



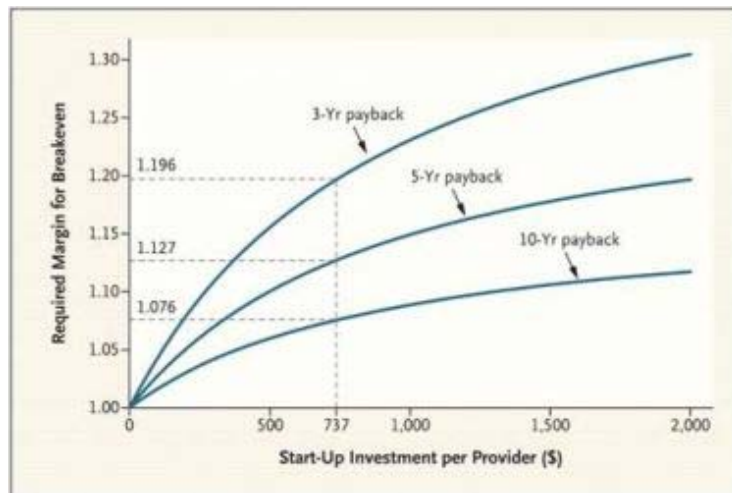
Fall 2011

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"Accountable Care Organization Model...The Mystery of the Missing Business Case"

By C. Richard Panico, Founder, President, and CEO of Integrated Project Management Company, Inc. (IPM)



The jury is still out. There is still a significant amount of controversy pertaining to the Accountable Care Organization (ACO) model and whether it will be the "cure" for a multitude of issues concerning healthcare. While the intentions driving the movement to ACOs are good, there are still many questions as to whether the model is the right one, and for good reasons. There is a limited amount of credible data to support the financial viability of the model. A recent study by *The New England Journal of Medicine* noted, "The limited data suggests that most organizations will lose money in the first three years under the ACO model." However, a closer look will indicate that this payback period assumes implementation costs of approximately \$740k, which one can easily debate is at the overly optimistic end of the implementation cost spectrum (see graph). A closer review of the graph reveals that the payback assumes an aggressive and probably unrealistic margin.

Most of the information available in the form of case studies I have reviewed pale in comparison to case studies developed in other industries to justify a major change in a business model. For one thing, while case studies seem to focus on the cost, effort, and time required to transform an organization(s) to an ACO, there is an obvious omission of financial justification for the investment, not to mention the direct financial impact to those who are essential to its

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success, that is, the doctors and other clinical personnel. These case studies are loaded with assumptions that may or may not be valid, and proof of the ultimate financial viability of ACOs seems to continually elude many who are trying to understand whether the model is financially sustainable. It is rather remarkable that the approach to determining whether ACOs are the best, a good, or inadequate alternative to addressing our healthcare challenges is so much different than is the approach applied across most other industries. The supposed goals of the ACO model include increasing quality and efficiency, increasing accountability, improving patient outcomes, satisfaction, and overall health, and paying for performance. In business terms, the base goal is to optimize healthcare providers' performance, thereby improving the benefits to patients while simultaneously lowering costs and generating a profit. Any model that does not generate sufficient revenue to cover costs, reward those who are critical to delivering service, and reinvest in continually improving services will not be sustainable. These organizations will be forced to compromise service delivery, which usually translates to reduced capabilities and capacity and quality erosion. This has been proven continually in other industries. Notwithstanding, there are plenty of profitable models within healthcare that support the correlation and direct relationship between strong profitability, quality outcomes, and high patient satisfaction. It is hard to fathom why the healthcare industry has not fully exploited the opportunity to develop scenarios and corresponding simulations that measure the true business justification and long-term business viability of ACOs. Any business analysis begins with clearly defining the objectives the enterprise is trying to achieve. Healthcare's goal is to provide high quality, Regulatory compliant and reasonably priced patient care in a highly efficient manner that results in a positive profit margin (after competitively compensating those stakeholders who are critical in delivering the service).

The current challenges facing healthcare are unprecedented, and so are the opportunities. Savvy business people will take this opportunity to create and analyze scenarios to achieve the objectives stated above. You can be assured that profitability motives will generate models that are unencumbered by debilitating mindsets and paradigms that reject or struggle with the concept that high quality care, reasonable cost, highly regulated, and profitable are realistic and achievable. The ACO model, or whatever variations thereof best addresses the healthcare challenges and opportunities of the future will be, first and foremost, innovative business models that are profitable and driven by competition to continually improve and remain profitable.

¹ "The ACO Model – A Three Year Financial Loss?", Haywood, Trent T., M.D., J.D., and Kosel, Keith C., Ph.D., M.B.A., M.H.S.A, *The New England Journal of Medicine*, April 7, 2011

About the Author



C. Richard Panico, is the founder, president, and CEO of Integrated Project Management Company, Inc. (IPM), which is a project management consulting firm specializing in the healthcare, life sciences, ag-science and nutrition, consumer goods, and industrial products sectors. Through disciplined on-site leadership, IPM completes complex projects in often highly regulated

industries. Since 1988, IPM has served over 250 clients across 3,500 projects, delivering measurable results. The company has regional offices in Chicago, San Francisco, St. Louis and Boston. For further information, visit www.ipmcinc.com or call 630-789-8600.

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Save the Date

October

- * **2nd Annual ACO Physicians Alignment Program - Thursday, October 20**
- * **Thought Leadership Breakfast Series: Trends In Nursing Leadership and Education - Friday, October 25**

November

- * **3rd Annual Health IT Program - Tuesday, November 8**
- * **Thought Leadership Breakfast Series: Diversity in Healthcare - Friday, November 18**

December

- * **Age Wave: The Future of Aging in America - Thursday, December 1**
- * **CHEF Holiday Networking Event: Mercy Home for Boys and Girls - Wednesday, December 7**
- * **ACHE Lake County Gathering: Predictive Analytics and Variable Workload Staffing - Wednesday, December 14**

February 2012

- * **36th Annual Conference: Leading and Motivating a Multigenerational Organization Wednesday, February 8**