Value-Based Competition in Health Care:
Implications for Employers

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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, and “How Physicians Can Change the Future of Health Care,” Journal of the American Medical Association, 2007; 297:1103:1111. 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. Further information about these ideas, as well as case studies, can be found on the website of the Institute for Strategy & Competitiveness at http://www.isc.hbs.edu.
Proposals for Reform

- Single Payer System
- Consumer-Driven Health Care
- Pay for Performance
- Electronic Medical Records
- Integrated Payer-Provider Systems
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
- Many patients receive therapies that **fail**
- 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?
Redefining Health Care

- Universal insurance is not enough
- The core issue in health care is the value of health care delivered

> Value: Patient outcomes per dollar spent

- How to design a health care system that dramatically improves value
- How to create a dynamic system that keeps rapidly improving
Creating a Value-Based Health Care System

• Significant improvement in value will require **fundamental restructuring of health care delivery**, not incremental improvements

Today, 21\textsuperscript{st} century medical technology is delivered with 19\textsuperscript{th} century organization structures, management practices, and pricing models

- TQM, process improvements, and safety initiatives are beneficial but **not sufficient**

Creating a Value-Based Health Care System

• Competition is a powerful force to encourage restructuring of care and continuous improvement in value

• Today’s competition in health care is not aligned with value

Financial success of system participants \(\neq\) Patient success

• Creating competition on value is the central challenge in health care reform
Zero-Sum Competition in U.S. Health Care

**Bad Competition**
- Competition to *shift costs* or capture a bigger share of revenue
- Competition to *increase bargaining power*
- Competition to *capture patients* and restrict choice
- Competition to *restrict services* in order to maximize revenue per visit or reduce costs

**Good Competition**
- Competition to *increase value for patients*

Zero or Negative Sum  Positive Sum
Principles of Value-Based Competition

1. The goal should be **value for patients**, not **lowering costs**
   - This will require going **beyond waste reduction** and **administrative savings**
Principles of Value-Based Competition

1. The goal should be **value for patients**, not **lowering costs**
2. The best way to **contain costs** is to drive **improvement in quality**

Quality = Health outcomes

- Prevention
- Early detection
- Right diagnosis
- Early treatment
- Right treatment to the right patients
- Treatment earlier in the causal chain of disease
- Fewer mistakes and repeats in treatment

- Fewer delays in the care delivery process
- Less invasive treatment methods
- Faster recovery
- More complete recovery
- Less disability
- Fewer relapses or acute episodes
- Slower disease progression
- Less need for long term care

• Better health is **inherently less expensive** than poor health
Principles of Value-Based Competition

1. The goal should be *value for patients*, not *lowering costs*
2. The best way to contain costs is to drive improvement in *quality*
3. There must be *unrestricted competition* based on *results*

| Value: Patient health outcomes | Total cost of achieving those outcomes |

- Competition on results vs. supply control
- Reward results vs. process compliance
- Get patients to excellent providers vs. “lift all boats” or “pay for performance”
- Expand the proportion of patients cared for by the most effective teams
- Grow the excellent teams by reallocating capacity and expanding across locations
Principles of Value-Based Competition

1. The goal should be value for patients, not lowering costs
2. The best way to contain costs is to drive improvement in quality
3. There must be unrestricted competition based on results
4. Competition should center on medical conditions over the full cycle of care
Restructuring Health Care Delivery
Migraine Care in Germany

Old Model: Organize by Specialty and Discrete Services

- Imaging Centers
- Outpatient Physical Therapists
- Inpatient Treatment and Detox Units
- Outpatient Neurologists
- Primary Care Physicians
- Outpatient Psychologists

New Model: Organize into Integrated Practice Units (IPUs)

- Imaging Unit
- West German Headache Center
  - Neurologists
  - Psychologists
  - Physical Therapists
  - Day Hospital
- Network Neurologists
- Essen Univ. Hospital Inpatient Unit

Source: KKH, Westdeutsches Kopfschmerzzentrum

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What is a Medical Condition?

• A medical condition is **an interrelated set of patient medical circumstances best addressed in an integrated way**
  – Defined from the patient’s perspective
  – Involves multiple specialties and services

• **Includes** the most common co-occurring conditions

• **Examples**
  – Diabetes (including vascular disease, hypertension, others)
  – Breast Cancer
  – Stroke
  – Migraine
  – Asthma
  – Congestive Heart Failure

• The medical condition is the **unit of value creation** in health care delivery
### The Cycle of Care

#### Care Delivery Value Chain for Breast Cancer

<table>
<thead>
<tr>
<th>Stages</th>
<th>Activities</th>
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<tbody>
<tr>
<td><strong>INFORMING &amp; ENGAGING</strong></td>
<td>• Advice on self screening&lt;br&gt;• Consultation on risk factors</td>
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<tr>
<td></td>
<td>• Counseling patient and family on the diagnostic process and the diagnosis</td>
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<tr>
<td><strong>MEASURING</strong></td>
<td>• Self exams&lt;br&gt;• Mammograms&lt;br&gt;• Mammograms</td>
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<tr>
<td></td>
<td>• Mammograms&lt;br&gt;• Ultrasound&lt;br&gt;• MRI&lt;br&gt;• Biopsy&lt;br&gt;• BRACA 1, 2...</td>
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<tr>
<td><strong>ACCESSING</strong></td>
<td>• Office visits&lt;br&gt;• Mammography lab visits&lt;br&gt;• Office visits&lt;br&gt;• Office visits</td>
</tr>
<tr>
<td></td>
<td>• Lab visits&lt;br&gt;• Hospital stay&lt;br&gt;• Hospital stay&lt;br&gt;• Hospital stay</td>
</tr>
<tr>
<td><strong>MONITORING/ PREVENTING</strong></td>
<td>• Office visits&lt;br&gt;• Lab visits&lt;br&gt;• High-risk clinic visits&lt;br&gt;• Office visits</td>
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<tr>
<td><strong>DIAGNOSING</strong></td>
<td>• Medical history&lt;br&gt;• Control of risk factors (obesity, high fat diet)&lt;br&gt;• Genetic screening&lt;br&gt;• Clinical exams&lt;br&gt;• Monitoring for lumps</td>
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<td>• Medical history&lt;br&gt;• Determining the specific nature of the disease&lt;br&gt;• Genetic evaluation&lt;br&gt;• Choosing a treatment plan</td>
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<tr>
<td><strong>PREPARING</strong></td>
<td>• Medical counseling&lt;br&gt;• Surgery prep (anesthetic risk assessment, EKG)&lt;br&gt;• Patient and family psychological counseling&lt;br&gt;• Plastic or oncoplastic surgery evaluation</td>
</tr>
<tr>
<td><strong>INTERVENING</strong></td>
<td>• Surgery (breast preservation or mastectomy, oncoplastic alternative)&lt;br&gt;• Adjuvant therapies (hormonal medication, radiation, and/or chemotherapy)&lt;br&gt;• Patient and family psychological counseling&lt;br&gt;• Plastic or oncoplastic surgery evaluation</td>
</tr>
<tr>
<td><strong>RECOVERING/ REHABING</strong></td>
<td>• In-hospital and outpatient wound healing&lt;br&gt;• Psychological counseling&lt;br&gt;• Treatment of side effects (skin damage, neurotoxic, cardiac, nausea, lymphodema and chronic fatigue)&lt;br&gt;• Physical therapy</td>
</tr>
<tr>
<td><strong>MONITORING/ MANAGING</strong></td>
<td>• Periodic mammography&lt;br&gt;• Other imaging&lt;br&gt;• Follow-up clinical exams&lt;br&gt;• Treatment for any continued side effects</td>
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*Primary care providers* are often the beginning and end of care cycles.
Principles of Value-Based Competition

1. The goal should be value for patients, not lowering costs
2. The best way to contain costs is to drive improvement in quality
3. There must be unrestricted competition based on results
4. Competition should center on medical conditions over the full cycle of care
5. Value is driven by provider experience, scale, and learning at the medical condition level
The Virtuous Circle in a Medical Condition

- The virtuous cycle extends **across geography**
- Fragmentation of provider services **works against** patient value
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6. Competition should be regional and national, not just local
   - Manage integrated care across geography
   - Utilize partnerships to achieve inter-organizational integration among separate institutions
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6. Competition should be regional and national, not just local
7. Results must be universally measured and reported

Value: Patient health outcomes over the care cycle
Total cost of achieving those outcomes
Measuring Outcomes
The Outcome Measures Hierarchy

- Survival
- Degree of recovery / health
- Time to recovery or return to normal activities
- Disutility of care or treatment process (e.g., treatment-related discomfort, complications, or adverse effects, diagnostic errors, treatment errors)
- Sustainability of recovery or health over time
- Long-term consequences of therapy (e.g., care-induced illnesses)
Measuring Results

Principles

• Measure outcomes versus processes of care

• Outcome measurement should take place:
  – At the medical condition level
  – Over the cycle of care

• There are multiple outcomes for every medical condition

• Outcomes must be adjusted for risk/patient initial circumstances

• Outcomes are as important for physicians as for consumers and health plans

• The feasibility of universal outcome measurement at the medical condition level has been conclusively demonstrated

• Providers and health plans must measure outcomes (and costs) for every patient
Measuring Breast Cancer Outcomes

- **Survival**
  - Survival rate
    - (One year, three year, five year, longer)

- **Degree of recovery / health**
  - Remission
  - Functional status
  - Breast conservation surgery outcome

- **Time to recovery or return to normal activities**
  - Time to remission
  - Time to achieve functional status
  - Nosocomial infection
    - Nausea
    - Vomiting
    - Febrile neutropenia
    - Limitation of motion
    - Depression

- **Sustainability of recovery or health over time**
  - Cancer recurrence
    - Incidence of secondary cancers
    - Sustainability of functional status
    - Brachial plexopathy
    - Premature osteoporosis

- **Disutility of care or treatment process**
  - (e.g., treatment-related discomfort, complications, adverse effects, diagnostic errors, treatment errors)
  - Incidence of secondary cancers
Principles of Value-Based Competition

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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. **Results** must be universally measured and reported
8. Reimbursement should be aligned with **value** and reward **innovation**
   - Reimbursement for **care cycles**, not discrete treatments or services
   - Reimbursement for **prevention and screening**, not just treatment
   - Reimbursement for **overall management of chronic conditions**
   - Most DRG systems are **too narrow**
Principles of Value-Based Competition

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8. Reimbursement should be aligned with **value** and reward **innovation**
9. **Information technology** is an **enabler** of restructuring care delivery and measuring results, **not a solution itself**
   - Common data definitions
   - Interoperability standards
   - Patient-centered database
   - New financing models
Moving to Value-Based Competition
Implications for Providers

• Organize around integrated practice units (IPUs) for each medical condition

• Choose the appropriate scope of services in each facility based on excellence in patient value

• Integrate services for each medical condition across geographic locations

• Employ formal partnerships and alliances with other entities involved in the care cycle to integrate care and improve capabilities

• Measure results by medical condition

• Expand high-performance IPUs across geography using an integrated model
  – Instead of merging broad line, stand-alone facilities

• Lead the development of new contracting models with health plans based on care cycle delivery structures and bundled reimbursement
Creating a High-Value Health Care System: Roles and Responsibilities

Consumers

- Participate actively in managing personal health
- Expect relevant information and seek advice
- Make treatment and provider choices based on outcomes, not convenience, waiting time, or amenities
- Comply with care
- Develop a long-term relationship with a health plan

- But “consumer-driven health care” is the wrong metaphor for reforming the system
Moving to Value-Based Competition

Health Plans

“Payor” → Value-Added Health Organization
Moving to Value-Based Competition

Value-Adding Roles of Health Plans

• Measure and report **health results** by medical condition for members

• Monitor and compare **provider results** by medical condition

• Provide advice to patients (and referring physicians) in selecting **excellent providers**

• Ensure coordinated care for members across the **full care cycle** for their **medical conditions**

• Provide for comprehensive **prevention, screening** and **chronic disease management** for all members

• Design new reimbursement models **for care cycles**

• Assemble and manage the **total medical records** of members
### Transforming the Roles of Employers

<table>
<thead>
<tr>
<th>Old Role</th>
<th>New Role</th>
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<tbody>
<tr>
<td>• Set the goal of reducing health premium costs</td>
<td>• Set the goal of employee health</td>
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<tr>
<td>• Focus on direct cost of health benefits</td>
<td>• Focus on the overall cost of poor health (e.g., productivity, lost days)</td>
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<tr>
<td>• Use bargaining power to negotiate discounts from health plans and providers</td>
<td>• Work with health plans and providers to improve overall value delivered</td>
</tr>
<tr>
<td>• Shift costs to employees via premium payments, co-payments</td>
<td>• Improve access to high-value care (e.g., wellness, prevention, screening, and disease management)</td>
</tr>
<tr>
<td>• Evaluate plans and providers based on process compliance (P4P)</td>
<td>• Evaluate plans and providers based on health outcomes</td>
</tr>
<tr>
<td>• Limit or eliminate the employer role in health insurance</td>
<td>• Take a leadership role in expanding the insurance system to encompass individually purchased plans on favorable terms</td>
</tr>
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</table>
Creating a High-Value Health Care System: Roles and Responsibilities

**Employers**

- Set the goal of **employee health**, not minimizing costs
  - Two-thirds of employer health care cost is estimated to be due to the indirect costs of poor health

- Unify employee health benefits and workers’ compensation into a **single integrated agenda**

- Assist employees in **healthy living** and encourage **active participation in their health care**
  - E.g., low or zero co-payments for chronic disease drugs and supplies
  - Health premium credits for participation in wellness programs and healthy behaviors
  - Healthy food choices in cafeterias
  - On-site or subsidized membership in exercise facilities
  - Smoke-free work environment along with free smoking cessation programs
  - Cultural change, not just programmatic change
Creating a High-Value Health Care System: Roles and Responsibilities
Employers, cont’d.

• Provide for convenient access to prevention, screening, primary care, and disease management services
  – On-site health clinics
  – Partnerships with local care delivery organizations

• Provide for health plan continuity for employees, rather than plan churning

• Select plans based on health excellence in their geographic areas, not administrative simplicity or national coverage
Creating a High-Value Health Care System: Roles and Responsibilities

Employers, cont’d.

• Set **new expectations for health plans** by aligning plan design and execution with value-based principles
  – **Measure health outcomes** of members
  – Assist members in identifying and **accessing excellent providers** for their medical conditions
  – Make **prevention, screening, and disease management** integral to health benefits
  – Contract for **integrated care cycles** for medical conditions rather than discrete services
  – Expect reimbursement models that **reward providers for improving value**
  – Eliminate **billing of employees** except for co-pays and deductibles

• Engage **directly with providers** to reinforce a focus on value and drive innovation
  – Encourage **integrated care delivery models and outcomes measurement**
Rewarding High-Value Care
Value-Based Pricing

• Starbucks identified back pain as a high-cost medical condition for the firm

• Virginia Mason Medical Center (Seattle) worked with Aetna, Starbucks, and other local employers to streamline its spine clinic’s care cycle for back pain, eliminating delays and unnecessary steps
  – Wait times fell, the percentage of patients receiving MRIs dropped, and lost time from work decreased
  – Spine clinic capacity increased by five times with fewer staff

• Starbucks’ benefits manager encouraged Aetna to increase the spine clinic’s physical therapy reimbursement by 16%
  – Under the fee-for-service reimbursement model, improved value meant that the clinic’s income fell from an average $100/case profit to a $200/case loss
  – Higher reimbursement for physical therapy was necessary to reward Virginia Mason for higher value in the overall care cycle
  – The spine clinic broke even, with a likely return to profitability as patient volume rose

Creating a High-Value Health Care System: Roles and Responsibilities

Employers, cont’d.

- Find ways to *expand insurance coverage* and advocate *reform of the insurance system*
  - *Tax neutrality* and *state risk pools* to enable individually-purchased health insurance
  - Make health insurance *mandatory* for all citizens
  - Increasing the proportion of insured lowers the costs for all
  - Leveling the playing field across employers enhances competitiveness

- Measure and hold internal employee benefit staff accountable for the company’s *health value received*
Moving to Value-Based Competition

Government

• Measure and report health results

• Create IT standard data definitions and interoperability standards to enable the collection and exchange of medical information for every patient

• Reform laws and regulations to enable the restructuring of health care delivery around the integrated care of medical conditions

• Shift reimbursement to bundled prices for cycles of care instead of payments for discrete treatments or services

• Eliminate cross-subsidies in Medicare reimbursement rates that fragment care delivery

• End provider price discrimination across patients based on group membership

• Open up competition among providers and across geography
Moving to Value-Based Competition

Government, cont’d.

• Require health plans to measure and report **health outcomes** for members

• Encourage the **responsibility of individuals** for their health and their health care

• Enable **universal insurance** consistent with value-based principles
  — Create **neutrality** between employer-provided and individually-purchased health insurance
  — Establish **risk pooling adjustment vehicles** that eliminate incentives for cherry picking healthier patients
  — Move towards an **individual mandate** to purchase health insurance
  — All health insurance plans should include **screening and preventive care** in addition to **disease management** for chronic conditions