Redefining Health Care: Creating Value-Based Competition on Results

Professor Michael E. Porter
Harvard Business School

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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**
Root Causes

- Competition in the health care system takes place at the **wrong level** on the **wrong things**

<table>
<thead>
<tr>
<th>Too Broad</th>
<th>Too Narrow</th>
<th>Too Local</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between hospitals, networks, and health plans</td>
<td>Performing discrete services or interventions</td>
<td>Focused on the local community</td>
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Addressing medical conditions over the full cycle of care

- Competition at the right level has been **reduced** or **eliminated**
- Efforts to improve health care delivery have sought to **micromanage providers** and **“lift all boats”**
- Consumer-driven health care alone will **not** work
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.
The Care Delivery Value Chain for a Medical Condition

<table>
<thead>
<tr>
<th>INFORMING</th>
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<tbody>
<tr>
<td>(e.g. Patient education, patient counseling, pre-intervention educational programs, patient compliance counseling)</td>
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<th>MEASURING</th>
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<td>(e.g. Tests, imaging, patient records management)</td>
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<table>
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<td>(e.g. Office visits, lab visits, hospital sites of care, patient transport, visiting nurses, remote consultation)</td>
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**Primary Activities (Patient Care)**

**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

**Feedback Loops**

(PATIENT VALUE) Health results per unit of cost
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.
The Virtuous Circle in Health Care Delivery

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

Rising
Capacity
for
Sub-Specialization
Principles of Positive Sum Competition

- The focus should be on **value for patients**, not just lowering costs.
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- 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.
- **Information** on results and prices needed for value-based competition must be widely available.
The Information Hierarchy

Patient Results
(Outcomes, costs and prices)

Experience

Methods

Patient Attributes
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.
• Information on results and prices needed for value-based competition must be widely available.
• Innovations that increase value must be strongly rewarded.
Moving to Value-Based Competition

Providers

1. Redefine the business around **medical conditions**
What Businesses Are We In?

Nephrology practice

- Chronic Kidney Disease
- End-Stage Renal Disease
- Kidney Transplants
- Hypertension Management
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
## The Care Delivery Value Chain: 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
- Explaining and supporting patient choices of treatment
- Counseling patient and family on treatment and prognosis
- Counseling patient and family on rehabilitation options and process
- Counseling patient and family on long term risk management

### MEASURING
- Self exams
- Mammograms
- Mammograms
- Ultrasound
- MRI
- Biopsy
- BRACA 1, 2...
- Procedure-specific measurements
- Range of movement
- Side effects measurement
- Recurring mammograms (every 6 months for the first 3 years)

### ACCESSING
- Office visits
- Mammography lab visits
- Office visits
- Lab visits
- High-risk clinic visits
- Office visits
- Hospital visits
- Visits to outpatient or radiation chemotherapy units
- 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)
- Clinical exams
- Genetic screening
- Medical history
- Determining the specific nature of the disease
- Genetic evaluation
- Choosing a treatment plan
- Hospital stay
- Outpatient or radiation chemotherapy units
- In-hospital and outpatient wound healing
- Periodic mammography
- Other imaging
- Follow-up clinical exams for next 2 years

### DIAGNOSING
- Medical counseling
- Surgery prep (anesthetic risk assessment, EKG)
- Surgery (breast preservation or mastectomy, oncoplastic alternative)
- Psychological counseling

### PREPARING
- Medical counseling
- Surgery prep (anesthetic risk assessment, EKG)
- Patient and family psychological counseling
- Plastic or oncoplastic surgery evaluation
- Adjuvant therapies (hormonal medication, radiation, and/or chemotherapy)
- Treatment of side effects (skin damage, neurotoxic, cardiac, nausea, lymphodema and chronic fatigue)

### INTERVENING
- Surgery (breast preservation or mastectomy, oncoplastic alternative)
- Adjuvant therapies (hormonal medication, radiation, and/or chemotherapy)
- Treatment of side effects (skin damage, neurotoxic, cardiac, nausea, lymphodema and chronic fatigue)

### RECOVERING/ REHABING
- Surgery (breast preservation or mastectomy, oncoplastic alternative)
- Adjuvant therapies (hormonal medication, radiation, and/or chemotherapy)
- Treatment of side effects (skin damage, neurotoxic, cardiac, nausea, lymphodema and chronic fatigue)

### MONITORING/ MANAGING
- Office visits
- Lab visits
- Mammographic labs and imaging center visits
- Office visits
- Lab visits
- Mammographic labs and imaging center visits
- Office visits
- Lab visits
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- Lab visits
- Mammographic labs and imaging center visits

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**Breast Cancer Specialist**

**Other Provider Entities**
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
The Virtuous Circle in Health Care Delivery

- Deeper Penetration (and Geographic Expansion) in a Medical Condition
- Improving Reputation
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- Rising Efficiency
- Rapidly Accumulating Experience
- More Patients
- Wider Capabilities over the Care Cycle
- Rising Capacity for Sub-Specialization
# Transforming the Roles of Health Plans

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<thead>
<tr>
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<th>New Role</th>
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<tbody>
<tr>
<td>• Restrict patient choice of providers and treatment</td>
<td>• Enable informed patient and physician <strong>choice</strong> and patient <strong>management</strong> of their health</td>
</tr>
<tr>
<td>• Micromanage provider processes and choices</td>
<td>• Measure and reward providers based on <strong>results</strong></td>
</tr>
<tr>
<td>• Minimize the cost of each service or treatment</td>
<td>• Maximize the value of care over the <strong>full care cycle</strong></td>
</tr>
<tr>
<td>• Engage in complex paperwork and administrative transactions with providers and subscribers to control costs and settle bills</td>
<td>• <strong>Minimize</strong> the need for administrative transactions and simplify billing</td>
</tr>
<tr>
<td>• Compete on minimizing premium increases</td>
<td>• Compete on subscriber <strong>health results</strong></td>
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Moving to Value-Based Competition
Health Plans

Provide Health Information and Support to Patients and Physicians
1. Organize around medical conditions, not geography or administrative functions
2. Develop measures and assemble results information on providers and treatments
3. Actively support provider and treatment choice with information and unbiased counseling
4. Organize information and patient support around the full cycle of care
5. Provide comprehensive disease management and prevention services to all members, even healthy ones

Restructure the Health Plan-Provider Relationship
6. Shift the nature of information sharing with providers
7. Reward provider excellence and value-enhancing innovation for patients
8. Move to single bills for episodes and cycles of care, and single prices
9. Simplify, standardize, and eliminate paperwork and transactions

Redefine the Health Plan-Subscriber Relationship
10. Move to multi-year subscriber contracts and shift the nature of plan contracting
11. End cost shifting practices, such as re-underwriting, that erode trust in health plans and breed cynicism
12. Assist in managing members’ medical records
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

• Provide for health plan continuity for employees, rather than plan churning

• Enhance provider competition on results

• Support employees in making health choices and managing their health

• Find ways to expand insurance coverage and advocate reform of the insurance system

• Measure and hold benefits staff accountable for the company’s health value received
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.
What Government Can Do: Policies to Improve Health Insurance, Access, and Coverage

Insurance and Access

- Enable value based competition among health plans, rather than move to a single payer system
- **Ban** re-underwriting where it remains legal
- Assign full legal responsibility for medical bills to health plans – except in cases of fraud or breaches of important plan conditions
- Prohibit balance billing
- **Mandate** universal health coverage
  - Assigned risk pools
- Move to equalize taxation of individual and employer purchased health coverage
- Make HSAs available to all Americans
- **Level the playing field** among employers in terms of the burden of health coverage

Coverage

- Establish a national standard for required coverage
- The Federal Employees Health Benefit Plan (FEHBP) as a starting point
What Government Can Do: Policies to Improve the Structure of Health Care Delivery

Open Up Competition at the Right Level

• Enforce **antitrust** laws
• Eliminate **network restrictions**
• Prohibit **conflicts of interest** such as self referrals or referrals to an affiliated organization without a results justification
• End restrictions on **specialty hospitals**
• Modify the Stark Law to encourage productive **practice area integration**
• Establish **reciprocal state licensing**
• Require periodic renewal of licenses based on **results**
• Revise tax treatment for **medical travel expenses**
• Curtail **anticompetitive** buying group practices

Promote the Right Information

• Establish **common national standards** and **metrics** for reporting on results, processes, experience, and prices at the medical condition level
• **Require mandatory reporting** of results information as a condition to practice
• Designate a quasi-public entity to oversee information **collection and dissemination**
• Encourage **private** efforts to analyze and build upon mandatory data
What Government Can Do: Policies to Improve the Structure of Health Care Delivery (continued)

Require Better Pricing Practices
• Require transparent prices for health care services
• Over time, require bundled prices that aggregate charges for episodes of care
• Limit or eliminate price discrimination based solely on plan or group membership

Reform the Malpractice System
• Allow lawsuits only for truly negligent medical practice

Redesign Medicare Policies and Practices
• Medicare should act like a health plan, not just a payer
• Medicare should set pricing, information, and other practices to enable value-based competition at the condition level
• Medicare should outsource health plan roles it is not equipped to play itself
• Recent promising Medicare experiments need to be improved and rolled-out

Redesign Medicaid Policies and Practices
• Medicaid policy should move from state-federal cost shifting to supporting value-based competition
• Medicaid should provide for the value-adding roles of health plans

Invest in Technology and Innovation
• Continue support for basic life science and medical research
• Create an adoption of innovation fund