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 U.S. 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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<tr>
<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

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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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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
- Better Results, Adjusted for Risk
- Deeper Penetration (and Geographic Expansion) in a Medical Condition
- Faster Innovation
- Rapidly Accumulating Experience
- Better Information/Clinical Data
- Rising Efficiency
- More Fully Dedicated Teams
- Wider Capabilities in the Care Cycle
- More Tailored Facilities
- Greater Leverage in Purchasing
- Rising Capacity for Sub-Specialization
- Rising Capacity for Sub-Specialization
- Spread IT, Measurement, and Process Improvement Costs over More Patients
- Wider Capabilities in the Care Cycle
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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
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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
• Choose the range and types of services provided
What Businesses Are We In?

Nephrology practice

- Hypertension Management
- Chronic Kidney Disease
- End-Stage Renal Disease
- Kidney Transplants
Moving to Value-Based Competition

Providers

Defining the Right Goals

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• 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
Boston Spine Group
Clinical and Outcome Information Collected and Analyzed

**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

**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
Moving to Value-Based Competition

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• 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
The Care Delivery Value Chain
Breast Cancer Care

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

INFORMING
- Self exams
- Mammograms
- Office visits
- Mammography lab visits

MEASURING
- Mammograms
- Ultrasound
- MRI
- Biopsy
- BRAC1, 2...
- Office visits
- Lab visits
- High-risk clinic visits

ACCESSING
- Medical history
- Monitoring for lumps
- Control of risk factors (obesity, high fat diet)
- Clinical exams
- Genetic screening

DIAGNOSING
- Medical history
- Determining the specific nature of the disease
- Genetic evaluation
- Choosing a treatment plan

PREPARING
- Medical counseling
- Surgery prep
  (anesthetic risk assessment, EKG)
- Patient and family psychological counseling
- Plastic or oncoplastic surgery evaluation

INTERVENING
- Surgery (breast preservation or mastectomy, oncoplastic alternative)
- Adjuvant therapies
  (hormonal medication, radiation, and/or chemotherapy)

RECOVERING/REHABING
- In-hospital and outpatient wound healing
- Psychological counseling
- Treatment of side effects (skin damage, neurotoxic, cardiac, nausea, lymphodema and chronic fatigue)
- Physical therapy

MONITORING/MANAGING
- Periodic mammography
- Other imaging
- Follow-up clinical exams for next 2 years
- Treatment for any continued side effects

PROVIDER MARGIN

Breast Cancer Specialist
Other Provider Entities
Moving to Value-Based Competition

Health Plans

“Payor”

Value-Added Health Organization
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
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*
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
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
  – 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**

• Develop **information technology standards** and rules to enable interoperability and information sharing

• 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.