

OUTSIDE THE LINES

THE MATTER OF THE BUSINESS MODEL

Have you thought much about this question: “What is your business model?” More specifically: What business are you in? And how do you explain how your enterprise works? According to a favorite 2002 [Harvard Business Review article](#), your business model (simply stated) is about two questions:

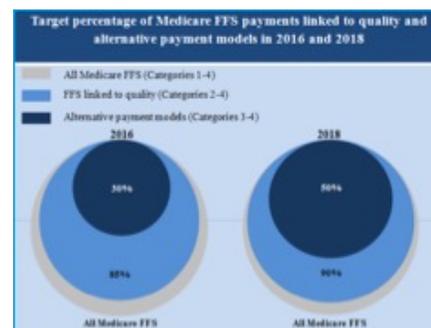
- 1) Who are your customers, and what do they value?
- 2) How do you make money in your business?

Different from strategy – which explains how you are different and better than competitors – your business model is core to your bottom line, especially when an industry is shifting.

So let’s talk about the healthcare consumer, value, and money, especially amidst the new payment models and major changes coming our way. Early this year, CMS introduced its [Payment Taxonomy Framework](#), including four categories for how providers are paid for care. Category 1 represents fee-for-service (FFS) payments with no links of payment to quality. Category 2 represents FFS with links to quality. Categories 3 and 4 represent alternative payment models,



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where CMS plans to shift 30% of its dollars by 2016 and 50% by 2018.

How do you make money as a healthcare provider today? How will you make money tomorrow? What business are you in today, and what business will you need to be in by 2016 or 2018?

The same dynamic is happening with physicians. In April 2015, MACRA – [the Medicare Access and CHIP Reauthorization Act of 2015](#) – was signed into law. In addition to repealing the way in which physicians have traditionally been paid, the law accelerates physician payment toward two value-based models: 1) Merit-Based Payment System (MIPS) or 2) Advanced Alternative Payment Model (APM). It's complicated, it's very important, and it's unsettling for our doctors. Their business model, too, is shifting.

What are we to do about all of this? Our suggestion is that you give rigorous attention to the business model questions. Also, give careful attention to your steps of change and your choices for evolution or reinvention as you move forward. Be clear about how – and how long – you manage your business in the present as well as where – and in what ways – you steer your business to the future.

Business models matter, now more than ever. Change is inevitable. Innovation is key to how to bridge from here to there. And leadership most of all – leadership with guts and vision – is so very critical for future success. One step at a time, but steps of change indeed, are top priority.

Always looking ahead,



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NEWS ALERT! WHAT'S HAPPENED THIS WEEK

On the other side of change – the disruptive innovation side – Theranos was (and still is) the big story in healthcare news. Theranos is a decade-old, \$9 billion, Silicon Valley company featuring its “nanotainer” blood draws (“a few drops is all it takes,” according to the company), its “Edison” lab processing technology, and a revolutionized approach to the multi-billion diagnostic lab industry. But now, the company is under fire, following a front-page *Wall Street Journal* investigative report on October 15. The news has been picked up by virtually every news and social media source. Know about this company, and follow this story. They are one of the movers and shakers in the healthcare innovation trend that is working to reshape a new healthcare future, but obviously as they disrupt, they have extra sensitive demands placed on them and significant challenges to face. The FDA and CMS are auditing, restricting, and re-reviewing the company and its tests while Theranos CEO Elizabeth Holmes is fighting back. She responded in a MadMoney interview on October 16: “This is what happens when you work to change things.”

WHO WE'RE WATCHING

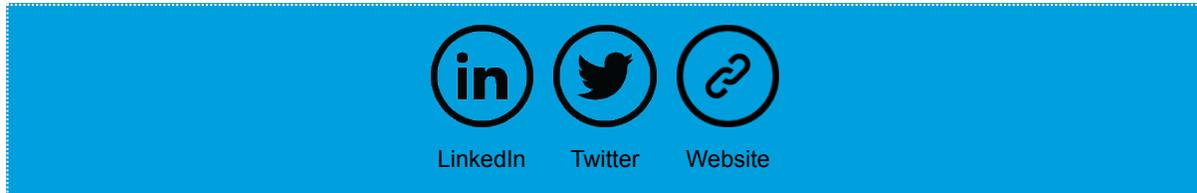
Another industry changer, Dr. Rushika Fernandopulle, is working to innovate in a different category of healthcare: primary care. Talking about business models and different payment approaches, Dr. Fernandopulle’s company, Iora Health, aims to provide value for its customers (large employers, insurers, and other “sponsoring” organizations) and makes money via per-member, per-month payment plans. In addition, he is [advocating nationally for an option of a “no fee-for-service” comprehensive primary care payment model](#). Iora Health is one of the many new ideas and disruptive innovations profiled in ZIGZAG Healthcare (www.zigzaghealthcare.com), an online information source offered by Strategy Advantage. Our goal with ZIGZAG is to help you keep tabs on, be on the ready for, explore the possibilities around, and quickly and conveniently know about the many new ideas and disruptive innovations in healthcare. ZIGZAG is a members-only platform. [Contact Kala](#) on our team if you want to know more or see a demo of the site.

WHAT'S TRENDING

In April 2015, The Commonwealth Fund published its [“Findings from a Survey of Health Care Delivery Innovation Centers.”](#) Surveyed were 36 healthcare delivery innovation centers affiliated with health systems across the country. Seventy centers were invited to participate. A couple of key findings pulled from the study include:

- Many of the health system-based innovation centers were launched in 2010, the year the ACA was passed.

- An average innovation center annual budget is \$1.9 million (including about 6 staff members). Many centers receive 75% to 100% of their budgets from their home institutions.
- Innovation centers are places that are working to discover, develop, test, and/or spread new models of care delivery—in hospitals, clinics, and patients' homes.
- On average, about a dozen innovations are being tested at any given time in each of the health system centers.
- The centers have been focused primarily on solutions for care coordination, disease-specific outcomes, access, patient engagement, workflow efficiencies, population health, and other priorities.



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