Business strategy for global healthcare
Session 1

Article 1: what is strategy? By Michael E. Porter

Operational effectiveness: performing activities (selling, creating…) better, that's is faster or with fewer inputs than rivals.
Productivity frontier: the maximum value a company can deliver at a given cost, given the best available technology, skills, and management techniques
Competitive convergence: companies imitate each other to compete
Strategic positioning: attempts to achieve sustainable competitive advantage by preserving what is distinctive about a company. It means performing different activities from rivals, or performing similar activities in different ways.

There are 3 key principals underlying strategic positioning

1- Strategy is the creation of a unique and valuable position, involving a different set of activities
2- Strategy requires you to make trade-offs in competing, to choose what not to do
3- Strategy involves creating "fit" among a company's activities

Operational effectiveness is not strategy

Operational effectiveness and strategy are both essential to superior performance, which, after all, is the primary goal of any enterprise. But they work in very different ways.

Operational effectiveness (OE) means performing similar activities better than rivals perform them. OE includes but is not limited to efficiency. It refers to any number of practices that allow a company to better utilize its inputs by, for example, reducing defects in products or developing better products faster. In contrast, **strategic positioning** means performing different activities from rivals' or performing similar activities in different ways.

Differences in operational effectiveness among companies are pervasive. Some companies are able to get more out of their inputs than others because they eliminate wasted effort, employ more advanced technology, motivate employees better, or have greater insight into managing particular activities or sets of activities. Such differences in operational effective- ness are an important source of differences in profitability among competitors because they directly affect relative cost positions and levels of differentiation.

Constant improvement in operational effectiveness is necessary to achieve superior profitability. However, it is not usually sufficient. Few companies have competed success- fully on the basis of operational effectiveness over an extended period, and staying ahead of rivals gets harder every day. The most obvious reason for that is the rapid diffusion of best practices. Competitors can quickly imitate management techniques, new technologies, input improvements, and superior ways of meeting customers' needs. The most generic solutions—those that can be used in multiple settings—diffuse the fastest. Witness the proliferation of OE techniques accelerated by support from consultants.

OE competition shifts the productivity frontier outward, effectively raising the bar for everyone. But although such competition produces absolute improvement in operational effectiveness, it leads to relative improvement for no one.

The second reason that improved operational effectiveness is insufficient—competitive convergence—is more subtle and insidious. The more benchmarking companies do, the more they look alike. The more that

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Article: A merger between CVS health and Aetna could be what the doctor ordered

CVS Health, founded in 1963 by Stanley and Sidney Goldstein, started out as a humble store selling health and beauty products. Today, this it developed into a big company, and commands nearly a quarter of the American market for prescription drug sales. It is also the biggest pharmacy-benefit manager in America.

CVS health has made a bid for Aetna, a big American health insurer. The two companies have already had a relationship since CVS has a contract to serve as Aetna's pharmacy benefit manager (PBM are companies that manage prescription drug benefits on behalf of health insurers). If the transaction were to be forward, it would be the biggest in the American healthcare.

Reasons for a deal:
Healthcare is becoming increasingly unaffordable for American consumers. Since 2014, the costs (medication, doctors…) have increased by 6 to 7%, and such rises cannot continue indefinitely.
Drug retailers in particular fear Amazon entering their business, as the news of e-commerce entering the healthcare sector has been broken not long ago. Although, a difficulty the Amazon might encounter is the fact that consumers do not typically pay the cost of the drug, insurers do. If they have a serious ambition in healthcare, they might need to build or buy a PBM.
Also, greater transparency in pricing is coming, be that through vertical integration (such as deals between CVS and Aetna) or via the entry of titans like Amazon

This combination of forces explains why a CVS-Aetna merger might make sense: to make CVS a more formidable competitor against possible new entrants, such as Amazon, into the bit of the business started by the Goldsteins, and to extract efficiencies by cutting out the middlemen in the health-care supply chain

The CVS-Aetna deal is an effort at vertical integration, which by removing rent-seeking middlemen can, in theory at least, lead to more choice, better health outcomes and lower prices for consumers.
If this seems far-fetched, consider the example of United's pioneering use of data analytics and artificial intelligence at its in-house PBM. As costs spiral upwards, insurers' interest in ensuring the good health of consumers deepens. Because United can now analyze both a patient's medical files and her pharmacy records, it can track how medications are taken and whether or not they work well. A small group of integrated health-care systems in America, such as Kaiser Permanente, Intermountain and the Mayo Clinic, has been shown to have delivered better care and lower costs.
By creating a much more integrated firm, the CVS-Aetna deal could do the same. CVS already has more than a thousand MinuteClinics (cheap and cheerful health centers) at its pharmacies offering affordable medical care seven days a week. The combined firm would offer everything from basic health services to diagnostics to drug-infusion centers. It would have a strong incentive to make sure that customers have good access to primary care, including vaccinations, medical information, prescriptions, and follow-ups. "Consumers would save through lower premiums, lower out-of-pocket spending at preferred CVS outlets, or both," reckons Adam Fein of Pembroke. Moreover, the accumulation of data on what interventions work best in similar patients would speed the personalization of medicine.

In truth, no one knows how a CVS-Aetna deal would affect consumers of health care, as this structure of transaction, at this scale, has not been tried. The concern for patients—and for trustbusters—is what would happen if customers of a combined firm wanted to receive care from other clinics or buy drugs from other pharmacies, perhaps because it was restricting choice or increasing co-payments. The reason for hope is that this vertical deal could become a template for a new sort of health-care firm, which offers a lower-cost

Re-thinking payments to encourage innovation

Innovation isn't limited to new products or services; it may also include operating models, such as in payments. Indeed, a sustainable ecosystem for innovation also requires major changes in how healthcare is delivered and paid for, thereby helping to justify costs during R&D.

In fact, payment reform is the rocket fuel for healthcare innovation

The key to this kind of innovation is the opportunity for "disruptive business models," he says. "The incumbents have a lot of advantages, but the ability to adapt to disruption isn't one of them." Developing different kinds of payment models, such as reimbursing outcomes rather than services rendered, creates new opportunities.

New ways of assessing the cost and value of pharmaceutical innovation, for example, will be part of this process, experts say, but individual drugs can't be viewed in isolation. Instead, they need to be considered based on their overall impact on patient wellbeing, beyond their direct effects.

For example, "do we just look at the cost of a flu vaccine or the cost of productivity at work? How much have we looked at the long-term impact?", questions Dr Nussbaum.

Part of this change in payments also involves an evolution from the existing fee-for- service payment system towards payment for episodes of care and—eventually— full population health.

These new types of payment models align better with patient needs and can improve delivery of groundbreaking innovations by encouraging treatments that lead to the best outcomes

And while new payment models cannot overcome some of the systemic challenges in the insurance market such as frequent job-changing, they can ultimately lead to better health for those within insurance pools, thereby reducing the need to cover certain recurring costly services.

Improving healthcare quality and access

A more innovative health system isn't just one in which health providers have incentives to deliver valuable care, but one that is centered on the patient, say interviewees. This means guaranteeing that healthcare is measured not by the number of procedures or treatments, but by positive outcomes, provider accountability and patient choice.

"Despite large amounts of measurement, there is a lack of patient-centered measurement in healthcare," says Christina Akerman, president of the International Consortium for Health Outcomes Measurement (ICHOM). "We measure very little about what matters to patients with a certain health condition, and we have very little understanding of the kinds of outcomes that are meaningful to them"

Not only is there a lack of patient-centered measurement, but there is also the lack of standardized measuring of outcomes. When standardization becomes more prevalent, however, providers will be able to reduce variations via sharing best practices, thereby saving resources that today are spent on healthcare services that are not beneficial to patients.

"You need to define the outcomes that matter most to patients and then understand variation before you can improve healthcare services," she observes.

Better understanding of desirable outcomes helps determine where the knowledge gaps lie and where innovation should be targeted, adds Dr Akerman.