

Experience matters: Alignment Healthcare's founding and growth decisions

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ABSTRACT

John Kao, an experienced entrepreneur, led the taking of Alignment Healthcare from a privately held company to a NASDAQ-listed one in about eight years since its 2013 inception. The company's mission was always connected to high quality of service to its customers and insurance product offerings, even though Alignment Healthcare was able to maintain a remarkably high rate of annual growth while under private ownership. Mr. Kao's leadership team had a strategic dilemma of whether to continue with an aggressive 30-to-40% yearly expansion or to tame the market's expectations by setting a more modest growth rate following a 2021 initial public offering on NASDAQ.

This teaching case is suitable for discussion and analysis at the graduate-level seminars and upper-division undergraduate courses in entrepreneurship, new venture management, healthcare strategy, and is specifically fitting for topics in managerial decision making, entrepreneurial profile, and small business growth journey.

Keywords: entrepreneurship, healthcare management, decision-making, new venture growth rate, healthcare start-up, business strategy

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INTRODUCTION

On March 21, 2021, Alignment Healthcare decided to start their initial public offering (IPO) through NASDAQ at an initial price of \$18 per share. Around the same period, the Federal Reserve announced that it will keep its benchmark interest rate near zero, to continue supporting the economic recovery from the COVID-19 pandemic (Dickler, 2021). Alignment Healthcare, a tech-enabled Medicare Advantage company, had to decide their target growth rate after the IPO.

As a privately held insurance company founded in 2013, Alignment Healthcare “has experienced an average 39% year-over-year growth rate annually since inception” (Japsen, 2022). It was easy for Alignment Healthcare to set an annual growth rate around 30 to 40 percent. However, John Kao, the CEO of Alignment Healthcare, had concerns about the impact of continuing with the aggressive growth targets. Should Alignment Healthcare have stayed with their high growth rate or adjusted it to lower the expectations and to easier maintain the quality of service?

THE MEDICARE ADVANTAGE MARKETPLACE

In 1965, the Social Security Administration signed Medicare as government national health insurance program in the United States to provide health insurance for Americans aged 65 and older, and some younger people with disability status. Medicare contains four parts: Part A covers hospital, skilled nursing, and hospice services; Part B covers outpatient services; and Part D covers self-administered prescription drugs. Part C, also called Managed Medicare or Medicare Advantage Plan, allows patients to choose their own plans that provide the same services as Part A and Part B, but with extra coverage like vision, hearing, dental, and health wellness programs.

Medicare Advantage plans are offered by private companies approved by Medicare. Each Medicare Advantage Plan can charge different out-of-pocket costs and have different rules for patients in getting services. Medicare pays a fixed amount of money every month to the companies that offer Medicare Advantage Plans. Since 2006, the Medicare Advantage Plan has grown steadily. In 2022, about half or 48 percent of the eligible Medicare beneficiaries (more than 28 million people) are enrolled in a Medicare Advantage plan, as indicated in Exhibit 1 (Appendix). As a share of eligible Medicare population, Medicare Advantage enrollment has more than doubled from 2007 (19%) to 2022 (48%). The Congressional Budget Office (CBO) estimates the share of Medicare Advantage enrollees will rise to 61 percent by 2032, as indicated in Exhibit 2 (Appendix).

Medicare Advantage market was dominated by a small number of insurance companies. UnitedHealthcare and Humana accounted for 46 percent of all Medicare Advantage enrollees. Other big corporate players included Blue Cross Blue Shield Plans, CVS Health, and Kaiser Permanente. About 16 percent of Medicare beneficiaries (4.6 million) received care from other insurers, and Alignment Healthcare is one of them, as indicated in Exhibit 3 (Appendix). Major insurers in the Medicare Advantage market expanded their programs to include more counties in different states including Cigna and Humana (Japsen, 2022). To join the competition, Alignment Healthcare also decided to add four Florida counties and two Texas counties to its existing markets in California, Arizona, Nevada, and North Carolina (Minemyer, 2022).

THE FOUNDER'S EXPERIENCE AND JOURNEY

John Kao, who has a finance background, started his career in the banking industry. After he left investment banking, he started working at FHP international. FHP merged with PacificCare in 1994, which provided a staff model in the health insurance market. During his time at FHP, his job responsibility was business development, where he learned about the benefits and constraints of vertical integration. At PacificCare, John led the growth of PacificCare's specialty business units including PacificCare Behavioral Health, PacificCare Dental, and Prescription Solutions, the company's prescription benefit management company. That was where he learned about the importance of provider partnerships.

Before the founding of Alignment Healthcare, John served as executive vice president at The TriZetto Group, an information technology services company that served the health insurance market with more than 125 health plans and 250 third-party administrator customers. John gained experience in systems, technology, data, and supply chains during his time at the TriZetto Group. In 2004, one year after the passage of Medicare Part D, the Medicare Modernization Act (MMA) was introduced to include risk adjustment and to incentivize care delivery for patients. John seized the opportunity and found a company named CareMore with about 10,000 to 12,000 enrollees.

Having collaborated with private equity partners like J.P. Morgan, John bought CareMore to help it grow to the next level. In August 2011, CareMore was acquired by WellPoint, Inc., a national health insurance company with operations in 14 states. During his time as CareMore, John learned chronic disease management and how to design the systems to bend the cost curve, and the importance of patient satisfaction. When he added the four pieces of his working experience together, the prototype of Alignment Healthcare showed up.

Mr. Kao credited his church experience for helping him through the business journey. The willingness to listen and learn, combined with John's own experience, shaped the foundation of Alignment Healthcare. John's mom, who lived in Orange County, had a heart attack, and went to the hospital a few years ago. She received the best inpatient care, however, the problems showed up after she was discharged from the hospital. Almost no care coordination or patient advocacy existed, especially for a fragile elderly patient. That was the moment John realized the gap with care and felt the obligation to do something to serve the elderly population. His motto has been to "treat every member in the plan like your own mom and dad." John's mom is a member of the Alignment Healthcare Plan. During the interview with John, his mom called him. John paused the meeting to pick up the phone. John also shared the figure of "the emotional journey of entrepreneurs" with us during our interview (Exhibit 4, Appendix).

That map perfectly matched the journey Alignment Healthcare went through the years from 2013 to the current stage. As a founder and CEO of Alignment Healthcare, John Kao was named entrepreneur of the year 2022 Pacific Southwest Award Finalist. This award celebrates ambitious pioneers in tackling biggest challenges, and John was selected by a panel of independent judges based on four key criteria: entrepreneurial spirit, purpose, growth, and impact, together with other core contributions and attributes (Alignment Health, 2022).

THE MODEL OF CARE

Alignment Healthcare practiced based on the value-based care model to see if "it is possible to solve the complicated issues in health care while being financially responsible." The

defining values of Alignment Healthcare included senior first, supporting doctors, data-driven health, and serving hearts. Alignment Healthcare utilized AVA health platform as their core technology to provide integrated healthcare services to the senior population they serve. They incorporated the social determinants of health (SDoH) model to sponsor the 2022 Social Threats to Aging Well in America survey. The study found that economic instability, loneliness, and food insecurity were the top three social barriers that influence seniors' access to comprehensive, affordable, and high-quality health care, as indicated in Exhibit 5 (Appendix). Other than the top three barriers, the survey also revealed that lack of transportation, mental health issues due to Covid-19, and lack of access to reliable technology (e.g., telehealth visits) were the additional barriers they faced in terms of health care (Alignment Health, 2022).

THE FOCUS ON QUALITY

John Kao has led over the years with an uncompromising position regarding maintaining the high levels of quality of Alignment Healthcare's plans and services. To measure the quality of healthcare services received by consumers enrolled in Medicare Advantage Plans, the Centers for Medicare & Medicaid Services (CMS) published the Medicare Advantage Star Ratings each year. The Plans were rated on a one-to-five scale, with one star representing lowest quality performance and five stars representing excellent performance. The Star Ratings system can help consumers in comparing the quality of Medicare health plans and making informed choices (CMS, 2022). Based on the five-star rating system, the Affordable Care Act (ACA) established a quality bonus program (QBP) to increase the payment to Medicare Advantage plans (Biniek, et al., 2022).

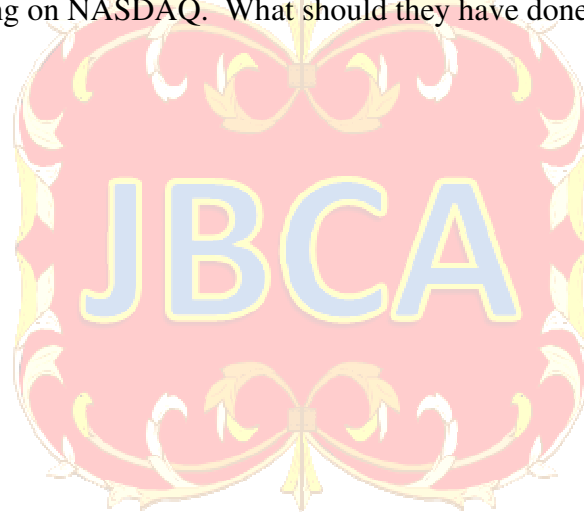
In the beginning of its development, Alignment Healthcare bought Honored Citizens Choice Health Plan, a federally qualified Medicare Advantage Prescription Drug plan that served around 20,000 seniors in California. As of October 1, 2015, the plan name has been changed to Alignment Health Plan. "Since the acquisition, Alignment Healthcare has upgraded services to the plan's members and has integrated the care delivered by the provider partners" (Alignment Health, 2015). Alignment Healthcare increased the plan star ratings from 3 stars to 4.5 stars in just one year, was the first plan that has done this in the field. Alignment's HMO plan in California continues to earn an overall 4 stars in 2023, which "marked the sixth consecutive year the plan has earned 4 stars or more" (Alignment Health, 2022). Recently, Alignment Healthcare expanded access to quality care in Los Angeles and Orange counties by adding Torrance Memorial Medical Center, Torrance Memorial Physician Network, and UCI Health to their provider network (Alignment Health, 2022).

Alignment Health's dedication to providing high quality health insurance plans and services has paralleled its expansion into new markets. Since the IPO, Alignment Healthcare has expanded its "senior first" model from California to 38 total markets across Arizona, California, Nevada, and North Carolina in 2022 and reached a market of more than 6.9 million people who were eligible for Medicare (Alignment Health, 2021). Alignment Health Plan of North Carolina, a Medicare Advantage prescription drug plan, received the 2023 High Performing icon from CMS (CMS, 2022; Alignment Health, 2022).

THE DILEMMA

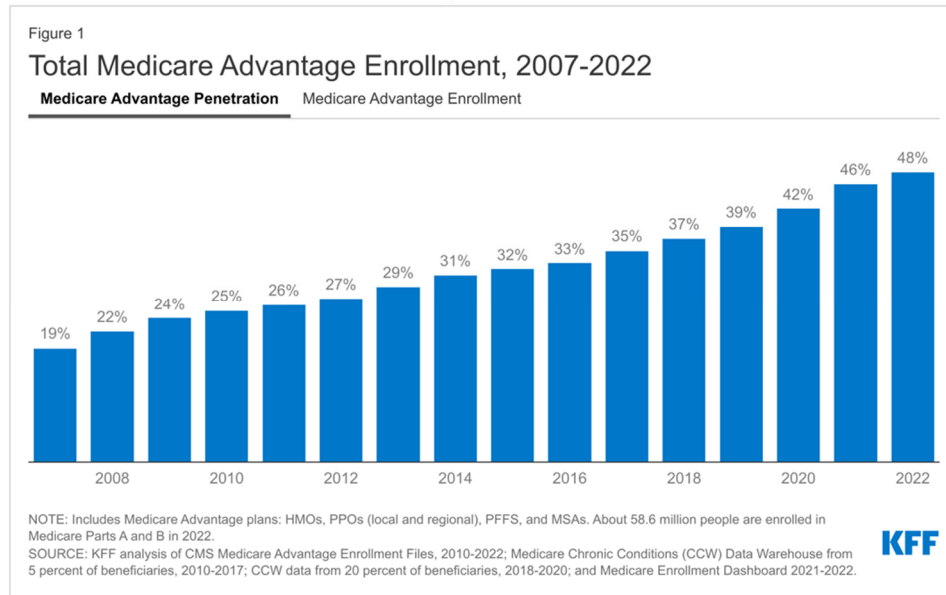
The main competitors of Alignment Healthcare include Bright Health, Clover Health, and Oscar Health. All of them are technology-based health insurance companies. Bright Health went public on June 25, 2021, with the initial price offering of \$17.25 per share at NYSE, a few months after Alignment Healthcare. Clover Health went through IPO on June 12, 2020, at \$10.20 per share, through NASDAQ, one year ahead of Alignment Healthcare. Oscar Health filed IPO at \$31 per share through NYSE on March 5, 2021, about two weeks before Alignment Healthcare's IPO, as indicated in Exhibit 6 (Appendix).

John Kao, an experienced entrepreneur, led the taking of Alignment Healthcare from a privately held company to a NASDAQ-listed one in about eight years since its 2013 inception. The company's mission was always connected to high quality of service to its customers and insurance product offerings, even though Alignment Healthcare was able to maintain a remarkably high rate of annual growth while under private ownership. Mr. Kao's leadership team had a strategic dilemma of whether to continue with an aggressive 30-to-40% yearly expansion or to tame the market's expectations by setting a more modest growth rate following a 2021 initial public offering on NASDAQ. What should they have done?



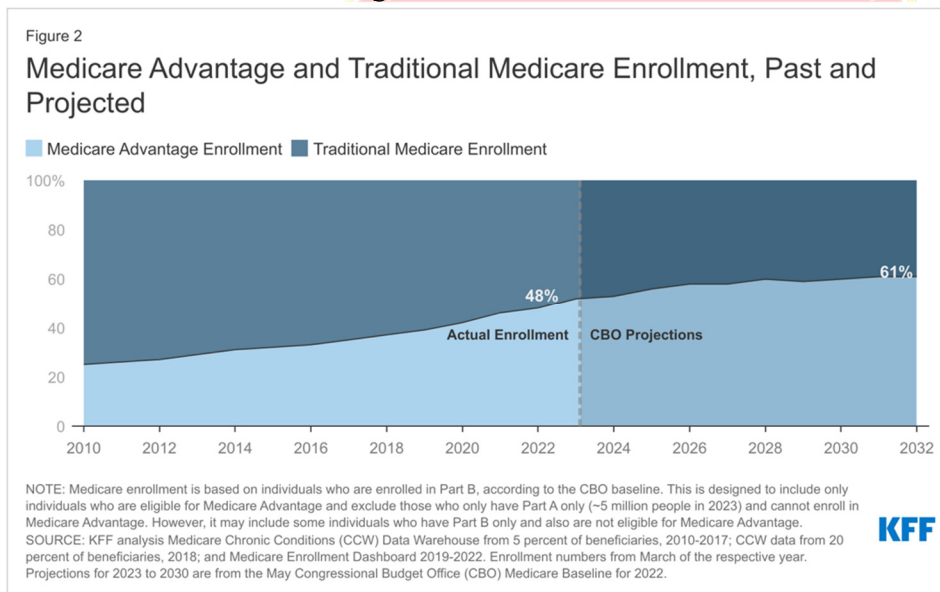
APPENDIX

Exhibit 1. Total Medicare Advantage Enrollment, 2007-2022



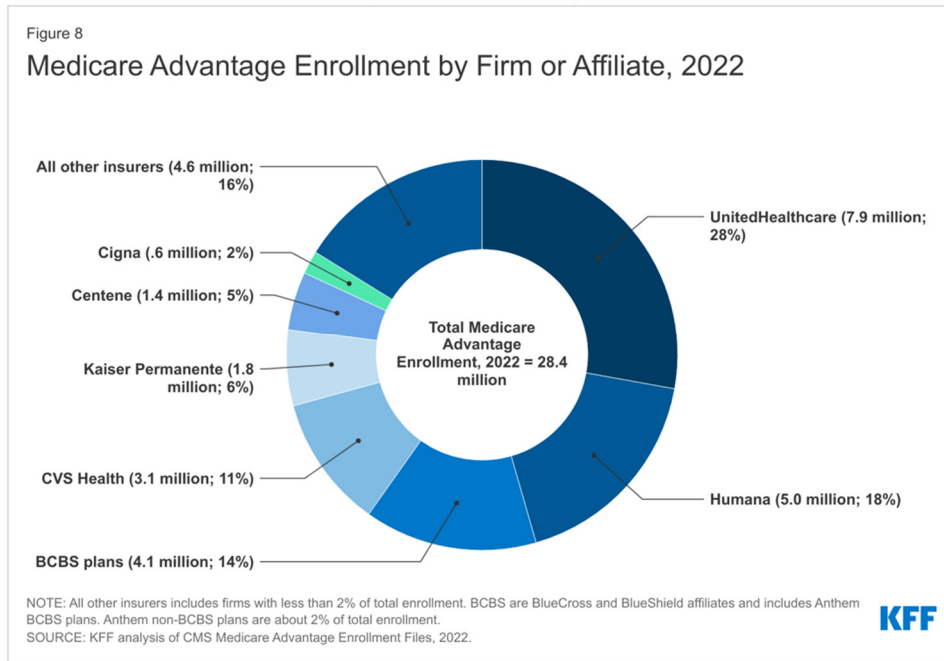
Source: Freed, M., Biniek J.F., Damico A., and Neuman T. (2022, August 25). Medicare Advantage in 2022: Enrollment Update and Key Trends. Available at: <https://www.kff.org/medicare/issue-brief/medicare-advantage-in-2022-enrollment-update-and-key-trends/>

Exhibit 2. Medicare Advantage Plan Enrollment



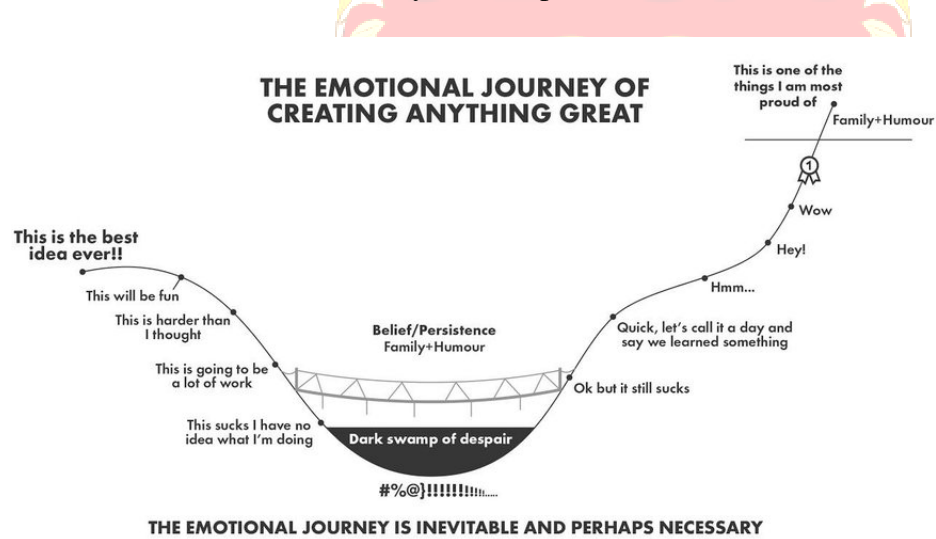
Source: Freed, M., Biniek J.F., Damico A., and Neuman T. (2022, August 25). Medicare Advantage in 2022: Enrollment Update and Key Trends. Available at: <https://www.kff.org/medicare/issue-brief/medicare-advantage-in-2022-enrollment-update-and-key-trends/>

Exhibit 3. Medicare Advantage Enrollment by Firm or Affiliate



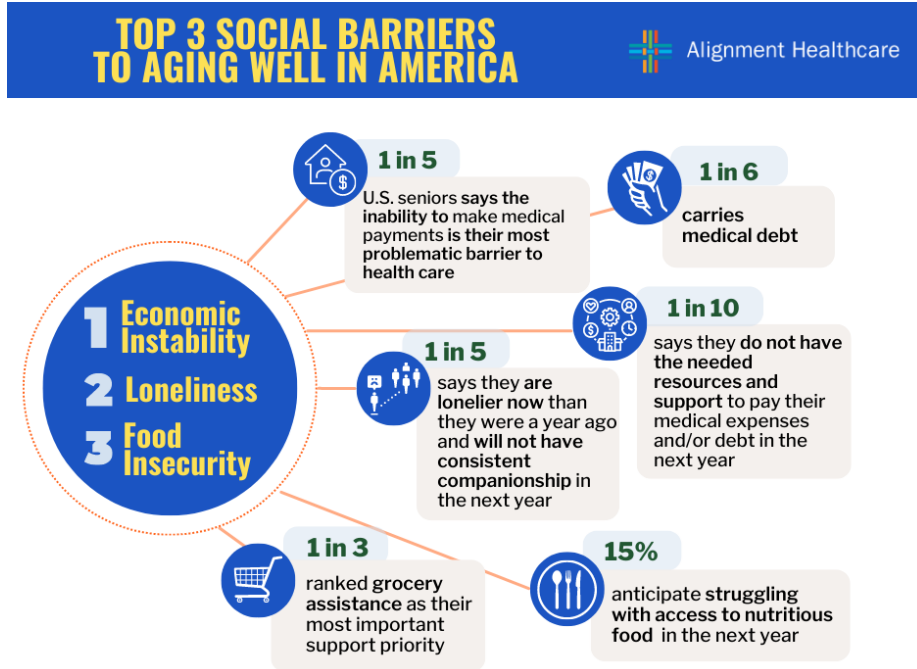
Source: Freed, M., Biniek J.F., Damico A., and Neuman T. (2022, August 25). Medicare Advantage in 2022: Enrollment Update and Key Trends. Available at: <https://www.kff.org/medicare/issue-brief/medicare-advantage-in-2022-enrollment-update-and-key-trends/>

Exhibit 4. The Emotional Journey of Entrepreneurs



Source: <https://personalexcellence.co/blog/emotional-journey-creating-infographic/>

Exhibit 5. Top 3 Social Barriers to Aging Well in America



The 2022 Social Threats to Aging Well in America survey was conducted online from July 24 to Aug. 13, 2022, and included a nationally representative sample of 2,601 seniors aged 65 and older, including more than 100 senior residents each in six states: Arizona, California, Florida, Nevada, North Carolina and Texas. The survey was administered by Toluna and sponsored by Alignment Healthcare, a tech-enabled Medicare Advantage company.

Source: Alignment Health (2022, August 29). Social Threats to Aging Well in America: New Study Reveals Economic Instability, Loneliness, Food Insecurity as Top 3 Barriers to Senior Health. Available at: <https://ir.alignmenthealth.com/news-releases/news-release-details/social-threats-aging-well-america-new-study-reveals-economic>

Exhibit 6. The comparison of stock price changes among Alignment Health (ALHC), Bright Health (BHG), Clover Health (CLOV), and OSCAR Health (OSCR) since IPO



Source: <https://www.wsj.com/market-data/quotes/ALHC/advanced-chart>

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