Redefining Health Care: 
Creating Value-Based Competition on Results

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National Association of Chain Drug Stores
Annual Meeting
May 2, 2006

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
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**

<table>
<thead>
<tr>
<th>Too Broad</th>
<th>Too Narrow</th>
<th>Too Local</th>
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<td>• Between broad line hospitals, networks, and health plans</td>
<td>• Performing discrete services or interventions</td>
<td>• Focused on serving the local community</td>
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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
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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
- Rapidly Accumulating Experience
- Rising Efficiency
- Better Information/Clinical Data
- More Fully Dedicated Teams
- More Tailored Facilities
- Greater Leverage in Purchasing
- Rising Capacity for Sub-Specialization
- Wider Capabilities in the Care Cycle
- Faster Innovation
- Spread IT, Measurement, and Process Improvement Costs over More Patients
- Better Results, Adjusted for Risk
- Improving Reputation
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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

OUTCOMES

**Patient Outcomes**
*(before and after treatment, multiple times)*
- Visual Analog Scale (pain)
- Oswestry Disability Index, 10 questions (functional ability)
- SF-36 Questionnaire, 36 questions (burden of disease)
- Length of hospital stay
- Time to return to work or normal activity

**Medical Complications**
- Cardiac
  - Myocardial infarction
  - Arrhythmias
  - Congestive heart failure
- Vascular deep venous thrombosis
- Urinary infections
- Pneumonia
- Post-operative delirium
- Drug interactions

**Surgery Process Metrics**
- Operative time
- Blood loss
- Devices or products used

METHODS

**Service Satisfaction**
*(periodic)*
- Office visit satisfaction metrics (10 questions)

**Overall medical satisfaction**
("Would you have surgery again for the same problem?")

**Surgery Complications**
- Patient returns to the operating room
- Infection
- Nerve injury
- Sentinel events (wrong site surgeries)
- Hardware failure
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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?

- Chronic Kidney Disease
- End-Stage Renal Disease
- Kidney Transplants
- Hypertension Management

Nephrology practice
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

 Suppliers

• Compete on delivering **unique value** over the **full care cycle**

• **Demonstrate value** based on careful study of long term costs and results versus alternative therapies

• Ensure that the products are **used by the right patients**

• Ensure that drugs/devices are embedded in the **right care delivery processes**

• Market based on **value, information, and customer support**

• Offer support services that **contribute to value** rather than reinforce cost shifting
Moving to Value-Based Competition

Consumers

• Participate actively in managing personal health

• Expect relevant information and seek advice

• Make treatment and provider choices based on excellent results and personal values, not convenience or amenities

• Choose a health plan based on value added

• Build a long-term relationship with an excellent health plan

• Act responsibly
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 and motivate employees to make good health care choices and manage their own health

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

• Measure and hold employee benefit staff accountable for the company’s health value received
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.