

VC Direct Contracting Entity Launch: Value-Based Care

Client Overview

Industry	Mid-market venture capital firm
Objective	Launch Direct Contracting Entity (DCE) for Medicare value-based care
Target	Physician groups with 10-50 primary care physicians

The Challenge

Strategic Hypothesis: The VC believed they could achieve positive margins by launching a CMMI Direct Contracting Entity (DCE) – now replaced with the ACOREACH model - in the right market with sufficient physician group participation.

Knowledge Gaps:

- **Market dynamics:** Which factors influence physician group willingness to join a DCE?
- **Financial modeling:** No VBC experience to create accurate pro formas for profitability projections
- **Qualitative insights:** Why do certain physician groups embrace value-based care while others resist?
- **Startup costs:** Insufficient data to determine true capital requirements
- **Success factors:** Which market conditions are essential for DCE model viability?

Our Approach

Dual-Track Analysis:

Quantitative Analysis – Comprehensive historical medical claims analysis examining:

- Physician panel sizes and patient volumes
- Referral patterns to hospitals and specialists
- Provider affiliations and fee comparisons vs. market averages
- Medicare population growth and FFS vs. Medicare Advantage concentration
- Patient retention and satisfaction metrics

Qualitative Analysis – In-depth stakeholder research to understand:

- Why certain physician groups adopt value-based care
- Preferred risk-reward arrangements and comfort levels
- Expected services and support from DCE convener

Our Solution

Delivered a comprehensive strategy and action plan addressing:

- **Organizational structure:** Optimal DCE convener design and governance model
- **Service offerings:** Essential capabilities and support services for physician groups
- **Economic agreements:** Risk-sharing arrangements aligned with physician preferences
- **Target markets:** Specific markets and physician groups prioritized by opportunity

- **Financial projections:** Detailed income statement and cash flow pro formas with profitability timeline

Results

6 Months	2 Markets	25,000+
To launch	Live within one year	Medicare members

Business Impact: The VC firm successfully launched the DCE venture in six months and achieved operational scale with 25,000+ Medicare members across two markets within one year.

"Covalence Health delivered far beyond our expectations—uncovering critical variables we hadn't considered and giving us complete confidence in our path forward."

- VC Partner

Why It Worked

- **Data-Driven Targeting:** Claims analysis identified highest-probability physician groups based on referral patterns, fees, and patient retention
- **Market Intelligence:** Understanding of Medicare population dynamics and competitive landscape informed market selection
- **VBC Expertise:** Deep knowledge of value-based care models enabled accurate financial projections and risk assessment
- **Stakeholder Alignment:** Qualitative research revealed physician motivations and preferences, informing partnership approach