By Jon Stewart

News and Updates on the Activities of the Permanente Federation

Beginning with this issue of *The Permanente Journal*, we will regularly report on important events and activities taking place within The Permanente Federation and The Permanente Company. (PermCo).

Support for Interregional Specialty Groups

The Permanente Federation Medical Directors have approved a new process for tapping the collective, Federation-wide expertise of Permanente medical specialists through the establishment of formal, interregional specialty groups for the purposes of identifying and sharing best practices, reducing variations in outcomes, and converting research to clinical practice.

Informal specialty groups have long existed in KP, but most have suffered from a lack of sponsorship by senior leaders, resulting in an inability to overcome regional barriers and define and achieve clear objectives. The newly approved process would set forth clearly defined objectives and timeframes, ensure sponsor support, and include some minimal staffing from Federation resources.

The first groups proposed are in the fields of genetics and pharmacy. The proposed genetics group, which would be sponsored by Al Weiland, MD, Executive Medical Director of NWP, would formalize the current coordination of genetic services throughout California, the Northwest and Hawaii (which are the only PMGs with in-house genetics services) in order to optimize the quality and cost of services programwide. The group might also provide the right forum to develop soon-to-be required guidelines on genetic screening, such as last year's BRCA-1 guidelines on breast cancer. The final outcome of this proposal could range from creation of a national genetic services program to establishment of new procedures by which some PMGs would contract for genetics services from those that support them.

The proposed pharmacy group is an outgrowth of the pharmacy expert panel in the ongoing Quality Improvement/Best Practices program (see next item). This group would address issues that require a national policy (for instance, guidelines for handling the current IVIG shortage, or for prophylactic use of tamoxifen), as well as create a forum for representatives of the PMGs to work with divisional KFHP pharmacy directors and clinical pharmacists groups. Sponsorship would be provided by Stacy Lundin, MD, Executive Medical Director of the NEPMG, and Mike Chaffin, MD, Executive Medical Director, HPMG.

Creation of these and other specialty groups will ultimately depend on development of a compelling business case that includes the group's impact on potential improvement in KP's core business, market and industry trends that produce the opportunity for group action, and data requirements.

Quality Improvement/Best Practices Project

The Federation and PermCo are partnering closely with KFHP in the new Quality Improvement/Best Practices Project, launched earlier this year as a major response to KP's poor 1997 financial performance, which saw a Programwide loss of $270 million. Headed by Federation Executive Director Francis J. (Jay) Crosson, MD, and KFHP Chief Administrative Officer Bob Crane, the project is attempting to dramatically improve KP's ability to identify and widely implement best practices.

The project will work to leverage PermCo's learnings on performance problems from its earlier work in so-called turnaround regions, applying those and other lessons to all KP Divisions and Regions in the three operational areas—hospital utilization, pharmacy utilization, and claims and referrals management—that accounted for some of the greatest financial performance problems last year. Recognizing that virtually all work must be done locally, implementation in the three operational areas is being sponsored and overseen by three pairs of Division Presidents and Medical Directors: Toby Cole, MD, and Kate Paul (hospital utilization); Mike Chaffin, MD, and D.J. Miller (pharmacy utilization); and Chris Binkley and Bruce Perry, MD (claims and referrals). Staff will include consultants from PermCo and KP Consulting Services, as well as local internal staff.

Phase I of the project began in June with a series of local meetings at which panels of experts met to discuss the three project areas. The meetings were intended to share experiences, survey existing best practices and consider ways to transfer best practices to other regions. The major findings of these initial meetings were as follows:

- *Pharmacy utilization*: The areas identified as having the biggest improvement opportunity for pharmacy included enhanced physician leadership and collaboration with the Interregional Pharmacy Directors, implementation of Clinical Pharmacy programs nationally, and working with the Care Management Institute to develop disease management programs that have high pharmaceutical impacts. These best practices will be documented by the end of the summer, with a self-assessment tool ready to go out to the Medical Groups by early September.
- *Hospital utilization*: Best practices in this area have been determined by the expert panel to be a system of coordinated processes within an organizational

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framework. They include: hospitalist programs, presence of 24-hour, seven-day access and other support services in hospitals, admissions protocols, and other utilization management policies and programs. Implementation of this body of work will entail on-site support by PermCo and KP Consulting Services staff to leverage expert time and resources. The first sites to implement this best practice system are currently being identified.

- *Claims and referrals:* The expert panels focused on both the medical management and the transaction processing aspects of this sizable area of opportunity. Best practices are currently being formalized under the review of the experts and sponsors, and while addressing the long-term structural best practices, the major deliverables this year will be "quick hits" that will result in immediate financial improvements.

Updates from the cosponsors of each of the three functional areas will be given at the September Executive Medical Director/Health Plan President's meeting.

In Phase II, the national consultants will join with local work teams to analyze regional and divisional gaps in performance metrics and to compare identified best practices with current local practices. Phase III will include preparation of regional summary reports, recommendations, master implementation plans, and a final report.

New Ventures at PermCo

The Permanente Venture Development (PVD) group, a PermCo Division, has been unusually busy lately, creating three major new enterprises in the first half of 1998.

Renal Case Management

The first national enterprise from PVD was Optimal Renal Care (ORC), a 50-50 joint venture between The Permanente Federation and Fresenius Corporation, the world's largest integrated dialysis products and services company, which owns more than 700 dialysis clinics. Originating from a joint venture between Fresenius and Southern California PMG (SCPMG), ORC will leverage SCPMG's successful renal case management approach so as to improve outcomes in end-stage renal disease (ESRD) management and offer full renal medical services to customers throughout the country.

The SCPMG experience with renal case management has attracted widespread national attention for producing clinical outcomes that far exceed national averages for outcomes and cost-effectiveness. Gross ESRD mortality rates and number of hospital days at SCPMG are close to half the national average, and annual patient costs at SCPMG are less than two thirds of the national average for ESRD care.

Contract negotiations to provide case management services have been underway between ORC and PMGs in Hawaii, the Northwest, and the MidAtlantic as well as with several interested non-KP customers. Initial revenues are expected to be realized by the end of 1998, and annual net income should eventually exceed $10 million.

Ownership shares in ORC were made available in May to all PMGs through a private placement offering to be held open for 90 days. At press time, the number of positive responses to the buy-in offer was unknown.

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Hearing Care

Working through PermCo, the Federation in June signed an Agreement in Principle to launch a national 50-50 joint venture—HEARx West—with HEARx, the country's largest provider of hearing care and hearing aids. HEARx West is expected to become a $100 million-per-year business within five years. PermCo venture analysts note that the market for hearing products and services is already a $2-billion-per-year business and is growing at 5% annually, the rate being driven by aging of the population and by dramatic improvements in hearing aids.

HEARx is considered to be the national quality leader in a very crowded market. Started by a physician entrepreneur, Paul A. Brown, MD, HEARx is the only hearing services company to be accredited by the Joint Commission for the Accreditation of Healthcare Organizations. HEARx already operates 75 audiologist-run hearing centers in Florida, Connecticut, New York, New Jersey, and Pennsylvania, and the company has been making large investments in clinical and business information systems. HEARx centers employ HEARx-trained audiologists to dispense hearing aids, to provide diagnostic services, and to sell related products and repair services. The company's more rapid pace of expansion into KP markets under the joint venture will be financed by a loan from HEARx.

The new firm's business plan calls for initial rollout in Southern California, soon extending to Northern California. As many as 15 HEARx West centers will be opened throughout California before the end of 1998, and the venture will expand to all KP markets within three years. HEARx West centers operating near KP medical facilities may carry a KP logo but will be identified by the HEARx name. HEARx will be responsible for day-to-day operations at the centers, but all issues of clinical care and quality will be overseen by a joint operating committee made up of Permanente and HEARx clinicians.

The new centers are expected to dramatically increase quality and access in hearing services available to KP members who have coverage for hearing care. The centers will also serve KP members who do not have a hearing services benefit as well as covered and noncovered members of other health plans.

"Hearing loss is a medically underserved condition with only one in four patients receiving treatment," said Dr. Crosson. "This venture will help address this problem and improve the quality of life of hearing-loss patients among both KP members and nonmembers."

The venture is expected to generate a small net income in its second year of operation and to reach more than $7 million by the fifth year, when HEARx West is expected to be operating as many as 80 centers.

PermCo's "Partners in Health" health products catalog

Self-Care Products

In July, PermCo to launched its "Partners In Health" self-care health products catalog business in California by distribution of some 300,000 catalogs, with an additional 2.8 million distributed by the end of the first year. The first three catalogs, which will be distributed to members by Permanente physicians on a voluntary basis, feature noncovered self-care products in three clinical areas: pediatrics, allergy/head-and-neck surgery, and physical specialties. The catalogs are intended to provide convenience for members seeking specific products recommended by Permanente physicians as part of treatment. The catalogs also promote health education messages and encourage members to participate in their own care.

All products featured in the catalogs have been reviewed and approved by a select panel of TPMG physicians and other health professionals. The products will be mailed directly to members who have placed orders through an 800-number system. After the California pilot program is evaluated, the venture may be expanded to other KP Divisions.

The catalog venture raised early concerns about legislative prohibitions against physician self-referral and about the type of scandal that embroiled the AMA Board of Directors after it endorsed products. Federation and PermCo managers have carefully investigated both concerns. No products will be endorsed for advertising or promotional purposes in the manner of the AMA incident, and no profits will flow to any Permanente physician except for payments for services rendered (ie, assistance with product evaluation). In fact, neither Permanente Medical Groups nor physicians will have any ownership interest in the venture. Ownership will be held by the nonprofit Kaiser Permanente Ventures, a subsidiary of KFH. Any excess net income, which could reach several million dollars within a few years, will be returned to KFHP to finance new services or to hold down membership dues. ❖