Redefining Health Care:
Creating Value-Based Competition on Results

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2005 Medical Innovation Summit
Cleveland Clinic
October 24, 2005

This presentation draws on a forthcoming book with Elizabeth Olmsted Teisberg (Redefining Health Care: Creating Value-Based Competition on Results, Harvard Business School Press). Earlier publications about the work include the Harvard Business Review article “Redefining Competition in Health Care” and the associated Harvard Business Review Research Report “Fixing Competition in U.S. Health Care” (June 2004). No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means — electronic, mechanical, photocopying, recording, or otherwise — without the permission of Michael E. Porter and Elizabeth Olmsted Teisberg.
The Paradox of U.S. Health Care

• The United States has a largely private system and more competition than virtually any other health care system in the world

  BUT

• Costs are high and rising
• Services are restricted and fall well short of recommended care
• In other services, there is overuse of care
• Standards of care often lag and fail to follow accepted benchmarks
• Diagnosis errors are common
• Preventable treatment errors are common
• Huge quality and cost differences persist across providers
• Huge quality and cost differences persist across geographic areas
• Best practices are slow to spread
• Innovation is resisted

How is this state of affairs possible?
Issues in Health Care Reform

- Health Insurance and Access
- What Care Should Be Covered?
- Structure of Health Care Delivery
Zero-Sum Competition in Health Care

• Competition to **shift costs**
• Competition to **increase bargaining power**
• Competition to **capture patients** and **restrict choice**
• Competition to reduce costs by **restricting services**

• None of these forms of competition **increase value for patients**
  – Gains of one system participant come **at the expense** of others
  – These types of competition **reduce value** through added administrative costs
  – These types of competition result in inappropriate **cross subsidies** in the system
  – These types of competition **slow innovation**
  – Adversarial competition proliferates **lawsuits**, with huge direct and indirect costs
The Root Causes

- Competition in health care is not aligned with value for patients
- Competition in the health care system takes place at the wrong level on the wrong things

- Too Broad
  Between health plans, networks, hospitals, and government payers

- Too Narrow
  Performing discrete services or interventions

- Too Local
  Serving the needs of the local community

Addressing medical conditions over the full cycle of care

- Competition at the right level has been reduced or eliminated by networks, providers/provider groups, and by default
- Efforts to improve health care delivery have sought to micromanage providers and “lift all boats” rather than foster provider competition based on results
  - Recent quality and pay for performance initiatives do not address quality directly, but process compliance

- Consumer-driven health care will not work unless the nature of competition is transformed
Principles of Positive Sum Competition

• The focus should be on value for patients, not just lowering costs.
• There must be unrestricted competition based on results.
• Competition should center on medical conditions over the full cycle of care.
• Quality and cost will often improve simultaneously.
• Value is driven by provider experience, scale, and learning at the medical condition level.
• Competition should be regional and national, not just local.
• Results and price information to support value-based competition must be widely available.
• Innovations that increase value must be strongly rewarded.
The Care Delivery Value Chain for a Medical Condition

**Primary Activities (Patient Care)**

**INFORMING**
(e.g. Patient education, patient counseling, pre-intervention educational programs, patient compliance counseling)

**MEASURING**
(e.g. Tests, imaging, patient records management)

**ACCESSING**
(e.g. Office visits, lab visits, hospital sites of care, patient transport, visiting nurses, remote consultation)

**MONITORING/ PREVENTING**
- e.g. Medical history
- Screening
- Identifying risk factors
- Prevention programs

**DIAGNOSING**
- e.g. Medical history
- Specifying and organizing tests
- Interpreting data
- Consultation with experts
- Determining the treatment plan

**PREPARING**
- e.g., Choosing the team
- Pre-intervention preparations - pre-testing - pre-treatment

**INTERVENING**
- e.g., Ordering and administering drug therapy
- Performing procedures
- Performing counseling therapy

**RECOVERING/ REHABING**
- e.g., In-patient recovery
- In-patient and outpatient rehab
- Therapy fine-tuning
- Developing a discharge plan

**MONITORING/ MANAGING**
- e.g., Monitoring and managing the patient’s condition
- Monitoring compliance with therapy
- Monitoring lifestyle modifications

**PATIENT VALUE**
(Health results per unit of cost)

Feedback Loops
The Virtuous Circle in Health Care Delivery

- Deeper Penetration (and Geographic Expansion) in a Medical Condition
- Improving Reputation
- Better Results, Adjusted for Risk
- Faster Innovation
- Spread IT, Measurement, and Process Improvement Costs over More Patients
- Wider Capabilities in the Care Cycle
- Rising Capacity for Sub-Specialization
- Rising Efficiency
- Better Information/ Clinical Data
- More Fully Dedicated Teams
- More Tailored Facilities
- Greater Leverage in Purchasing
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Information Hierarchy

- Patient Attributes
- Methods
- Experience
- Patient Results (Outcomes, costs and prices)
Value-Based Competition: Issues for Providers

• Many providers see themselves in the wrong business

• Provider strategies, organizational structures, and management practices are not well aligned with delivering value for patients

• Providers lack the most important information needed to manage their practices, and are not held accountable
Moving to Value-Based Competition

Providers

1. Redefine the business around **medical conditions**
2. Choose the **range and types of services provided**
3. Organize around **medically integrated practice areas**
4. Create a **distinctive strategy** in each practice area
5. Measure **results, methods, and patient attributes** by practice area
6. Move to **single bills** and new approaches to **pricing**
7. **Market** services based on excellence, uniqueness, and results
8. Grow locally and geographically in **areas of strength**
What Businesses Are We In?

- Chronic Kidney Disease
- End-Stage Renal Disease
- Kidney Transplants
- Hypertension Management
The Care Delivery Value Chain: Primary Activities*

Breast Cancer Care

INFORMING
- Education and reminders about regular exams
- Lifestyle and diet counseling
- Counseling patient and family on the diagnostic process and the diagnosis

MEASURING
- Self exams
- Mammograms
- Mammograms
- Ultrasound
- MRI
- Biopsy
- BRACA 1, 2...

ACCESSING
- Office visits
- Mammography lab visits
- Office visits
- Lab visits
- High-risk clinic visits
- Office visits
- Hospital visits
- Hospital stay
- Visits to outpatient or radiation chemotherapy units
- Office visits
- Rehabilitation facility visits
- Office visits
- Lab visits
- Mammographic labs and imaging center visits

MONITORING/ PREVENTING
- Medical history
- Monitoring for lumps
- Control of risk factors (obesity, high fat diet)
- Routine mammography
- Clinical exams
- Genetic screening
- Office visits
- Lab visits
- High-risk clinic visits
- Office visits
- Hospital visits
- Hospital stay
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DIAGNOSING
- Medical history
- Determining the specific nature of the disease
- Genetic evaluation
- Office visits
- Lab visits
- High-risk clinic visits
- Office visits
- Hospital visits
- Hospital stay
- Visits to outpatient or radiation chemotherapy units
- Office visits
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PREPARING
- Medical counseling
- Choosing a treatment plan
- Surgery prep (anesthetic risk assessment, EKG)
- Patient and family psychological counseling
- Plastic or oncoplastic surgery evaluation
- Office visits
- Lab visits
- High-risk clinic visits
- Office visits
- Hospital visits
- Hospital stay
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INTERVENING
- Surgery (breast preservation or mastectomy, oncoplastic alternative)
- Adjuvant therapies (hormonal medication, radiation, and/or chemotherapy)
- Physical therapy
- Office visits
- Lab visits
- High-risk clinic visits
- Office visits
- Hospital visits
- Hospital stay
- Visits to outpatient or radiation chemotherapy units
- Office visits
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RECOVERING/ REHABING
- In-hospital and outpatient wound healing
- Psychological counseling
- Treatment of side effects (skin damage, neurotoxic, cardiac, nausea, lymphedema and chronic fatigue)
- Physical therapy
- Office visits
- Lab visits
- High-risk clinic visits
- Office visits
- Hospital visits
- Hospital stay
- Visits to outpatient or radiation chemotherapy units
- Office visits
- Rehabilitation facility visits
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MONITORING/ MANAGING
- Periodic mammography
- Other imaging
- Follow-up clinical exams for next 2 years
- Treatment for any continued side effects
- Office visits
- Lab visits
- High-risk clinic visits
- Office visits
- Hospital visits
- Hospital stay
- Visits to outpatient or radiation chemotherapy units
- Office visits
- Rehabilitation facility visits
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*Note that support activities are omitted for simplification. For a discussion of the support activities in the Value Chain see Chapter 5.
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Overcoming Barriers to Value-Based Competition

Providers

External

• Health plan practices
• Medicare pricing
• Regulations
• Supplier mindsets
• Lack of relevant information

Internal

• Assumptions, mindsets, and attitudes
• Governance structures
• Management expertise
• Medical education
• The structure of physician practice
• Lack of relevant information

Providers who have made progress towards value-based competition have often been ones who face fewer barriers and have avoided the dysfunctional aspects of the current system

– e.g. Cleveland clinic (all physicians are salaried), Intermountain, the Veterans Administration Hospitals (integrated with a health plan).
Moving to Value-Based Competition

Suppliers

Offer unique value over the full cycle of care
- Compete through offering unique value in supporting health care delivery
- Focus on cycles of care rather than narrow product usage
- Sell not just products, but provider and patient support

Demonstrate value based on careful study of long term costs and results versus alternative therapies
- Use evidence on long-term clinical outcomes and cost to demonstrate value
- Conduct new types of long-term studies in collaboration with providers and patients

Ensure that the products are used by the right patients
- Increase the success rate instead of maximizing usage
- Target marketing and sales to minimize unnecessary or ineffective therapies

Ensure that drugs/devices are embedded in the right care delivery processes
- Help providers utilize products better and minimize errors

Build marketing campaigns based on value, information, and customer support
- Concentrate marketing efforts on value, not just volume and discounts

Offer support services that contribute to value rather than reinforce cost shifting
- Develop expertise around diseases and across the care cycle to identify opportunities to add value
- Support providers with knowledge of best practices and possible innovations in organization and delivery of care
Transforming the Roles of Health Plans

Old Role

• Restrict patient choice of providers and treatment
• Micromanage provider processes and choices
• Minimize the cost of each service or treatment
• Engage in complex paperwork and administrative transactions with providers and subscribers to control costs and settle bills
• Compete on minimizing premium increases

New Role

• Enable informed patient and physician **choice** and patient **management** of their health
• Measure and reward providers based on **results**
• Maximize the value of care over the **full care cycle**
• **Minimize** the need for administrative transactions and simplify billing
• Compete on subscriber **health results**
Moving to Value-Based Competition

Employers

Set the goal of increasing health value, not minimizing health benefit costs

Set new expectations for health plans, including self-insured plans
  – Select or specify plans that help subscribers obtain and understand results information on specific conditions and ensure that patients are diagnosed and treated by experienced and excellent providers

Provide for health plan continuity for employees, rather than plan churning
  – A long-term relationship between the plan and subscribers aligns everyone’s interests

Enhance provider competition on results
  – Collaborate with other employers in advancing these aims

Support employees in making health choices and managing their health
  – Offer encouragement and support for employees in managing their health
  – Provide independent information and advising services to employees to supplement other sources
  – Offer health plan structures that provide good value and encourage saving for long-term health needs

Find ways to expand insurance coverage and advocate reform of the insurance system
  – Create collaborative vehicles with other employers to offer group insurance coverage to employees or affiliated individuals, not currently part of the employer’s health plan
  – Support insurance reform that levels the playing field among employers

Measure and hold benefits staff accountable for the company’s health value received
  – Health benefits must be a senior management responsibility, not delegated to the benefits staff
Issues in Health Care Reform

Health Insurance and Access

What Care Should Be Covered?

Structure of Health Care Delivery
How Will Redefining Health Care Begin?

• It is already happening!

• Each system participant can take voluntary steps in these directions, and will benefit irrespective of other changes.

• The changes are mutually reinforcing.

• Once competition begins working, value improvement will no longer be discretionary or optional

• Those organizations that move early will gain major benefits.