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Rates Negotiation Crisis

Introduction:

In this scenario, the Student is the CFO for a community hospital that is preparing for contract negotiations with its largest insurance payer, North Creek HealthCare. North Creek accounts for nearly 30% of all patient-care revenue at the Hospital, and this percentage is growing. When North Creek refuses to increase inpatient payment rates in a manner more consistent with Medicare, the Student must determine both how to negotiate a better outcome and what the risk would be of losing North Creek altogether.

The scenario begins with an orientation from the Student's mentor, former CFO, Cheryl Noki, who we met in the previous scenario. Student is made aware of the importance of the upcoming negotiation. Next, the Student meets with Aine' Chavez, chief negotiator from North Creek, who surprises the Student by saying she will not increase the inpatient pay rate more than 5%. The Student must research her position that Medicare patients cost more than North Creek's younger patient population, and so their rate of payment is higher. The Student is directed by the Mentor to explore factors that influence pricing, as well as how to determine if the pricing is reasonable or not.

Next, the Student meets again with Aine' to explain the results of their search and to ask her to compromise and meet at a negotiated rate which would allow the Hospital to barely break even. Aine' still refuses. The Student must now determine what position the Hospital system should take with North Creek. An exploration of revenue and volume factors with the help of mentor, Cheryl, will help the Student in this last and vital challenge.

Characters:

1. Cheryl Noki
2. Aine' Chavez

Locations:

1. Hospital Lobby
2. Student's Office
3. Conference Room
4. Hospital Courtyard
5. Student's Home
6. Coffee Shop
7. Hospital Cafeteria

Scene 1: Meeting Your Mentor

The Student meets Cheryl Noki in the lobby. They talk about their relationship and the upcoming contract negotiation meeting with Aine' Chavez.

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|------------------------------|---|
| Location | Cheryl's Office |
| Scene setup | Student faces Cheryl who stands in the lobby. |
| On-screen characters | Cheryl Noki |
| Off-screen characters | None |

On-Screen Text: First thing in the morning, you run into the Hospital's former CFO . . .

CHERYL: Hi, how are you?

STUDENT: Fine, Cheryl. What brings you here today?

CHERYL: I was coming in to see you, actually. I heard that you have a contract negotiation meeting later today with North Creek Healthcare.

STUDENT: And, as former CFO, you thought you'd give the rookie CFO some much-needed tips, is that it?

CHERYL: Well, only if you want them. I don't know about you, but contract negotiation was always my least favorite part of the job. It took me a while to learn the ins and outs, and for my legs to stop shaking under the table!

STUDENT: Well, I'm so bad at negotiation; I usually end up paying more than asking prices for souvenirs when I'm on vacation!

CHERYL: I'm sure you'll do fine today. Do you have time to sit down and talk?

STUDENT: Where were you yesterday? I actually have my first meeting with Aine' Chavez in twenty minutes.

CHERYL: Aine' is still there, huh? Well, just so you know, she may act tough at the table, but she's really a sweet woman, deep down. She loves talking about her time spent in the Peace Corps in Africa, if you need a change of topic or something to soften her up a little.

NOTE: Must select option 2 to proceed.

STUDENT CHOICE 1: I won't need that, I'm sure. This will be pretty quick and easy, I think.

STUDENT CHOICE 2: That's great to know! Any other quick tidbits before I go in?

CHERYL RESPONSE 1: Are you sure you don't want to hear a little more?

CHERYL RESPONSE 2: Yes, just remember, it's called a negotiation process for a reason. Don't think you have to come to an agreement the first time you sit down together. If things don't seem to be going your way, you can always walk away from the table.

STUDENT: Sure, I can walk away. But, what if she follows me?

CHERYL: <laughing> Like I said, don't worry! Just see what they're willing to offer and then let's circle back later to see how it went. I have some Controllers in Finance I want to drop in on, too.

STUDENT: Okay, if your number's still the same, I'll track you down after the meeting.

CHERYL: You know us CFO's. We don't change numbers unless we have to! Good luck and I'll see you later!

Scene 2: Round One of Negotiations

In this scene, the Student sits at the table across from Aine' Chavez from North Creek. The first round does not go as well as the Student would like and ends without a resolution.

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|------------------------------|---------------------------------------|
| Location | Conference Room |
| Scene setup | The Student faces Aine' at the table. |
| On-screen characters | Aine' Chavez |
| Off-screen characters | None |

On-screen text: Round 1 of Negotiations with North Creek . . .

AINE': So, thanks for meeting. As you know, our contract with you expires at the end of this quarter, so it's in both of our best interests to come to an early agreement.

STUDENT: That's true. You received our 180-day notice to terminate, but you know that's just a formality.

AINE': Of course. We have every intention of continuing another three years with you as our provider. Did you look at the proposed new contract?

STUDENT: Yes. It looks fine, except for one major area: the inpatient rate.

AINE': What's wrong with it? You asked us to propose an increase, and we did. I think 5% is more than sufficient.

NOTE: Must select option 2 to proceed.

STUDENT CHOICE 1: I guess you're right. I would've even settled for 4%.

STUDENT CHOICE 2: No, we need to discuss this further.

RESPONSE TO 1 (ONSCREEN TEXT) : Not the best choice here. Please choose a better response.

RESPONSE TO 2. AINE': North Creek pays for inpatient care on a DRG (or Diagnosis Related Group) basis using the relative weights that the Centers for Medicare and Medicaid Services use. As you know, the base payment for a case with a weight of 1.0 is \$4800. We're willing to go up 5%, which would bring that payment to \$5040.

STUDENT: That rate is too low. Medicare pays us \$6,500 for those cases.

AINE': I'm sorry, but we are way different than Medicare, you know that. Our patients are much younger and they use up a lot fewer resources. There is no way that we can match that. It's just not going to happen. 5% is our best offer. And our final offer. If you sign the contract, I can still make it out of here in time to catch my flight. You know your hospital needs the volume we bring you. And, I know you're new to all this, so let's make it easy. Sign the contract and you'll look like a hero for getting an extra 5%. Plus, I make my flight and my niece's birthday party I want to get to back home.

STUDENT: Weren't you in the Peace Corps?

AINE': Uh, yes. I'm not sure what that has to do with anything, though.

NOTE: Must select option 1 to proceed:

STUDENT CHOICE 1: I'm sorry, Aine'. But, we are going to need to schedule another meeting. I can't sign the contract as it is.

STUDENT CHOICE 2: I hear Africa is lovely this time of year, isn't it? Maybe you should take a vacation there and rethink your position.

STUDENT CHOICE 3: I guess we will just have to terminate your contract without renewal, then.

RESPONSE TO 1. AINE': Well, I don't see what good it will do. I can't budge on this. Not at all. Let me know when you want to meet again. Thank you.

RESPONSE TO 2 AND 3 (ONSCREEN TEXT): Not the best choice here. Please choose a better response.

Scene 3: Meeting Cheryl in the Courtyard

The Student finds Cheryl exploring the new courtyard area for employees and they discuss how the first round of negotiations went.

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|------------------------------|---|
| Location | Hospital Courtyard |
| Scene setup | The Student faces Cheryl who stands in the courtyard. |
| On-screen characters | Cheryl Noki |
| Off-screen characters | None |

On-screen text: Later, you track down Cheryl . . .

CHERYL: There you are! I really like this break area they've opened up. I love the fresh air.

STUDENT: Well, I could use it after that suffocating meeting I just had with North Creek.

CHERYL: Rough start to negotiations? Well, don't worry. Some of the best outcomes have started out with rough beginnings. Take my marriage for instance.

STUDENT: I thought you have a happy one, like for 25 years.

CHERYL: Yes, but I actually said 'no' two times when he asked me to marry him, before I finally said 'yes.' Poor guy. I really put him through the wringer. But, I know he doesn't regret it. Neither do I.

STUDENT: I'm happy to hear that, but I still am stuck in this tough position with North Creek. Aine' won't raise her inpatient rate past 5%.

CHERYL: So, let's back up and take a look at the ways the Hospital gets paid, okay? Your payers, like North Creek ~~and Medicaid~~, determine the amount they'll pay for a specific healthcare claim by one of three payment bases. Do know what those three are?

NOTE: Must select option 1 to proceed.

STUDENT CHOICE 1: Cost, fee schedule, and price-related.

STUDENT CHOICE 2: Price setting, DRG, and bundled services.

CHERYL RESPONSE 1: Right. A cost-payment basis, as you know, uses the provider's cost as a basis and it is something that is negotiated beforehand. It's the provider's ratio of cost to charges multiplied by the total charges for a specific claim.

CHERYL RESPONSE 2: No, that's not it. Try again.



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