

OUTSIDE LINES

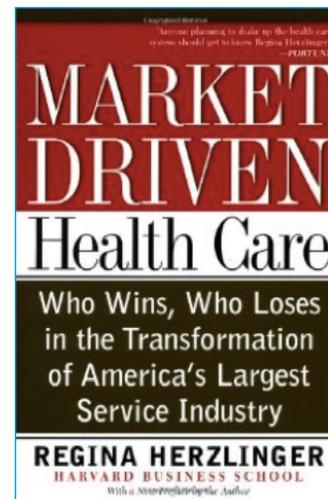
THE FOCUSED FACTORY AND THE BUNDLED PAYMENT

Years ago, [Regina Herzlinger](#), the Nancy R. McPherson Professor of Business Administration at Harvard Business School, introduced the concept of “focused health factories” in her 1997 book, *Market-Driven Health Care*. Essentially, she was [then](#) – and [still is](#) – an advocate of bundled payments. According to Herzlinger: “Focused factories are bundled health care that treats all aspects of a consumer's needs... for certain surgical procedures, like open heart surgery, or joint replacement, or much more importantly, integrating care for people with chronic diseases like congestive heart failure, or respiratory diseases.”

Years later, this concept seems to be finding some real traction. This week, CMS finalized its rule for a test of bundled payments for hip and knee replacements (see more details below). Also in May 2015, leaders at Dartmouth-Hitchcock Medical Center, the Johns Hopkins Hospital and Health System, and the University of Michigan Health System [announced the “Take the Volume Pledge” campaign](#). The pledge has its supporters and detractors, but is aimed similarly for certain surgical procedures and adds a new twist to the focused factory concept. In this case, it bundles care at higher



Kim Athmann King, MBA, FACHE
Founder & President
Strategy Advantage
kking@strategyadvantage.com
www.strategyadvantage.com
www.zigzaghealthcare.com



volume hospitals or with higher volume doctors. For example, the proposed minimum annual volume thresholds range from 10 per hospital and 5 per surgeon for carotid stenting procedures to 50 per hospital and 25 per surgeon for hip and knee replacements. The higher volume-better quality outcome effect is supposed to result in higher value for consumers and patients.

In our still-evolving, horizontally and vertically integrated healthcare organizations, and with so much of payment still held in the fee-for-service bucket, it may take a few more years for the focused factory to prove its rewards, but it's a model to know about, to better understand, and to explore as we seek to move the needle on better-for-consumers options in healthcare.

Always looking ahead,



Kim Athmann King, MBA, FACHE

NEWS ALERT! WHAT'S HAPPENED THIS WEEK

Much discussed and in development for some time, [CMS announced on Monday](#) of this week that hospitals in 67 market areas across the country – starting as of April 2016 – will be required to participate in its Comprehensive Care for Joint Replacement (CJR) model to test bundled payments for hip and knee replacements. And so we begin the drive toward focused and value-based care in a big way, involving hundreds of hospitals and thousands of doctors across the country. The impact is expected to be significant. In 2014, more than 400,000 Medicare beneficiaries received a hip or knee replacement, costing more than \$7 billion for the hospitalizations alone. There is wide variation in the cost of care in different communities across the country, ranging from \$16,500 to \$33,000 (the average Medicare payment) for surgery, hospitalization, and post-discharge costs. And CMS estimates that CJR will cover about 23% of the hip and knee replacements that Medicare pays for, saving about \$350 million over the five years of the model.

WHO WE'RE WATCHING

Healthcare consumers, too, are searching for and actively buying bundled joint replacement care, along with many other “shoppable” healthcare services. For example, Guroo provides a national price comparisons site for more than 70 common conditions. Prices are shown for certain tests and also for various “care bundles.” A search of Guroo for a knee replacement in Los Angeles showed a price range of \$24,000 to \$42,000 inclusive of an office visit, the knee replacement surgery, outpatient therapy, and two follow-up visits. Another service, Medibid, is an online medical auction website that provides comparative “bids” from doctors for certain services requested by consumers. Many of Medibid’s requests are for orthopedic surgeries like hip and knee replacements, and doctors’s quotes (to be paid by the consumers in cash) can be bundled to include physician, anesthesiologist, surgery center and other costs. Both Guroo and MediBid are included among the many new ideas and disruptive innovations profiled in ZIGZAG Healthcare (www.zigzaghealthcare.com), an online market intelligence tool offered by Strategy Advantage. ZIGZAG is a members-only platform. Contact Kala (kkascht@strategyadvantage.com) if you want to know more or see a demo of our portal.

WHAT'S TRENDING

Other consumers – those who are employees with special healthcare benefit packages from their large self-insured employers – have other all-inclusive choices for hip and knee replacements, including travel to destinations in other states or countries. This is a trend that has been brewing for a few years. Late in 2014, [GE announced](#) a “bundled case rate” deal with four centers of excellence – including Northwestern Memorial Hospital in Chicago, Hospital for Special Surgery in New York, Christ Hospital in Cincinnati, and Carolinas Medical Center in North Carolina. Also, In October 2013, Wal-Mart Stores, Lowe’s Cos., and other large employers [announced an alliance](#) to create a Centers of Excellence Network for their employees’ hip and knee surgeries, heart and spine procedures, bariatric surgery, some types of cancer, and other specialized care arrangements.



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You are receiving this e-mail from Kim Athmann King

Our mailing address is:

Strategy Advantage
1601 N. Sepulveda Blvd.
#790
Manhattan Beach, CA 90266

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