Redefining Health Care: Creating Value-Based Competition on Results

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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.
Issues in Health Care Reform

Health Insurance and Access

Standards for Coverage

Structure of Health Care Delivery
The Paradox of Health Care

• 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**

  • Competition is **not** working
  • How is this state of affairs possible?
Zero-Sum Competition in Health Care

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

• None of these forms of competition **increases value for patients**
Root Causes

• Competition in the health care system takes place at the **wrong levels** on the **wrong things**

**Too Broad**
- Between broad line hospitals, networks, and health plans

**Too Narrow**
- Performing discrete services or interventions

**Too Local**
- Focused on serving the local community
Principles of Value-Based Competition

1. The focus should be on **value for patients**, not just lowering costs.

2. There must be **unrestricted competition** based on **results**.

3. Competition should **center on medical conditions** over the **full cycle of care**.
Organ Transplant Care Cycle

Evaluation → Waiting for a Donor → Transplant Surgery → Immediate Convalescence → Long Term Convalescence

- Addressing organ rejection
- Fine-tuning the drug regimen
- Adjustment and monitoring
The Care Delivery Value Chain: Primary Activities
Breast Cancer Care

**KNOWLEDGE MANAGEMENT**
- Education and reminders about regular exams
- Lifestyle and diet counseling

**INFORMING**
- 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
- 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)
- Clinical exams
- Genetic screening
- Medical history
- Determining the specific nature of the disease
- Genetic evaluation
- Choosing a treatment plan
- Medical counseling
- Surgery prep (anesthetic risk assessment, EKG)
- Patient and family psychological counseling
- Plastic or oncoplastic surgery evaluation
- Surgery (breast preservation or mastectomy, oncoplastic alternative)
- Adjuvant therapies (hormonal medication, radiation, and/or chemotherapy)
- In-hospital and outpatient wound healing
- Psychological counseling
- Treatment of side effects (skin damage, neurotoxic, cardiac, nausea, lymphedema and chronic fatigue)
- Physical therapy

**DIAGNOSING**

**PREPARING**

**INTERVENING**

**RECOVERING/ REHABING**

**MONITORING/ MANAGING**
- Periodic mammography
- Other imaging
- Follow-up clinical exams for next 2 years
- Treatment for any continued side effects
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4. High quality care should be **less** costly.

5. Value is driven by **provider experience, scale**, and **learning** at the medical condition level.
The Virtuous Circle in a Medical Condition

Deeper Penetration (and Geographic Expansion) in a Medical Condition

Improving Reputation

Rapidly Accumulating Experience

Better Results, Adjusted for Risk

Rising Efficiency

Faster Innovation

Better Information/ Clinical Data

Spread IT, Measurement, and Process Improvement Costs over More Patients

More Fully Dedicated Teams

Wider Capabilities in the Care Cycle

More Tailored Facilities

Rising Capacity for Sub-Specialization

Greater Leverage in Purchasing

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4. High quality care should be less costly.
5. Value is driven by provider experience, scale, and learning at the medical condition level.
6. Competition should be regional and national, not just local.
7. 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
Boston Spine Group
Clinical and Outcome Information Collected and Analyzed

<table>
<thead>
<tr>
<th>OUTCOMES</th>
<th>METHODS</th>
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<tr>
<td><strong>Patient Outcomes</strong>&lt;br&gt; <em>(before and after treatment, multiple times)</em>&lt;br&gt; Visual Analog Scale (pain)&lt;br&gt; Owestry Disability Index, 10 questions (functional ability)&lt;br&gt; SF-36 Questionnaire, 36 questions (burden of disease)&lt;br&gt; Length of hospital stay&lt;br&gt; Time to return to work or normal activity</td>
<td><strong>Medical Complications</strong>&lt;br&gt; Cardiac&lt;br&gt;  Myocardial infarction&lt;br&gt;  Arrhythmias&lt;br&gt;  Congestive heart failure&lt;br&gt; Vascular deep venous thrombosis&lt;br&gt; Urinary infections&lt;br&gt; Pneumonia&lt;br&gt; Post-operative delirium&lt;br&gt; Drug interactions</td>
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<td><strong>Service Satisfaction</strong>&lt;br&gt; <em>(periodic)</em>&lt;br&gt; Office visit satisfaction metrics (10 questions)</td>
<td><strong>Surgery Complications</strong>&lt;br&gt; Patient returns to the operating room&lt;br&gt; Infection&lt;br&gt; Nerve injury&lt;br&gt; Sentinel events (wrong site surgeries)&lt;br&gt; Hardware failure</td>
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<td><strong>Overall medical satisfaction</strong>&lt;br&gt; <em>(&quot;Would you have surgery again for the same problem?&quot;)</em></td>
<td><strong>Surgery Process Metrics</strong>&lt;br&gt; Operative time&lt;br&gt; Blood loss&lt;br&gt; Devices or products used</td>
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7. **Information** on results and prices needed for value-based competition must be widely available.

8. **Innovations** that increase value must be strongly rewarded.
Moving to Value-Based Competition

Providers

Defining the Right Goals

• Superior patient value

Strategic and Organizational Imperatives

• 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

Defining the Right Goals
• Superior patient value

Strategic and Organizational Imperatives
• Redefine the business around medical conditions
• Choose the range and types of services provided
• Organize around medically integrated practice units
• Create a distinctive strategy in each practice unit
• Measure results, experience, methods, and patient attributes by practice unit
• Move to single bills and new approaches to pricing
• Market services based on excellence, uniqueness, and results
• Grow locally and geographically in areas of strength

Enabling Conditions
• Analyzing the care delivery value chain
• Harnessing the power of Information Technology
• Systematizing knowledge development
Transforming the Roles of Health Plans

**Old Role: culture of denial**
- 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 value-based competition on results**
- 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
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
What Government Can Do: Policies to Improve Health Insurance, Access, and Coverage

Insurance and Access

- Enact mandatory health coverage
- Provide subsidies or vouchers for low-income individuals and families
- Create risk pools for high-risk individuals
- Enable affordable insurance plans
- Eliminate unproductive insurance rules and billing practices
  - Ban re-underwriting
  - Clarify legal responsibility for medical bills
  - Eliminate balance billing

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

• Enable universal results information
  – Establish a process of defining outcome measures
  – Enact mandatory results reporting
  – Establish information collection and dissemination infrastructure

• Improve pricing practices
  – Establish episode and care cycle pricing
  – Set limits on price discrimination

• Open up competition at the right level
  – Reduce artificial barriers to practice area integration
    • Modify Stark laws
    • Phase-out corporate practice of medicine laws
  – Require a value justification for captive referrals or treatment involving an economic interest
  – Eliminate artificial restrictions on new entry
  – Institute results-based license renewal
  – Strictly enforce antitrust policies
  – Curtail anticompetitive buying group practices
  – Eliminate barriers to competition across geography
    • Establish reciprocity in state-level licensing
    • Modify tax treatment of medical travel
What Government Can Do: Policies to Improve the Structure of Health Care Delivery (continued)

- Establish standards and rules that enable information technology and information sharing
  - Develop standards for interoperability of hardware and software
  - Develop standards for medical data
  - Enhance identification and security procedures
  - Provide incentives for IT adoption

- **Reform** the malpractice system

- **Redesign** Medicare policies and practices
  - Make Medicare a **health plan**, not a payer or a regulator

- Modify counterproductive **pricing practices**

- Improve Medicare **Pay-for-Performance**

- **Align** Medicaid with Medicare

- Invest in medical and clinical **research**
Health Care for Low Income Americans

- Mandatory, universal health coverage is essential, with subsidies for those who need – for reasons of **economics** as well as **equity**.

- Two class care works **against** the fundamental dynamic of using quality improvement to reduce costs.

- Competition does **not** mean substandard care for low income Americans.

- Results reporting makes substandard care for any patient reflect poorly on the provider of that care, so **quality and value will improve for all**.
  - Results reporting will **unmask disparities in care**, making them intolerable.

- The **price of a service should not depend on who is paying** (as it does today), but on the care needed and on the provider.
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.