The general process of becoming affordable and accessible

1. First bring the problem to the solution.
2. Then bring the solution to the problem.
Decentralization is disruptive, and is hard to catch

Incumbents dominate sustaining battles

Low-end disruption
Address over-served customers with a lower-cost business model

New-market Disruptions

Entrants typically win at disruption
The decentralization that follows centralization is only beginning in healthcare

1. Bring the problem to the solution. 2. Then bring the solution to the problem.

Copyright Clayton M. Christensen
Enablers of Disruption

A new “value network” – a new system of suppliers and distributors

Business model innovation
• Lower-cost venues of care
• Lower-cost care givers

Simplifying Technology
Scientific progress that commoditizes expertise plays a critical role in disruption.

Synthetic fibers: Nylon, Polyester, Acetate, Kevlar

Intuitive, trial-and-error problem-solving -> Probabilistic pattern recognition -> Rules-based

Intuitive medicine -> Empirical medicine -> Precision medicine

Bipolar disorder; Seizures; asthma

(symptoms < diseases) (Evidence-based medicine) (Personalized medicine)

Infectious diseases; Cervical cancer

Copyright Clayton M. Christensen
SOLUTION SHOPS
• Consulting firms
• R&D organizations
• Diagnostic & intuitive activities of hospitals

FEE FOR SERVICE

No model can do everything for everybody.

National Jewish Medical Center
Pulmonary & Respiratory Diseases

Dave Snow, asthma
CEO, Medco

Copyright Clayton M. Christensen
We need solution shops for disorders that today are determined by symptom, not the cause:

- Type II diabetes
- Obesity
- Depression
- Schizophrenia
- Bipolar disorder
- Epilepsy
- Parkinson’s disease
- Crohn’s disease
- Arthritis
- Chronic back pain
- Ulcerative colitis
- Alzheimer’s disease
- Multiple sclerosis
No model can do everything for everybody.

**SOLUTION SHOPS**
- Consulting firms
- R&D organizations
- Diagnostic & intuitive activities of hospitals

**FEE FOR SERVICE**

National Jewish Medical Center
Pulmonary & Respiratory Diseases

Dave Snow, asthma
CEO, Medco

**PROCESS BUSINESSES**
- Manufacturing
- Education
- Construction
- Medical procedures

**FEE FOR OUTCOME**

Shouldice Hospital:
Hernia surgery

Copyright Clayton M. Christensen
**Sources & magnitude of cost differences:**

**process vs. general hospitals**

<table>
<thead>
<tr>
<th></th>
<th>Shouldice Hospital (hernia repair)</th>
<th>General Hospital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of supplies &amp; direct labor</td>
<td>$700</td>
<td>$970</td>
</tr>
<tr>
<td>Overhead burden</td>
<td>$1600</td>
<td>$6030</td>
</tr>
<tr>
<td>Total cost for equivalent length of stay</td>
<td>$2,300</td>
<td>$7,000</td>
</tr>
<tr>
<td>Service families offered</td>
<td>1</td>
<td>110</td>
</tr>
</tbody>
</table>
The structure for 90% of Americans drives caregivers to defend and strengthen their silos. They cannot drive care towards lower-cost caregivers and lower-cost venues of care.

Government-paid systems are similarly stymied by their silo structures: Canada, Germany, Netherlands

Copyright Clayton M. Christensen
Those with a system perspective find that patient health and the drive to lower-cost venues of care and lower-cost caregivers improve profitability.

• Kaiser Permanente, Intermountain, Geisinger
• Employer-provided care
• Sweden, Finland

Copyright Clayton M. Christensen
Business models for adherence in chronic care

Degree to which behavior change is required

Minimal → Extensive

Motivation to adhere to therapy

Strong: quickly feel consequences

Weak: Complications are deferred

Type II Diabetes

Type I Diabetes

Obesity

Addictions

Asthma

Congestive heart failure

Ulcerative colitis

Chronic back pain

Crohn’s disease

Cancer

HIV

Myopia

Infertility

Osteoporosis

Hypertension

Copyright Clayton M. Christensen
Business models for ongoing care

Degree to which behavior change is required

Minimal → Extensive

Motivation to adhere to therapy

Strong: quickly feel consequences

Weak: Complications are deferred

Doctor’s office

Doctor’s office

Pharmacy-based care

Pharmacy-based care

User Networks

User Networks

Employer-Managed Care with HSAs

Employer-Managed Care with HSAs

Myopia

Infertility

Cancer

HIV

Type I diabetes

Type II diabetes

Asthma

Congestive heart failure

Obesity

Addictions

Hypertension

Osteoporosis

Cancer

HIV

Crohn’s disease

Chronic back pain

Ulcerative colitis

Obesity

Hypertension

Osteoporosis

Cancer

HIV

Crohn’s disease

Chronic back pain

Ulcerative colitis

Copyright Clayton M. Christensen
Better science and the pursuit of profit will enable pharmacies to provide more and better care.

Pharmacy-based care

Motivation to adhere to therapy

Strong: quickly feel consequences

Weak: Complications are deferred

Degree to which behavior change is required

Minimal → Extensive

Conditions:
- Myopia
- Infertility
- Cancer
- HIV
- Asthma
- Osteoporosis
- Type I diabetes
- Congestive heart failure
- Type II diabetes
- Obesity
- Myopia
- Ulcerative colitis
- Crohn’s disease
- Chronic back pain
- Addictions
- Infertility

Copyright Clayton M. Christensen
Four ways to tackle regulatory change

1. Integration
2. Fasting and prayer for modularity
3. A common language and a common way to frame the problem
4. FDA Regulation

Copyright Clayton M. Christensen
We’ll do anything for anybody.

- Overhead = 85% of total
- Overhead increases 30% for each doubling of complexity
- Variable quality
Processes of Strategy Formulation and Implementation

**Intended Strategy:**
Analytical project followed by implementation

**The Resource Allocation Process:**
Decisions about what gets resources: what to do & what not to do

**Emergent Initiatives**
Responses to unforeseen opportunities and problems

**Stream of new products, services, processes and acquisitions**

**Actual strategy that is implemented**

Deeper understanding of what works and what doesn’t

Bad money demands that new businesses become very big, very past

Copyright Clayton M. Christensen
Market Understanding that Mirrors how Customers Experience Life

“The customer rarely buys what the company thinks it is selling him”  
- Peter Drucker
Diabetes companies typically have targeted customers who don’t own the job of keeping healthy.

Family caregivers

Patient

Help him feel that he’s in trouble!

Employers

Absenteeism

Productivity

Disability

Health

Retention

Profitability & competitiveness
Evaluating investments on marginal rather than full costs biases incumbent leaders to leverage what they have, instead of building what they need.
Business model innovation is key to improving quality and reducing costs.

Hospital industry was established when:
- Transportation was costly
- Doctors were inexpensive
- Each community needed a hospital
- Though they were called “General Hospitals,” they actually were focused because most diseases were acute

The world has changed. The industry’s paradigm has not.
- Transportation is cheap and pervasive.
- Doctors are costly
- Most diseases are chronic
- Most hospitals try to do everything for everybody
- 90% of all costs in the hospital are overhead – inherent to the business model
Business model liquidation occurs by helping customers to get their job done: Profits

Dell

Brand

Product design

Supply chain & logistics

Computer assembly

Mother boards

AsusTek

Brand

Product design

Supply chain & logistics

Computer assembly

Mother boards

Simple circuit boards

3/9/2012

Copyright Clayton M. Christensen
A common language and a common way to frame the problem

• Science and technology propels care from left to right.
• The pursuit of profit drives things from the bottom to the top.
• Almost all health care cost is in overhead, not direct
  – Overhead is the result of complexity
  – Complexity is driven by marginal, rather than full cost thinking.
• Needing to do the job is the causal mechanism behind changing behavior and purchasing products.
• Better quality at higher cost, vs. Better quality at lower cost
The decentralization that follows centralization is only beginning in healthcare.

1. Bring the problem to the solution.
2. Then bring the solution to the problem.

Copyright Clayton M. Christensen
Three levels in the architecture of a job

What’s the job-to-be-done?
(Each job has functional, emotional & social dimensions)

What experiences in purchase & use must we provide to do the job perfectly?

What and how to integrate?
Integrating correctly to help customers get the job done is the essence of defensible differentiation

- IKEA
- Federal Express
- SAS
- Zara
- Microsoft Office
- TurboTax; QuickBooks
- V8
- OnStar
Targeting the job enables precision in product development

Product category

Customer category

Job to be done

Too many features; wrong features

Proper integration of all needed experiences

One-size-fits-none product
Outsourcing often sets in motion disruptive business model liquidation.

Customer

IT departments
Auto companies
Petroleum Majors
Pharmaceutical Cos.
Wall Street Analysts
Physicians

Supplier

TCS, Infosys, Wipro
Tier One Suppliers
Halliburton, Schlumberger
CROs.
Bloomberg
Pharmacies