Value-Based Competition in Health Care

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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". 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 U.S. Health Care

The United States has a private system with intense competition

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**

- Competition is **not** working
- How is this state of affairs possible?
Competition on the Wrong Things
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**
Competition at the Wrong Levels

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

• Market definition is misaligned with patient value
Principles of Value-Based Competition

1. The focus should be on value for patients, not just lowering costs.
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**.
   - Results vs. supply control
   - Results vs. process compliance
   - Reward results vs. “lift all boats”
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*. 
What Businesses Are We In?

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

Nephrology practice
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
Chronic Kidney Disease

INFORMING
- Lifestyle counseling
  - Diet counseling
- Explanation of the diagnosis and implications
- Procedure-specific preparation (e.g. diet, medication)

MEASURING
- Serum creatinine
  - Glomerular filtration rate (GFR)
  - Proteinuria
- Special urine tests
  - Renal ultrasound
  - Serological testing
  - Renal artery angioplasty
  - Kidney biopsy
  - Nuclear medicine scans
- Procedure-specific pre-testing
  - Procedure-specific measurements

ACCESSING
- Office visits
  - Lab visits
- Various
  - Office visits
  - Hospital visits
  - Office/lab visits
  - Telephone/Internet interaction

MONITORING/ PREVENTING
- Monitoring renal function (at least annually)
- Monitoring and addressing risk factors (e.g. blood pressure)
- Early nephrologist referral for abnormal kidney function
- Medical and family history
- Directed advanced testing
- Consultation with other specialists
- Data integration
- Formal diagnosis

DIAGNOSING
- Formulate a treatment plan
  - Pharmaceutical
    - Kidney function (ACE Inhibitors, ARBs)
  - Procedures
    - Renal artery angioplasty
    - Urological (if needed)
    - Endocrinological (if needed)
  - Vascular access graft at stage 4

PREPARING

INTERVENING
- Fine-tuning drug regimen
- Determining supporting nutritional modifications

RECOVERING/ REHABING

MONITORING/ MANAGING
- Managing renal function
- Managing kidney side effects of other treatments (e.g. cardiac catheterization)
- Managing the effects of associated diseases (e.g. diabetes, hypertension, uremia)
- Referral for renal replacement therapy (RRT)

Feedback Loops

- Nephrology Practice
- Other Provider Entities
The Care Delivery Value Chain
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

**Measuring**
- Procedure-specific measurements
- Range of movement
- Side effects measurement

**Accessing**
- Self exams
- Mammograms
- Office visits
- Laboratory visits
- Hospital visits

**Monitoring/Preventing**
- Office visits
- Lab visits
- High-risk clinic visits
- Hospital stay
- Visits to outpatient or radiation chemotherapy units

**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, lymphedema and chronic fatigue)
- Physical therapy

**Monitoring/Managing**
- Regular mammography
- Other imaging
- Follow-up clinical exams for next 2 years
- Treatment for any continued side effects

**Additional Activities**
- Counseling patient and family on long-term risk management
- Recurring mammograms (every 6 months for the first 3 years)
- Counseling on rehabilitation options and process
- Counseling on long-term risk management
- Education and reminders about regular exams
- Lifestyle and diet counseling
- Counseling on treatment and prognosis
- Counseling on rehabilitation options and process
- Counseling on long-term risk management

**Recurrent Events**
- Recurring mammograms (every 6 months for the first 3 years)
- Periodic mammography
- Other imaging
- Follow-up clinical exams for next 2 years
- Treatment for any continued side effects

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

**Adjuvant Therapies**
- Hormonal medication
- Radiation
- Chemotherapy

**Physical Therapy**
- Wound healing
- Psychological counseling
- Treatment of side effects (skin damage, neurotoxic, cardiac, nausea, lymphedema and chronic fatigue)

**Other Provider Entities**
- Medical counseling
- Surgery prep (anesthetic risk assessment, EKG)
- Psychological counseling
- Plastic or oncoplastic surgery evaluation

**Vendor Services**
- Mammographic labs and imaging center visits
- High-risk clinic visits
- Mammography
- Ultrasound
- MRI
- Biopsy
- BRACA 1, 2

**Surgical Options**
- Breast preservation or mastectomy, oncoplastic alternative
- Breast reduction surgery
- Breast reconstruction surgery

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

**Adjuvant Therapies**
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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**.

4. High quality care should be **less** costly.
   - Right diagnosis
   - Right treatment to the right patients
   - Fewer mistakes and repeats in treatment
   - Faster recovery
   - Less invasive treatment methods
   - Less disability
   - Less long term care
   - Prevention
   - Treatment earlier in causal chain
   - Slower disease progression
   - Better health is inherently less expensive than worse health
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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
- Faster Innovation
- Spread IT, Measurement, and Process Improvement Costs over More Patients
- Wider Capabilities in the Care Cycle
- Rising Capacity for Sub-Specialization
- Rapidly Accumulating Experience
- Rising Efficiency
- Better Information/Clinical Data
- More Fully Dedicated Teams
- More Tailored Facilities
- Greater Leverage in Purchasing

• Feed virtuous circles vs. institutionalize fragmentation
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3. Competition should center on medical conditions over the full cycle of care.
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.
   - Virtuous circles extend across geography
   - Management integration across geography
   - Partnerships and inter-organizational integration
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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
(For internal improvement)

Patient Attributes
(For risk adjustment and clinical insight)
Boston Spine Group
Clinical and Outcome Information Collected and Analyzed

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**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

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

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

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**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

**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**
• 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**
Analyzing the Care Delivery Value Chain

1. Is the **set and sequence** of activities in the CDVC aligned with value?
2. Is the appropriate **mix of skills** brought to bear on each activity and across activities, and do individuals work as a **team**?
3. Is there **appropriate coordination** across the discrete activities in the care cycle, and are handoffs seamless?
4. Is care structured to **harness linkages** across different parts of the care cycle?
5. Is the **right information** collected, integrated, and utilized across the care cycle?
6. Are the activities in the CDVC performed in **appropriate facilities and locations**?
7. What provider departments, units and groups are involved in the care cycle? Is the provider’s **organizational structure** aligned with value?
8. What are the **independent entities** involved in the care cycle, and what are the relationships among them? Should a provider’s **scope of services** in the care cycle be expanded or contracted?
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

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

- Consumers cannot (and should not) be the only drivers
Roles of Government in Value-Based Competition

• Require the collection and dissemination of the risk-adjusted outcome information

• Open up value-based competition at the right level

• Enable bundled prices and price transparency

• Limit or eliminate price discrimination

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

• Invest in medical and clinical research
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.