health information.

The “pull” strategy will start with a focus on building brand name recognition, then, and more importantly, building preference. A strategy will need to be developed to get the consumer to keep returning to the web site. The following components can assist with this goal:

- Health risk and interest survey
- Personal medical record
- E-mail notices of events and information of interest (disease driven)

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E-Health... continued

- Billing, eligibility and claim information
- Self service access: appointments, test results, and communication

It won’t be long until voice communication, video conferencing and information exchange through patient monitoring become more widespread. While there are barriers to the development of health care on the Internet, these obstacles will be overcome in time.

**Barriers to Internet Use by Providers**
- Lack of payment (except capitated providers)
- Consumers’ lack of confidence/familiarity with the Internet for health care use
- Physician reluctance to use the Internet
- Patient self-care products are in early stage development and use
- Undefined new patient care delivery models
- Privacy, legal responsibility and liability are unclear

Providers must seize the opportunity to become “the” access point to health care in their community. It will be not be easy because branding is very difficult to accomplish. Health insurance and national web site companies (e.g., WebMD, CBSHealthwatch) are well capitalized and will fight to be the consumers’ health care online provider. Sustaining a competitive market advantage is difficult; that’s why providers must move quickly to stake out their turf.

**Major Health Sites with a Broad Audience**
- Americasdoctors.com
- CBSHealthwatch.com
- Discoveryhealth.com
- DrKoop.com
- HealthAtoz.com
- Healthcentral.com
- WebMD.com (onhealth.com)
- Thriveonline.com

Finally, as payment for Internet-provided health care from insurance companies, Medicare and Medicaid becomes a reality and the various state funded telemedicine pilots begin to show results, new online health care delivery models will grow quickly. In the meantime, providers who receive capitated payments as their primary form of reimbursement will likely lead the way in applying online technology to link health care providers to the consumer. These efforts will improve access and quality of care.

For more information on developing your Internet strategy, please contact Steve Valentine or Phil Dalton at (310) 320-3990.

About The Camden Group

The Camden Group has been providing consulting and management services exclusively to the health care field since 1970. With more than 1,000 clients located in 38 states, we serve regional health care systems, national proprietary systems, community non-profit organizations, university medical centers, government-controlled organizations, IPAs, medical groups, health plans, and individual physicians.

The health care professionals on our consulting staff are adept at strategic and business planning, the development and operational/financial improvement of hospitals, integrated delivery systems, IPAs and medical groups, physician compensation redesign, health care business valuations, facility planning, community health needs assessments, and health care organization mergers and network development.

Our consultants can be reached at (310) 320-3990 • fax (310) 606-5811

For additional information about The Camden Group, check out our website at www.TheCamdenGroup.com, which is updated monthly.

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### Background

In the April 7, 2000 issue of the Federal Register, HCFA published its final ruling on the new hospital outpatient prospective payment system ("OPPS"). Historically, Medicare reimbursed hospitals for outpatient services on the basis of reasonable costs and/or fee schedules for certain services. Under the new system, hospitals will be reimbursed for outpatient services using a fixed fee schedule based on Ambulatory Payment Classifications ("APCs"). Similar to the use of DRGs for inpatient services, the APC system classifies outpatient encounters into groups that are clinically comparable and use similar resources. These groupings will consist of multiple Level I and Level II CPT-4 and/or HCPCS codes.

Under the APC system, nearly all services, including the use of hospital facilities, supplies, equipment, labor and capital costs, will be packaged under one APC. This applies to most hospitals participating in the Medicare program. Services already paid under fee schedules or other payment systems, such as laboratory and durable medical equipment, are not included in the APCs.

### Financial Impact of Outpatient Reimbursement

The APC system will have both favorable and unfavorable effects on different service lines. A preliminary analysis performed for a California hospital has identified several service lines in which APCs will result in a significant

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### APCs: Are You Prepared for the Financial and Operational Impact?

For the first two or three years there will be additional reimbursement opportunities that fall outside the APCs, including:
- Transitional pass-through payments that allow for additional reimbursement for certain innovative drugs and medical devices.
- Transitional corridors which minimize the losses incurred by hospitals.

As part of the final ruling on the APCs, HCFA redefined the requirements for determining whether provider-based organizations qualify as hospital outpatient departments for APC reimbursement. This ruling will affect a number of organizations' ability to qualify for facility payments under the new APC system. This would include hospital-owned clinics, ambulatory surgery centers and home health agencies.

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### Procedure Cost Elements

- Facility
- Supplies/Equipment
- Labor
- Capital
- Other

#### Coding/Expense Classification Methodology

**APCs**

**APC Reimbursement Rate**

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As shown in the above table, the APCs will have a negative impact on these outpatient services. The APCs will also affect reimbursement for provider-based services such as hospital-based clinics. These clinics have historically been reimbursed with a facility fee to cover operating expenses, and an additional fee to cover the physician component. In addition, the operating costs of the clinics, like other hospital departments, were included in the hospital cost report for additional reimbursement. The hospital reimbursement for a clinic visit will now fall under the APC system. Hospitals must review the financial impact of the APC reimbursement for these services to determine if they will be viable.

Other Financial Implications

In addition to a decrease in reimbursement, hospitals may experience other factors that will impact profitability such as the following:

- The APC system is focused on CPT-4 and HCPCS codes. The coding staff will need to be enhanced to include CPT-4 coding capabilities. This may include hiring additional staff or investing in training and certification for the existing staff.
- Supply costs have historically been reimbursed on a cost basis or included in the basis of a fee schedule. With the APC system, most supply costs will be included in the APC, and all hospitals within the same geographic area will receive the same reimbursement for services, regardless of the cost of supplies or services incurred by the individual hospital. This may help those hospitals who participate in large group purchasing organizations and receive significant discounts.
- Hospitals will need to purchase software that will group the CPT-4 codes into the specific APCs. In addition, the charge description master ("CDM") will need to identify all CPT codes subject to pass-through reimbursement (e.g., high cost drugs or...
The Camden Group is pleased to offer a stimulating, thought-provoking presentation on the future of health care. The presentation covers topics including:

- The Human Genome Project
- The Empowered Consumer; Internet and Telemedicine
- Complementary and Alternative Medicine
- Technology Developments in Electronic Information and Communication
- Impact on Patient Access and Quality

The presentation is focused on implications and formulating your strategic response. It will force you to challenge your thinking regarding your role in the delivery of health care. We focus on the impact for physicians and hospitals’ major service lines such as heart, cancer, orthopedics and women/children.

This presentation is given by Steven Valentine or Guy Masters, and can be tailored for a one to two hour time period. It is designed for management, physician and board member audiences. If you would like to preview selected slides from the presentation or review biographical information for Steve or Guy, visit our web site at www.TheCamdenGroup.com and click on the “Future Trends” icon.

If you are interested in scheduling this presentation for a medical staff or management meeting, retreat or other session, please call Guy Masters or Steve Valentine at (310) 320-3990.
The Camden Group is pleased to announce its affiliation with Edgesoft, Inc.

The focus of our work together is:
- Health care provider Internet strategy
- Web site development and maintenance
- Operationalize Internet strategies
- Database design and implementation

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Would you prefer to receive our newsletter by e-mail?
Contact Tammy Neumann at: tneumann@TheCamdenGroup.com.

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Los Angeles, California

...has been selected by Management Concepts, Inc. to author “Strategies for Medical Group Turnaround,” a book to be published in late 2000.