Value-Based Competition in Health Care

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Orlando, Florida
December 12, 2006

This presentation draws on Michael E. Porter and Elizabeth Olmsted Teisberg: Redefining Health Care: Creating Value-Based Competition on Results, Harvard Business School Press, May 2006. Earlier publications about health care include the Harvard Business Review article "Redefining Competition in 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 U.S. Health Care

The United States has a **private system** with **intense competition**

But

• Costs are **high and rising**
• Services are **restricted** and often 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 goal should be value for patients, not just lowering costs.
Principles of Value-Based Competition

1. The goal should be **value for patients**, not just lowering costs.
2. There must be **unrestricted competition** based on **results**.
   - Results vs. supply control or process compliance
   - Get patients to excellent providers vs. “lift all boats”
Principles of Value-Based Competition

1. The goal should be 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 is a Medical Condition?

• A medical condition is an interrelated set of patient medical circumstances best addressed in an integrated way
  – From the patient’s perspective
• Includes most common co-occurrences
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
Breast Cancer Care
Care Delivery Value Chain

**INFORMING**
- Procedure-specific measurements
- Range of movement
- Recurring mammograms (every 6 months for the first 3 years)

**MEASURING**
- Self exams
- Mammograms
  - Mammograms
  - Ultrasound
  - MRI
  - Biopsy
  - BRACA 1, 2...
- Office visits
- Lab visits
- High-risk clinic visits
- Hospital visits
- Office stay
- Visits to outpatient or radiation chemotherapy units
- Office visits
- Rehabilitation facility visits

**ACCESSING**
- 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

**MONITORING/PREVENTING**
- Medical history
- Monitoring for lumps
- Control of risk factors (obesity, high fat diet)
- Clinical exams
- Genetic screening
- Office visits
- Mammography lab visits
- Office visits
- Lab visits
- High-risk clinic visits
- Office visits
- Hospital visits
- Hospital stay
- Office visits
- Lab visits
- Mammographic labs and imaging center visits
- Recurring mammograms (every 6 months for the first 3 years)

**DIAGNOSING**
- 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 oncologic surgery evaluation
- Surgery (breast preservation or mastectomy, oncologic 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

**PREPARING**
- Medical counseling
- Surgery prep (anesthetic risk assessment, EKG)
- Patient and family psychological counseling
- Plastic or oncologic surgery evaluation
- Surgery (breast preservation or mastectomy, oncologic 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

**INTERVENING**
- Medical counseling
- Surgery prep (anesthetic risk assessment, EKG)
- Patient and family psychological counseling
- Plastic or oncologic surgery evaluation
- Surgery (breast preservation or mastectomy, oncologic 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

**RECOVERING/REHABING**
- Medical counseling
- Surgery prep (anesthetic risk assessment, EKG)
- Patient and family psychological counseling
- Plastic or oncologic surgery evaluation
- Surgery (breast preservation or mastectomy, oncologic 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

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

**PROVIDER MARGIN**
- Knowledge management

**KNOWLEDGE MANAGEMENT**
- Breast Cancer Specialist
- Other Provider Entities
What is a Medical Condition?

• A medical condition is **an interrelated set of patient medical circumstances best addressed in an integrated way**
  – Patient’s perspective
• **Includes** most common co-occurrences
• Served through **Integrated Practice Units (IPUs)**

![Diagram showing Medical Conditions and Specialties]

- Providers can and should define the boundaries of a given medical condition **differently** based on patient populations
- Most providers will serve **multiple medical conditions** through **multiple IPUs**
Levels of Medical Integration
Within Medical Condition versus Across Medical Condition

Integrated Practice Unit
Medical Condition A

Integrated Practice Unit
Medical Condition B

Integrated Practice Unit
Medical Condition C

Integrated Practice Unit
Medical Condition D
Principles of Value-Based Competition

1. The goal should be **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.
   - Prevention - Fewer mistakes and repeats in treatment
   - Early detection - Fewer delays in care delivery
   - Right diagnosis - Less invasive treatment methods
   - Early treatment - Faster recovery
   - Right treatment to the right patients - Less disability
   - Treatment earlier in the causal chain - Slower disease progression
   - Less need for long term care

• Better health is **inherently less expensive** than worse health
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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

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

• Feed virtuous circles vs. fragmentation of care
Principles of Value-Based Competition

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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 of care cycles across geography
   - Partnerships and inter-organizational integration
Principles of Value-Based Competition

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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.
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, costs, 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

<table>
<thead>
<tr>
<th>OUTCOMES</th>
<th>METHODS</th>
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<tbody>
<tr>
<td><strong>Patient Outcomes</strong></td>
<td><strong>Medical Complications</strong></td>
</tr>
<tr>
<td><em>(before and after treatment, multiple times)</em></td>
<td>Cardiac</td>
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<tr>
<td></td>
<td>Myocardial infarction</td>
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<tr>
<td></td>
<td>Arrhythmias</td>
</tr>
<tr>
<td></td>
<td>Congestive heart failure</td>
</tr>
<tr>
<td>Visual Analog Scale (pain)</td>
<td>Vascular deep venous thrombosis</td>
</tr>
<tr>
<td>Owestry Disability Index, 10 questions (functional ability)</td>
<td>Urinary infections</td>
</tr>
<tr>
<td>SF-36 Questionnaire, 36 questions (burden of disease)</td>
<td>Pneumonia</td>
</tr>
<tr>
<td>Length of hospital stay</td>
<td>Post-operative delirium</td>
</tr>
<tr>
<td>Time to return to work or normal activity</td>
<td>Drug interactions</td>
</tr>
</tbody>
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**Service Satisfaction** *(periodic)*
Office visit satisfaction metrics (10 questions)

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

**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
Measuring Value

The Outcome Measures Hierarchy

- Survival
- Degree of recovery / health
- Time to recovery / health
- Disutility of care process or treatment (e.g., discomfort, side effects, diagnostic errors, treatment errors)
- Sustainability of recovery / health over time
- Long-term consequences of therapy / care (e.g., care-induced illnesses)
Principles of Value-Based Competition

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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.

7. **Information** on results and prices needed for value-based competition must be widely available.

8. **Innovations** that increase value must be strongly rewarded.
   - Measure value
   - Care cycle reimbursement
## Is Competition Desirable in Health Care?

### Good Competition
- Measuring and disseminating outcomes in medical conditions
- Competing to gain market share in medical conditions based on outcomes and costs
- Integrating services over the care cycle
- Shifting care to outpatient facilities to improve patient value
- Organizing all care in a hospital system into an integrated organization for each medical condition
- Expanding excellent IPUs across geography

### Bad Competition
- Exercising power to shift costs to patients or other actors
- Restricting patients’ choice of providers
- Ownership of physician practices to capture referrals
- Shifting care to outpatient facilities to capture more revenue
- Hospital mergers with no reallocation and integration of services

- The essential question is whether competition is **aligned** with patient value
Moving to Value-Based Competition

Providers

Defining the Right Goals
• Superior patient value

Strategic and Organizational Imperatives
• Redefine the practice 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 across geography in areas of strength

• Employ partnerships and alliances to achieve these aims
What Businesses Are We In?

Nephrology practice

- Hypertension Management
- Chronic Kidney Disease
- End-Stage Renal Disease
- Kidney Transplants
Configuring a Regional Integrated Practice Unit for a Medical Condition

Key Choices

- Subspecialization of facilities / locations
- Extent of ownership of the care cycle vs. partnering
- Decentralization of imaging / testing
Levels of Medical Integration
Within Medical Condition versus Across Medical Condition
Moving to Value-Based Competition

Health Plans

“Payor”

Value-Added Health Organization
Moving to Value-Based Competition
Roles of 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

• Medicare can be a driver
Malpractice Reform
How Outcome Measures Can Help

• The current malpractice system is dysfunctional and expensive
  – High direct and higher indirect costs
• Ineffective means of ensuring quality
• Outcome information will allow knowledge of actual risks
How Value-Based Care Delivery Will Change Medicine

- Physicians will become part of care cycles, and choose better partners
- Patient engagement will rise
- Physicians and hospitals will make better service line choices
- Health plans and government payors will become more supportive
- Reimbursement will be transformed
- Malpractice suits will be less common
The Critics

• Practicality
  – “Utopian vision”
  – These ideas “might occur to anyone possessed of a modicum of common sense but not too familiar with the real world of health care.”
    - Uwe Reinhardt

• Medical Conditions / Provider Strategy
  – “Patients have a nasty habit of having more than one thing wrong with them.”
    - Gail Wilensky
  – “If each provider focuses on only one medical condition, they will not be able to treat the patient’s real problem…”
    - Various commentators

• Integrated Health Systems
  – “Integrated delivery systems can organize and arrange comprehensive health services for members.”
    - Alain Enthoven
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

• Providers can and should take the lead