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.

The Paradox of U.S. Health Care

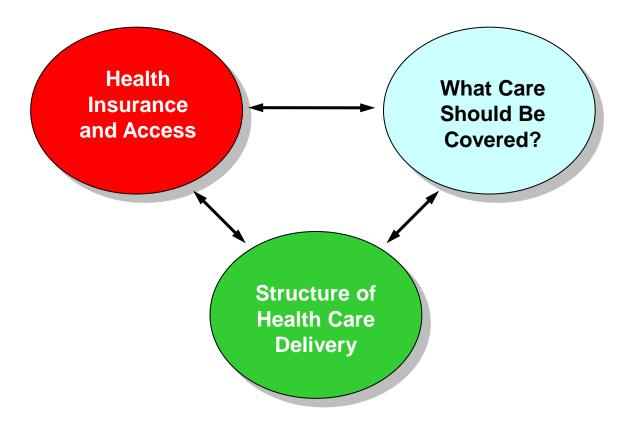
 The United States has a largely private system and more competition than virtually any other health care system in the world

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



Issues in Health Care Reform



Zero-Sum Competition in Health Care

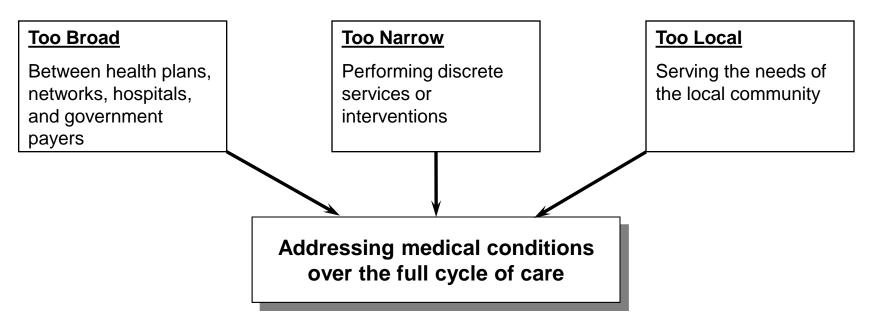
- Competition to shift costs
- Competition to increase bargaining power
- Competition to capture patients and restrict choice
- Competition to reduce costs by restricting services



- None of these forms of competition increase value for patients
 - Gains of one system participant come at the expense of others
 - These types of competition reduce value through added administrative costs
 - These types of competition result in inappropriate cross subsidies in the system
 - These types of competition slow innovation
 - Adversarial competition proliferates lawsuits, with huge direct and indirect costs

The Root Causes

- Competition in health care is not aligned with value for patients
- Competition in the health care system takes place at the wrong level on the wrong things

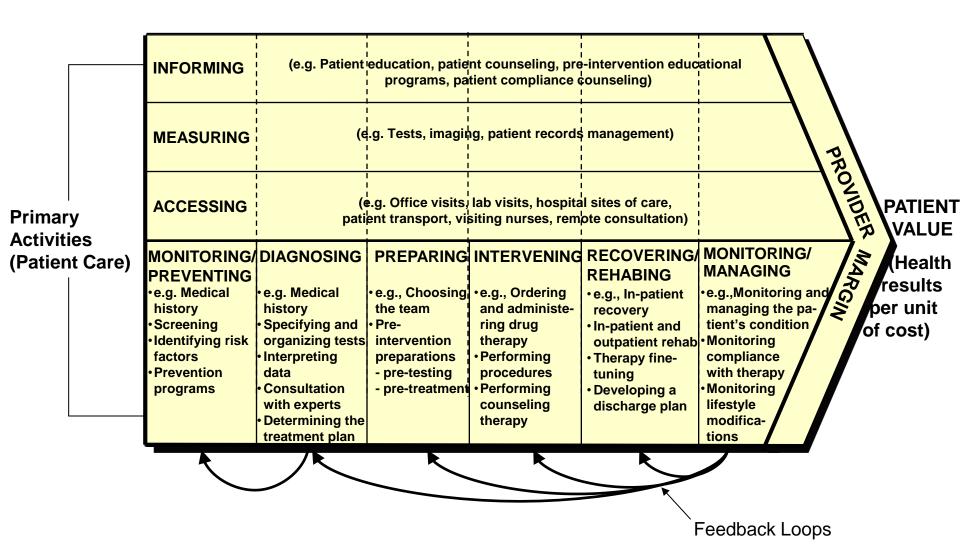


- Competition at the right level has been reduced or eliminated by networks, providers/provider groups, and by default
- Efforts to improve health care delivery have sought to micromanage providers and "lift all boats" rather than foster provider competition based on results
 - Recent quality and pay for performance initiatives do not address quality directly, but process compliance
- Consumer-driven health care will not work unless the nature of competition is transformed

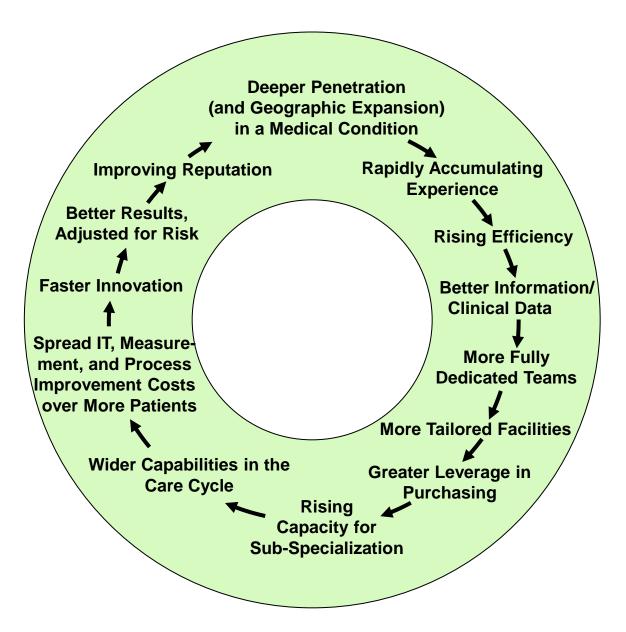
Principles of Positive Sum Competition

- The focus should be on value for patients, not just lowering costs.
- There must be unrestricted competition based on results.
- Competition should center on medical conditions over the full cycle of care.
- Quality and cost will often improve simultaneously.
- Value is driven by provider experience, scale, and learning at the medical condition level.
- Competition should be regional and national, not just local.
- Results and price information to support value-based competition must be widely available.
- Innovations that increase value must be strongly rewarded.

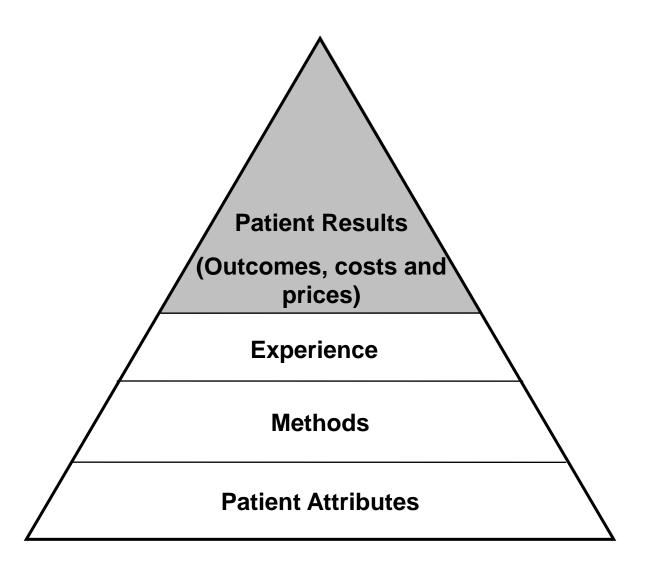
The Care Delivery Value Chain for a Medical Condition



The Virtuous Circle in Health Care Delivery



Information Hierarchy



Value-Based Competition: Issues for Providers

- Many providers see themselves in the wrong business
- Provider strategies, organizational structures, and management practices are not well aligned with delivering value for patients
- Providers lack the most important information needed to manage their practices, and are not held accountable

Moving to Value-Based Competition <u>Providers</u>

- 1. Redefine the business around medical conditions
- 2. Choose the range and types of services provided
- 3. Organize around medically integrated practice areas
- 4. Create a distinctive strategy in each practice area
- 5. Measure **results**, **methods**, and **patient attributes** by practice area
- 6. Move to single bills and new approaches to pricing
- 7. Market services based on excellence, uniqueness, and results
- 8. Grow locally and geographically in areas of strength

What Businesses Are We In?

Chronic Kidney Disease

Nephrology practice



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

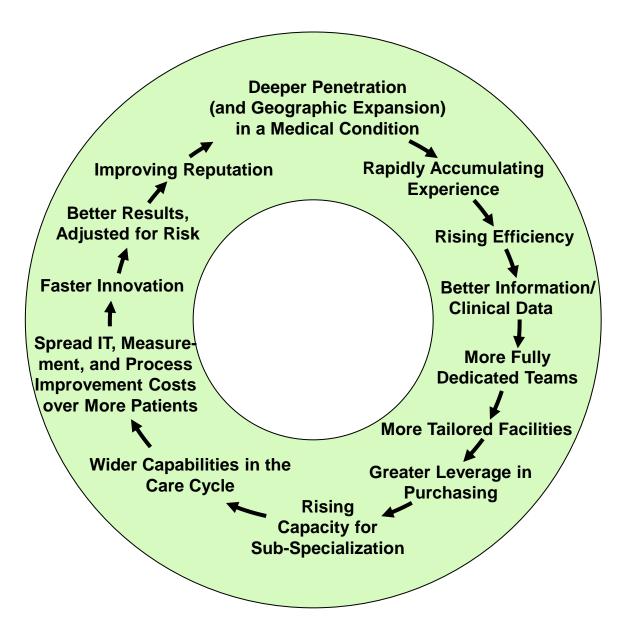
The Care Delivery Value Chain: Primary Activities* <u>Breast Cancer Care</u>

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	reminders about	patient and family		patient and	patient and family	patient and \
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	counseling	diagnosis		prognosis	process	management \
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The Virtuous Circle in Health Care Delivery



Overcoming Barriers to Value-Based Competition <u>Providers</u>

External

- Health plan practices
- Medicare pricing
- Regulations
- Supplier mindsets
- Lack of relevant information

Internal

- Assumptions, mindsets, and attitudes
- Governance structures
- Management expertise
- Medical education
- The structure of physician practice
- Lack of relevant information



- Providers who have made progress towards value-based competition have often been ones who face fewer barriers and have avoided the dysfunctional aspects of the current system
 - e.g. Cleveland clinic (all physicians are salaried), Intermountain, the Veterans Administration Hospitals (integrated with a health plan).

Moving to Value-Based Competition Suppliers

Offer unique value over the full cycle of care

- Compete through offering unique value in supporting health care delivery
- Focus on cycles of care rather than narrow product usage
- Sell not just products, but provider and patient support

Demonstrate value based on careful study of long term costs and results versus alternative therapies

- Use evidence on long-term clinical outcomes and cost to demonstrate value
- Conduct new types of long-term studies in collaboration with providers and patients

Ensure that the products are used by the right patients

- Increase the success rate instead of maximizing usage
- Target marketing and sales to minimize unnecessary or ineffective therapies

Ensure that drugs/devices are embedded in the right care delivery processes

Help providers utilize products better and minimize errors

Build marketing campaigns based on value, information, and customer support

Concentrate marketing efforts on value, not just volume and discounts

Offer support services that contribute to value rather than reinforce cost shifting

- Develop expertise around diseases and across the care cycle to identify opportunities to add value
- Support providers with knowledge of best practices and possible innovations in organization and delivery of care

Transforming the Roles of Health Plans

Old Role

New Role

 Restrict patient choice of providers and treatment

- Enable informed patient and physician choice and patient management of their health

 Micromanage provider processes and choices

- Measure and reward providers based on results

Minimize the cost of each service or treatment

- Maximize the value of care over the full care cycle

 Engage in complex paperwork and administrative transactions with providers and subscribers to control costs and settle bills



 Minimize the need for administrative transactions and simplify billing

 Compete on minimizing premium increases



Compete on subscriber health results

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

 Select or specify plans that help subscribers obtain and understand results information on specific conditions and ensure that patients are diagnosed and treated by experienced and excellent providers

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

A long-term relationship between the plan and subscribers aligns everyone's interests

Enhance provider competition on results

Collaborate with other employers in advancing these aims

Support employees in making health choices and managing their health

- Offer encouragement and support for employees in managing their health
- Provide independent information and advising services to employees to supplement other sources
- Offer health plan structures that provide good value and encourage saving for long-term health needs

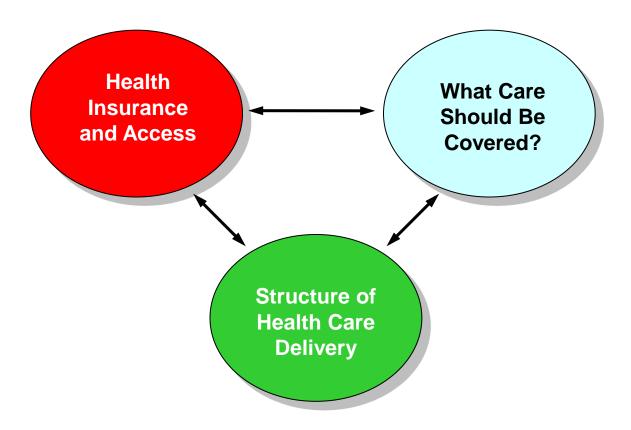
Find ways to expand insurance coverage and advocate reform of the insurance system

- Create collaborative vehicles with other employers to offer group insurance coverage to employees or affiliated individuals, not currently part of the employer's health plan
- Support insurance reform that levels the playing field among employers

Measure and hold benefits staff accountable for the company's health value received

 Health benefits must be a senior management responsibility, not delegated to the benefits staff

Issues in Health Care Reform



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.