

February 2017 Newsletter

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What's keeping healthcare execs up at night?

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Dear Colleagues,

I thought would be interesting to select an industry sector and explore what strategic issues their executives are wrestling with. While some people continue to be firm believers in the idea of sustainable **competitive advantage**, I find that few of the executives in companies with whom I'm working are so sanguine.

First Up: The behemoth that is the U.S. healthcare business

The U.S healthcare business consumes 17.8% of the United States' GDP (Gross Domestic Product). **The Center for Medicare and Medicaid Services** reported that in 2015, a mind-boggling \$3.2 trillion was spent on healthcare, for an average spending of \$9,990 per year, per person. Moreover, the same organization has projected spending to grow close to 6% per year.

In any other industry, executives would be gleeful at the prospect of potential revenue



and growth that is nearly 3 times the projected **growth rate of domestic GDP**. Not so much when it comes to healthcare. Indeed, this growth in spending actually creates problems as a cast of different players compete for dollars that are being shifted from other priorities.



Six of the biggest issues that come up in conversation

1. A shift to value-based reimbursement and an increased focus on performance, not activity.

No doubt, the current fee-for-services model for delivering care has a lot of flaws. What we haven't figured out, is how to pay for the outcomes we want, not just the services that are consumed. Relative to the heat and furor over the discussions surrounding the dismantling of the Affordable Care Act, some of the biggest changes in the U.S. healthcare system are getting very little attention.

One big change is called the Medicare Access and CHIP Reauthorization Act of 2015, or **MACRA**. This act fundamentally changes the way the largest payer in our system, the Centers for Medicare & Medicaid Service (CMS), covers services. MACRA works by eliminating the payment calculations previously used for physicians and establishes two tracks that aim to reward physicians for higher quality outcomes: 1) Merit-based Incentive Payment System (MIPS), and 2) Advanced Alternative Payment Models (AAPMs).

The documents describing the new MACRA rules run into the thousands of pages and yet, the calculations underlying how physicians will be rewarded are not yet clear. Many players are fretting at what the cost will be to implement the reporting requirements, with some estimates that the implementation cost for care organizations could run into the millions of dollars.

Aside from MACRA, there are numerous initiatives to align incentives in the healthcare system to focus on patient outcomes, including the rise of accountable care systems.

The most significant barrier to the adoption of an outcome-based approach is that healthcare costs and benefits throughout the system are fragmented. A change that benefits the system as a whole, does not necessarily pay back the entity that paid for it. For instance, **Gilead Sciences**, Inc. discovered a curative set of tablet-based treatments for the devastating liver disease, hepatitis C. Because the treatments cure the disease, a lifetime of costly and inconvenient services can be avoided after an 8-12 week course of treatment. The catch? The drug costs between \$63,000 and \$94,500 per treatment, and that cost is borne either by insurance companies or patients themselves. Some players see the cost very clearly, but

the benefits only diffusely.

2. The dog that caught the bus – what will the new administration do with the Affordable Care Act?

The Affordable Care Act (ACA), which, astonishingly one-third of the **people surveyed in a recent poll** did not know is the same thing as Obamacare, is a favorite target of Republican politicians. Somewhat surprisingly, given the bad reputation it had under the last administration, the **ACA** is more popular now than ever, as millions of people without coverage before have signed up. Despite issue such as rising premiums and insurers pulling out of certain markets, the ACA seems to have accomplished at least some of its ambitious goal of reducing the number of uninsured American people.



In the ‘no good deed goes unpunished’ category, the outcomes for those providing care are not necessarily all good. One hospital client of mine found that, as the ACA became more widely used, the patients who are now seeking treatment because they have coverage (good) are sicker, because they had not availed of preventive care, which tends to increase both hospital costs and the risk of re-admission (bad). The result was that they treated twice as many people as the previous year, but the payments remained exactly the same. This cannot last.

3. Cherry picking the lucrative segments of the market.

With all that money sloshing around the healthcare business, and physicians increasingly frustrated by the paperwork and bureaucracy of traditional practices, **concierge medicine** has started to appeal to many. In this model, patients pay a subscription or retainer fee for full access to a doctor’s services, sometimes going as far as getting 24/7 service.

The risk for other care providers is that as the concierge idea spreads, they may be left with patients who are less able to afford care, resulting in concentrating costs while eliminating revenues.

4. A pox on both your houses – new business models that avoid the whole mess.

Similar to the concierge idea, but different in that insurance doesn’t factor into the equation at all, are flat-fee providers such as Seattle-based **Qliance** Medical Management, Inc. In this model, patients pay a subscription, but there is no interaction with insurance companies or reimbursement of any kind. The folks at places like Qliance argue that they can save 30% of their total budget by avoiding the

administrative burden and paperwork of the conventional system.

So far, it seems to be working pretty well. Independent surveys report 30% lower levels of cost, with higher patient satisfaction and better care.

5. New treatments, but at what cost?

The wonders of modern medicine are marvels, indeed, extending life-spans and quality of life for millions of people. But, many of the most advanced treatments also come at **advanced cost**, as providers seek to develop targeted therapies for niche markets. The debate is on as to whether it is legitimate for pharmaceutical companies to charge what they do for important new treatments, with courses of some drugs costing as much as a luxury car.

When compared with other healthcare systems, people in the United States pay significantly more for the same therapies, with no noticeable difference in measurable health outcomes. Part of the reason is a mistake Congress made in voting itself a ‘most favored customer’ clause. This clause requires entities, such as pharmaceutical companies, to offer the federal government the best price offered to anyone. Counterintuitively, this undercuts the ability for any players in the system to strike a tough bargain, because the pharma companies would point to that clause and say they can’t afford to offer a better deal. This provision, however, is not the result of a natural law and it might be changed, if the legislature decided it was time.



6. If something can’t be sustained, it probably won’t be – challenges to the “Big Pharma” model.

Which brings us to the tattered public image and real **challenges** facing major pharmaceutical firms. This lack of trust isn’t helped by the practice of some firms acquiring old drugs and **jacking up their prices** or using their monopoly power to raise prices for essential treatments (we’re looking at you, Mylan!). R&D productivity has dropped, which results in it taking more time and money to identify and market new treatments. And, unlike the rest of the world, U.S. pharmaceutical companies are allowed to market directly to consumers, to the tune of an astonishing \$5.4 billion.

While major research-based pharmaceutical companies have been innovative in searching for cures for diseases that affect only portions of the population, the DNA of the huge margin, huge investment, hugely profitable blockbuster drug era remains. The real question is how long can the existing business model retain its legitimacy among critical stakeholder groups.





A resource for those interested in a deeper dive on these topics is [Columbia's Healthcare and Pharmaceutical Management Program](#) – their annual conference just took place on February 24, 2017.

Team effectiveness and a whole lot more in Princeton, NJ

On January 31st, I sponsored a seminar/workshop in the Princeton, New Jersey area with the main focus on accelerating team effectiveness, along with the sub-themes of innovation, strategy, competitiveness and why some firms aren't making long-term investments in innovation.

We started off with an exercise borrowed from our friends at [Future Partners](#) called "Rockets and Anchors" as a way of sharing the collective wisdom of the group. Everybody writes something on a Post-it note that is either a "Rocket" (a super accelerator) or an "Anchor" (a drag) on a topic under discussion. In this case, we asked people to weigh in on what helped or harmed effective teamwork. Here are some of their thoughts:

Rockets (zoom!)		Anchors (ugh)
Trust		Poor communication
Open communication		Too much control by 1 person/concentration of power
Shared vision / purpose		Lack of trust
Open minds		Unclear expectations
Customer intimacy		Lack of manpower
New business models		Lack of sincere concern for the growth of others & the company
The right skills		Lack of tolerance and diversity
Common core values		Fear of failure / Risk Aversion
Delegation		Linear growth expectations
Strong listening		Abuse of power relationships
Transparency		Hidden agendas
Clear roles and responsibilities		Judging
Positive work environment		Political disgust
Embracing curiosity		
Leadership		

In the seminar, we started with the famous story of how Alan Mulally used teamwork to turn around Ford Motor Company. According to Mulally, only by working as a team and being transparent about problems could the really big issues be tackled. Prior to Mulally, Ford's internal competitive culture never allowed this level of sharing and collaboration.

Three things that are new in the world of teams.

1. **Velocity** – Everything seems to be moving faster, and coupled with that is an increase in the amount of job hopping. The result? Team membership is constantly changing.

2. **Virtual Teams** – There is an increase in the prevalence of teams working virtually.

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3. The final big change is the growing awareness of how important **Psychological Safety** is to team process and functioning.

The team effectiveness assessment is one of a number of diagnostics that I use to assess a group's progress toward building competitively valuable new capabilities.

Are you living in a world of more anchors than rockets? You might want to consider some diagnostic data-gathering to figure out where the problems might lie. Contact growth@valize.co for more information.

If you don't understand customer pain, you're unlikely to have a successful innovation

I did the bicoastal thing earlier this month to work with my partners at **mach49** (don't worry, middle of the country – Ohio is on deck for next month!). One very interesting discussion we had was regarding the structure of the mach49 12-week incubation program at their accelerator in Silicon Valley.

How the mach49 incubation program works

The first four weeks are spent deeply exploring what creates customer pain. This practice is known as 'lean customer development' with practitioners such as **Cindy Alvarez** who explains that many companies make the mistake of asking their customers the wrong kinds of questions.

In the incubator, we focus on finding the answer to the following hypothesis statement: "*I believe [type of person] needs to solve [problem] when performing this [task] so that they can achieve [benefit].*" It isn't until you have this hypothesis statement clearly articulated that you can start to dig into solutions.

Examples of questions asked are "Tell me about the last time you did X?" or "If you could wave a magic wand, what would you want?". Among the many advantages of this process, which might involve 150 customer interviews in a month, is that the you emerge from this process with the voice of the customer clearly on your side, which becomes very useful when looking to engage support with senior management!



The second segment is focused on creating a prototype and the third segment is focused on gathering more feedback. With a clear hypothesis about what you're doing in hand, the final segment is focused on

creating the business model. The incubations process wraps up with a pitch day involving senior leaders who decide whether or not the venture moves forward.

In the next issue of the newsletter – I'll share some of the surprising and counterintuitive things companies learned during the incubation process.

Another learning resource: the newly revamped Leading Strategic Growth and Change

Two of the greatest challenges I find my clients face are 1) discovering new sources of growth and 2) transforming their organizations in order to stay competitive. During this one-week course, we'll cover the latest thinking on these topics, including:

- How to manage the entire cycle of competitive advantage
- How to manage growth portfolios
- Design thinking and inspiration from unusual places
- Two-sided platform strategies
- Managing organizational politics

The program runs in New York City during the week of May 15th. Participants bring a real organizational challenge to the program and work on it throughout the week. [Click here](#) for more information. Or drop me a line at rdm20@gsb.columbia.edu.

Mastering Corporate Entrepreneurship Online now running

Our Mastering Corporate Entrepreneurship program launched in January, under the flagship of the Forum for Dynamic Innovation at Columbia Business School. Participants in this 7-week program will learn from myself, colleagues and in live sessions about how to make corporate entrepreneurship a systematic capability. [Here's the link](#) to find more information.

Recent Press Coverage

- Why Facebook CEO Mark Zuckerberg's [vulnerable apology](#) makes him a strong leader

- [A Refresher](#) on Discovery-Driven Planning
- Can a [30-Hour Work Week](#) Increase Productivity and Decrease Workplace Stress?

More links to recent press mentions can be found on the [Latest News](#) page on my website.

Upcoming Events

[2017 Spirit of Women in Business Conference](#)

Kent State University's College of Business Administration March 9, 2017

[Digital Business Strategy](#)

Leading the Next Generation Enterprise

April 4-6, 2017 at Columbia University in the city of New York

Columbia Executive Education's [Advanced Management Program](#)

April 30 - May 26, 2017

[Thinkers50 - 2017 European Business Forum](#)

The Davos of Business Thinking

May 9-10, 2017 in Odense, Denmark

[Leading Strategic Growth and Change](#)

My revamped Executive Education Columbia Business School program

Runs the week of May 15th in New York City

[DRUID](#) Conference

Danish Research Unit for Industrial Dynamics

June 12-14, 2017 in New York City

Growth & Inclusive Prosperity - The Secular Management Challenge

[The 9th Global Peter Drucker Forum](#)

November 16-17, 2017 in Vienna, Austria

Where there is uncertainty, there is also opportunity

While players in changing and uncertain industries, such as healthcare, can get rattled, it is also worth remembering that some of the most **impressive growth stories** get their start in uncertain times. Tough times can increase focus, offer greater access to underutilized assets and force prioritization. For the entrepreneurially gifted thinkers among us, these are always opportunities.

Here's to your next advantage!

Rita

Password for the “Tools” Section of My Website

To access the tools part of the web site (downloadable diagnostics, quizzes, spreadsheets and other cool stuff) go to the [RitaMcGrath.com website](http://RitaMcGrath.com) and use the password - **mcgr8th!** (*the exclamation point is part of the password*).

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