Value-Based Competition in Health Care

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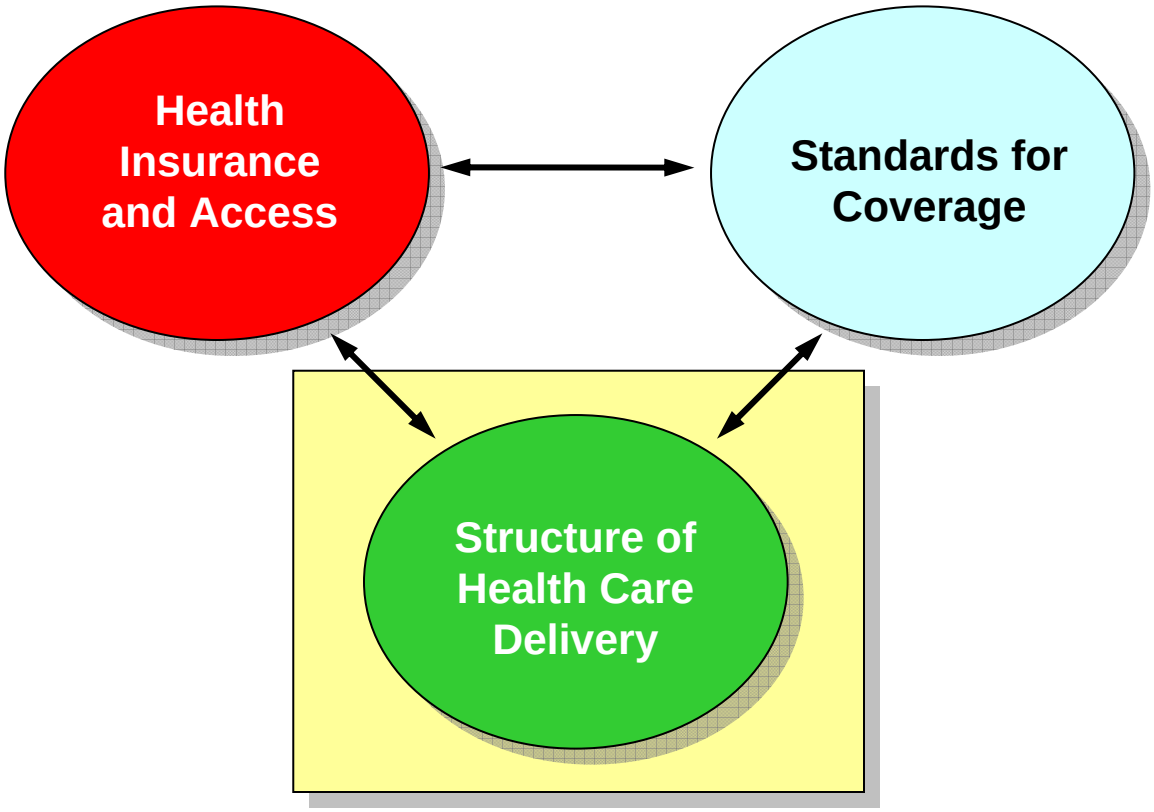
This presentation draws on Michael E. Porter and Elizabeth Olmsted Teisberg: Redefining Health Care: Creating Value-Based Competition on Results, Harvard Business School Press, May 2006. Earlier publications about health care include the *Harvard Business Review* article "Redefining Competition in Health Care" (June 2004).

Proposals for Reforms

- Single Payer System
- Consumer-Driven Health Care
- Pay for Performance
- Electronic Medical Records
- Integrated Payer-Provider Systems

Issues in Health Care Reform



Creating a Value-Based Health Care System

- 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 design a **dynamic system** that keeps rapidly improving

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

> Today, 21st century medical technology is delivered with 19th century organization structures, management practices, and pricing models

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

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 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

Zero or Negative Sum

Good Competition

- Competition to **increase value for patients**

Positive Sum

Creating a Value-Based Health Care System

- Today's **competition** in health care is often **not aligned with value**

Financial success of system participants	$\neq$	Patient success

- Creating **competition around value** is the central challenge in health care reform

Principles of Value-Based Competition

1. The goal should be **value for patients**, not just lowering costs
   - This will require going **beyond cost containment** and **administrative savings**

Principles of Value-Based Competition

1. The goal should be **value for patients**, not just lowering costs

2. The best way to contain costs is to drive improvement in **quality**

- 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

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3. There must be **unrestricted competition** based on **results**
   - Results vs. supply control or process compliance
   - Get patients to excellent providers vs. “lift all boats”

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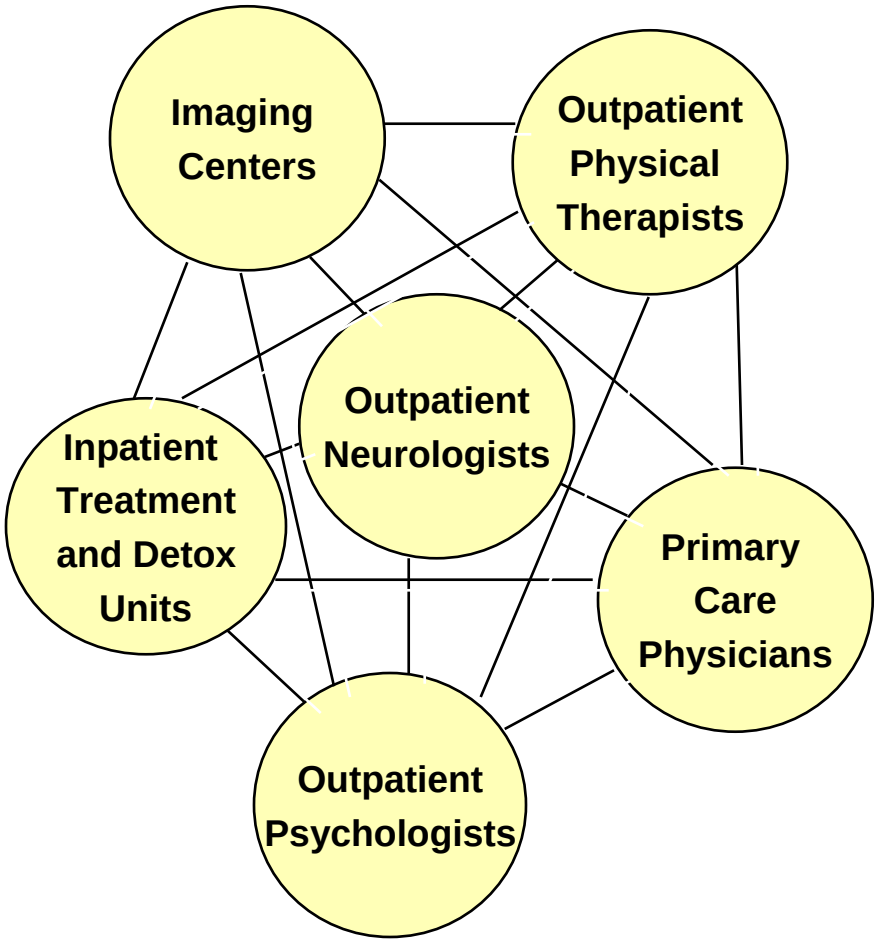
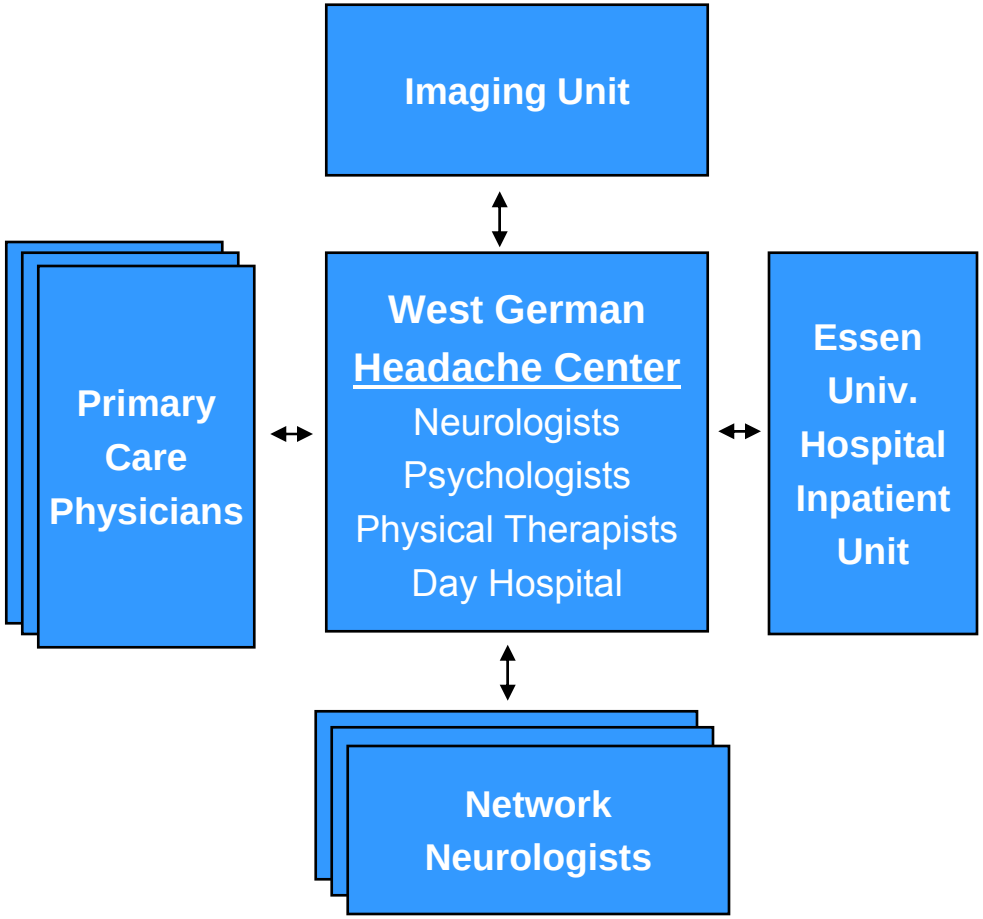
4. Competition should center on **medical conditions** over the **full cycle of care**

Restructuring Health Care Delivery: Medical Conditions
Migraine Care in Germany

Old Model: Organize by Specialty and Discrete Services



New Model: Integrated Practice Units

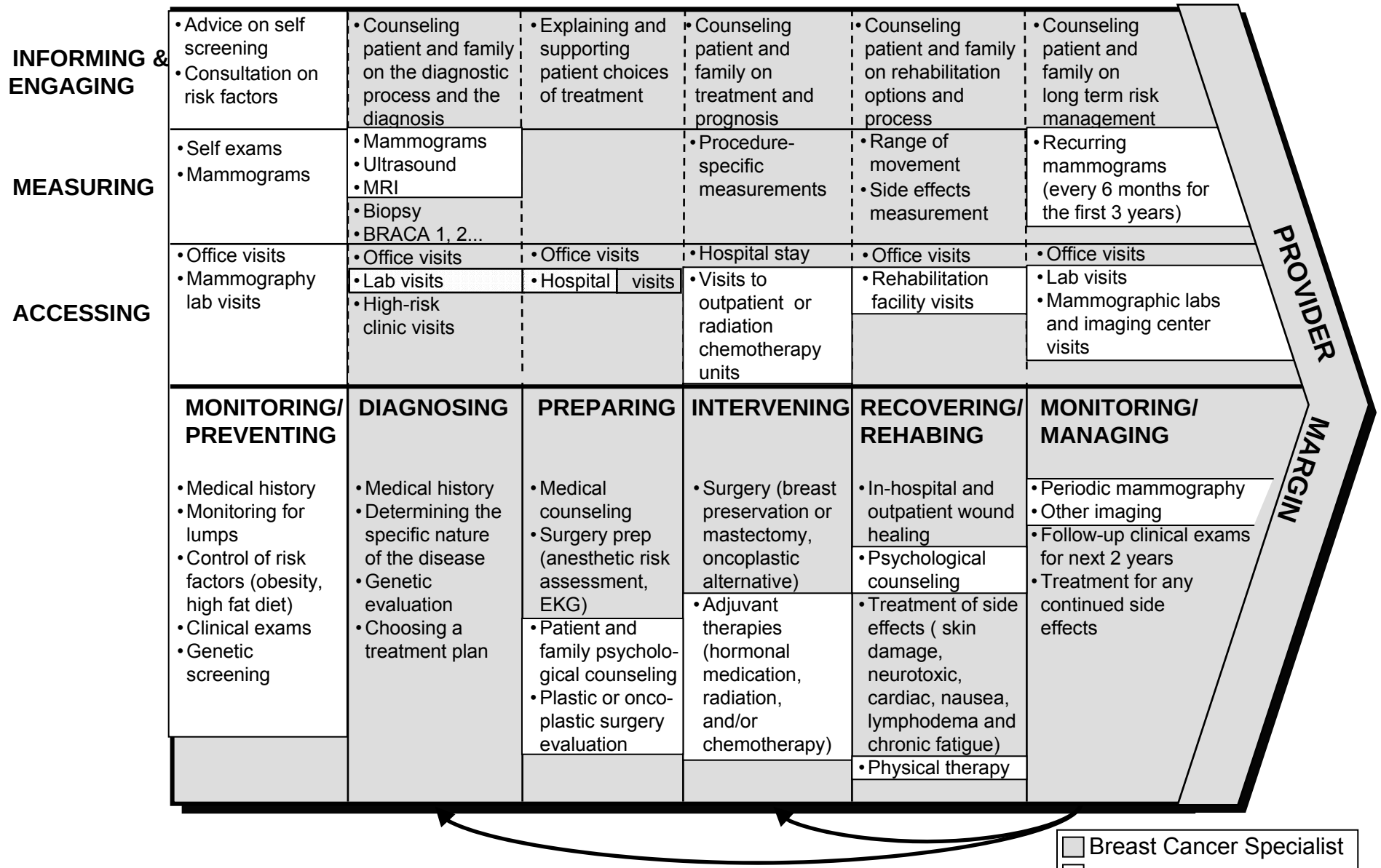


Source: KKH, Westdeutsches Kopfschmerzzentrum

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** the most common co-occurrences
- Examples
  - Diabetes (including vascular disease, hypertension)
  - Breast Cancer
  - Stroke
  - Migraine
  - Asthma
  - Congestive Heart Failure
  - HIV/AIDS

The Care Delivery Value Chain
Breast Cancer

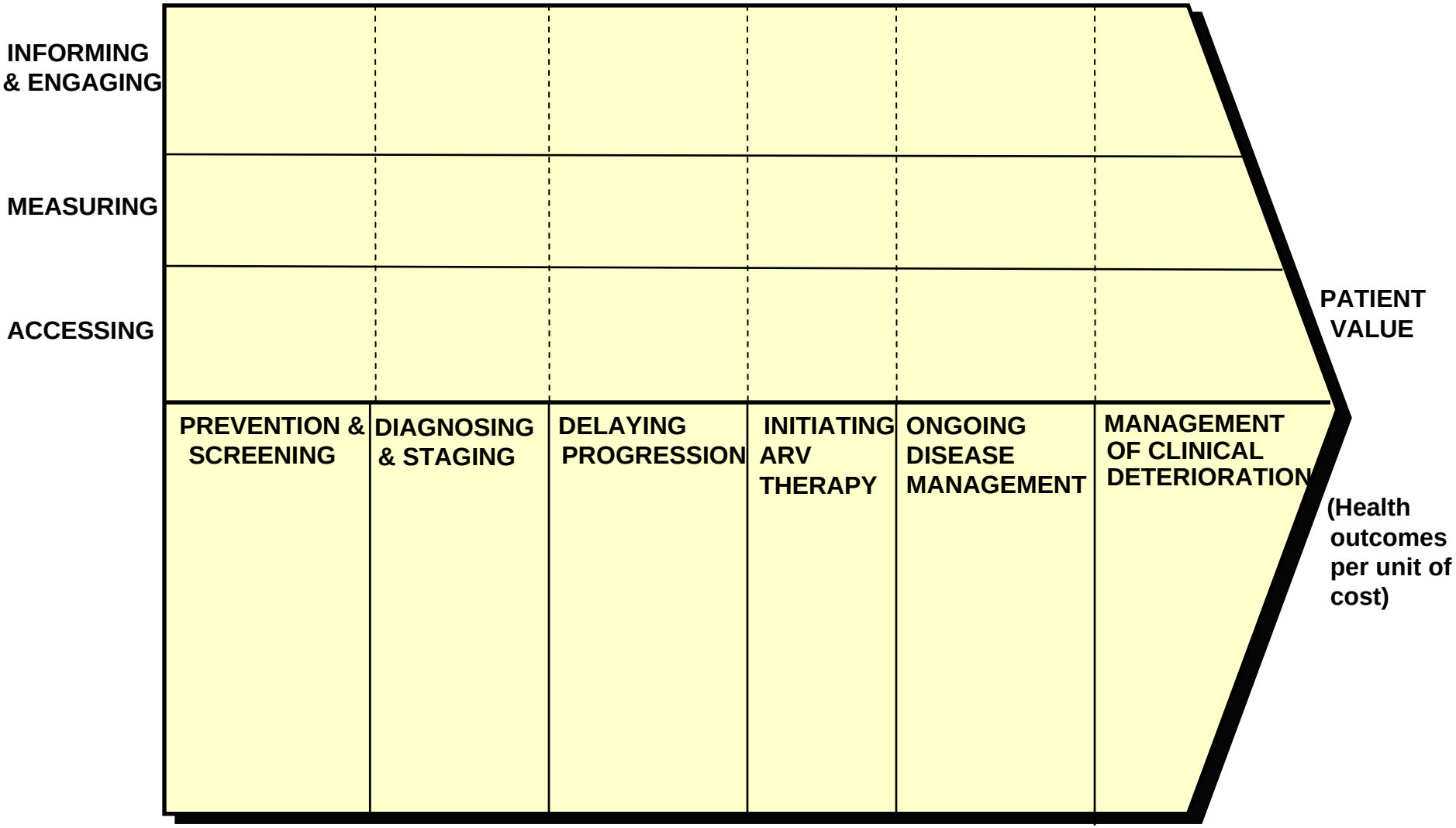


- **Primary care providers** are often the beginning and end of care cycles

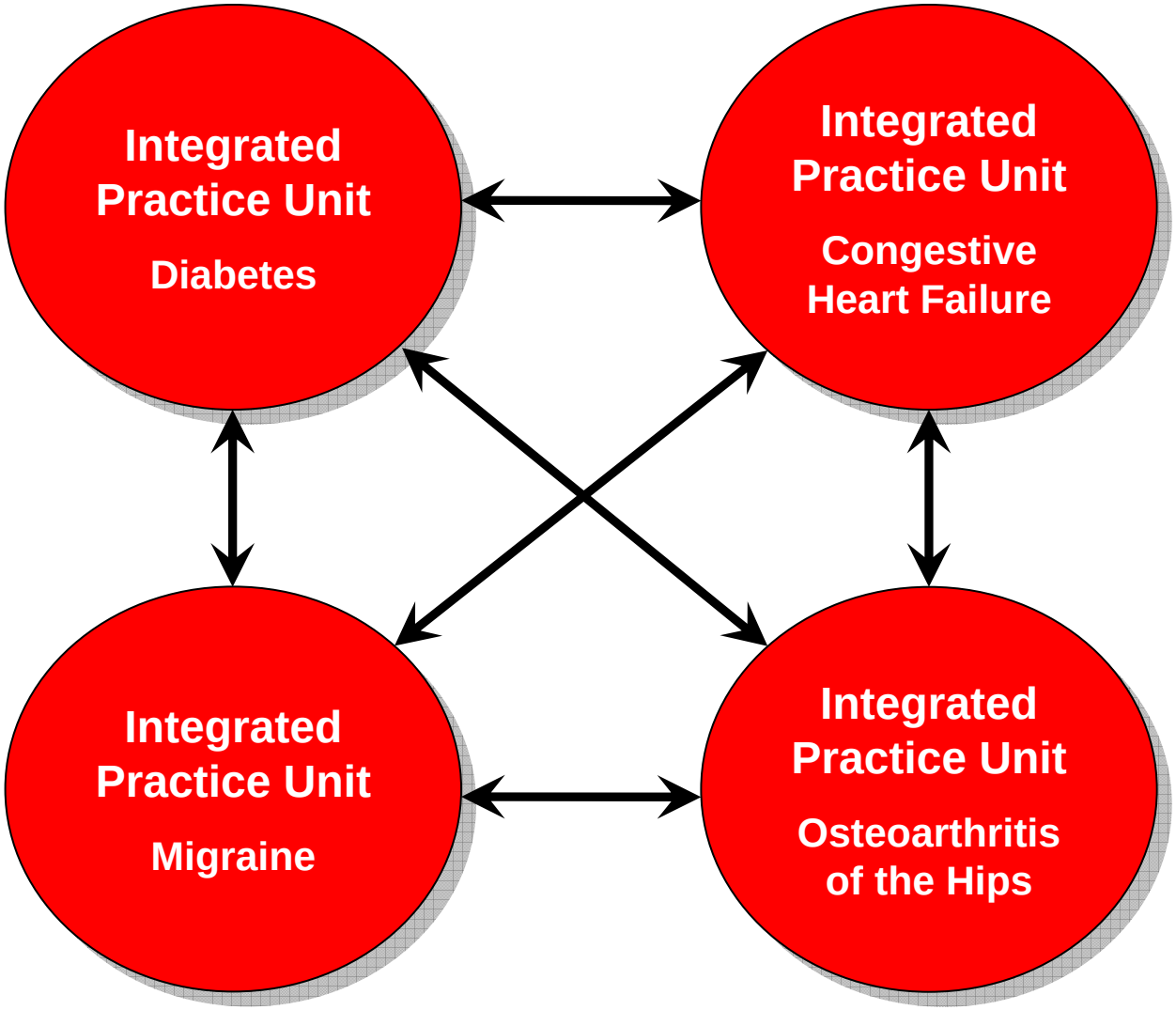
Cycles of Care vs. Discrete Services

- Value is created by the **cycle of care**, not individual interventions
- Health care is **co-produced** between the patient and the medical team
  - The patient and his/her family must be **actively involved** in their health and their health care
- Excellent providers make patient engagement and compliance monitoring an **integral part of care delivery**
- **Prevention**, **screening**, and **ongoing disease management** are integral to the care cycle of every medical condition
  - Disease management must be **integral to the provision of care delivery**, not an overlay

HIV/AIDS Care Delivery Value Chain: Resource Poor Settings



Integrating Care Delivery: Patients With Multiple Medical Conditions



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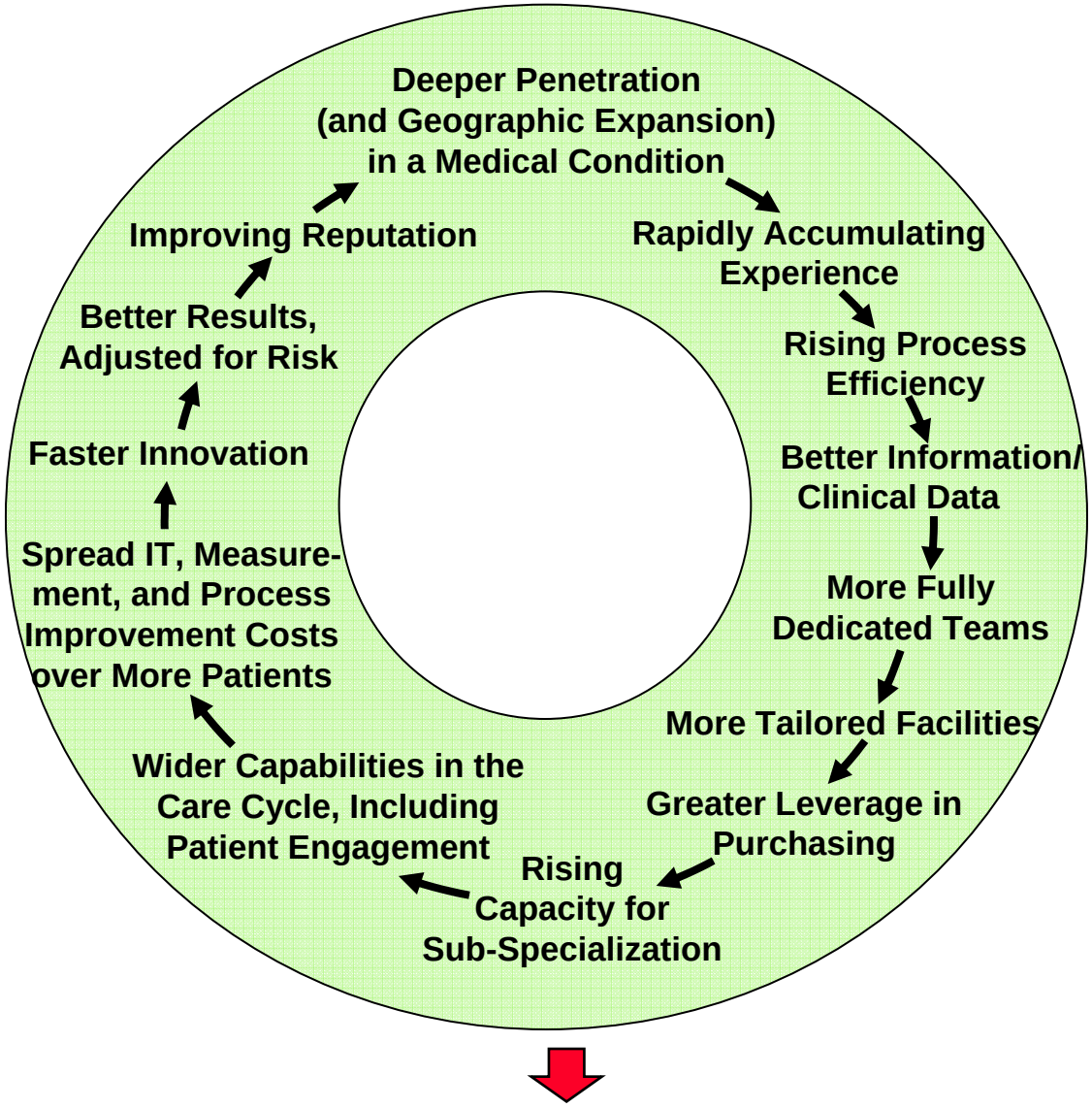
The Virtuous Circle in a Medical Condition



- 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 care cycles across geography
   - Utilize partnerships and inter-organizational integration among separate institutions

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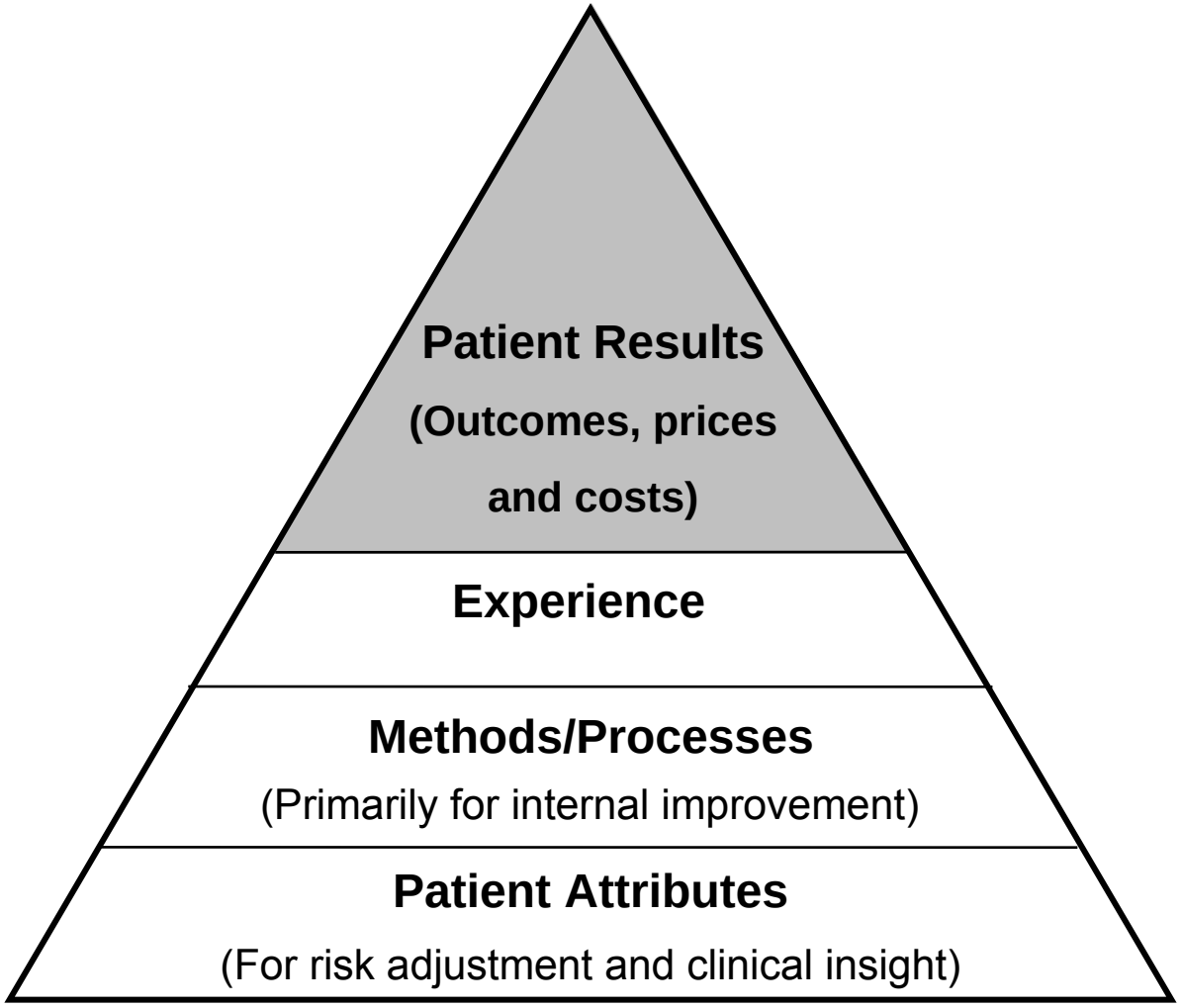
7. **Results** must be universally measured and reported

$$\text{Results: } \frac{\text{Patient health outcomes over the care cycle}}{\text{Total cost of achieving those outcomes}}$$

Measuring Results
The Information Hierarchy



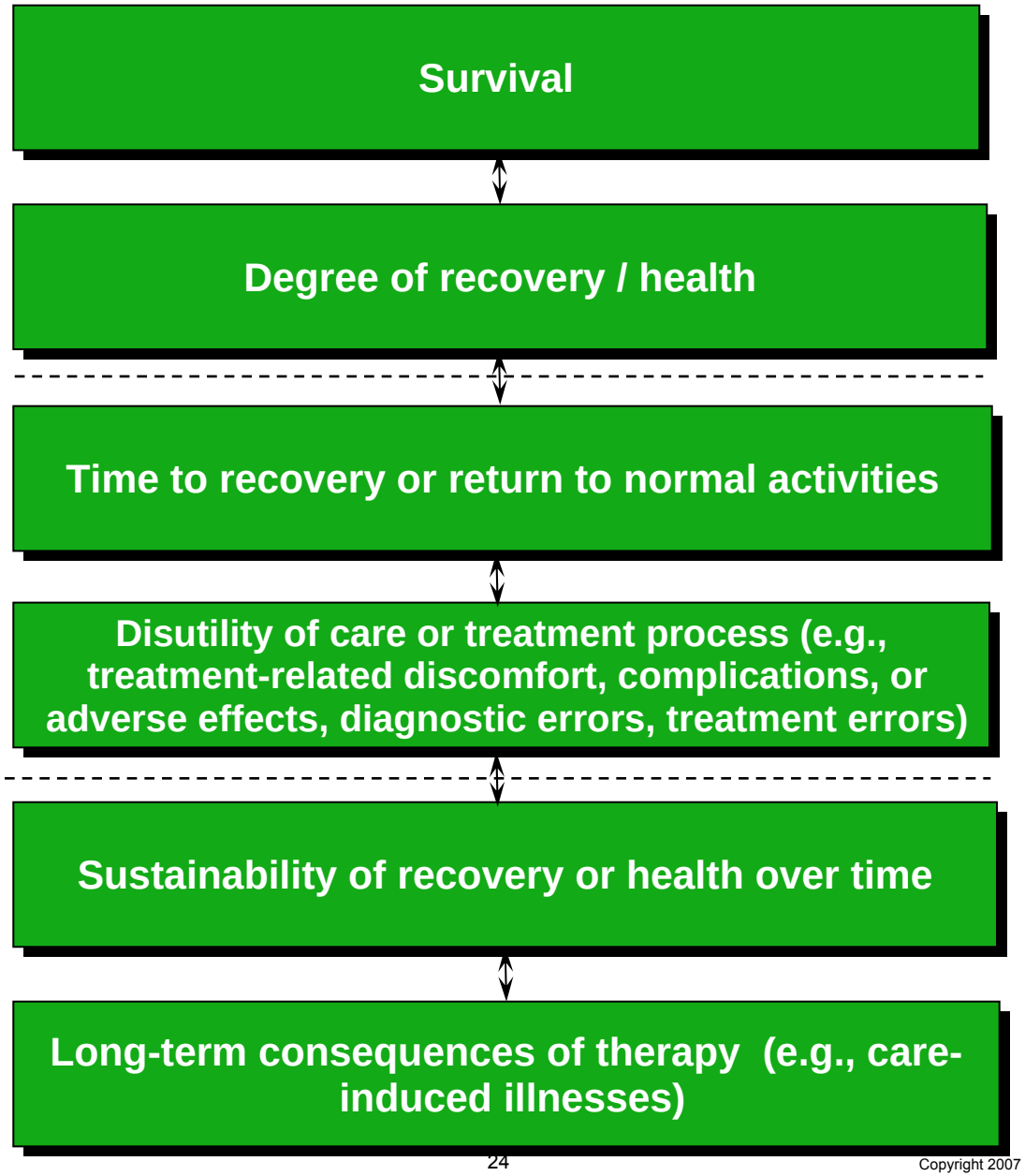
Measuring Results
Principles

- Measure **outcomes** versus processes of care
  - Process control is the wrong model
- 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**
- 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**

Measuring Results

The Outcome Measures Hierarchy



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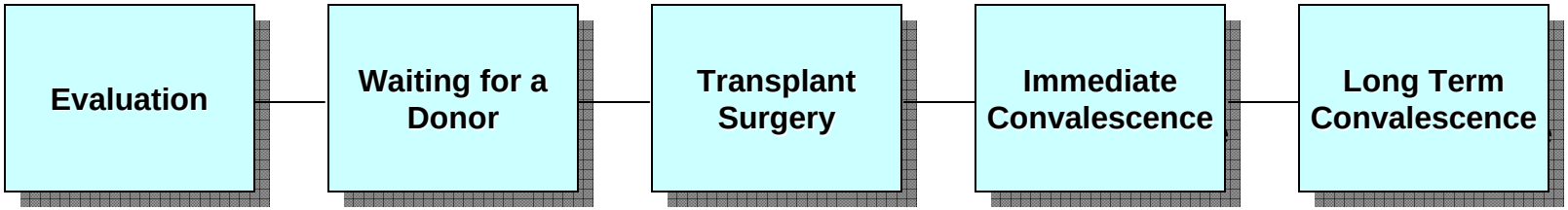
8. Reimbursement should be aligned with **value** and reward **innovation**
   - Reimbursement for care cycles, not discrete treatments or services

Organ Transplantation Care Cycle



Alternative therapies to transplantation

Addressing organ rejection

Fine-tuning the drug regimen

Adjustment and monitoring

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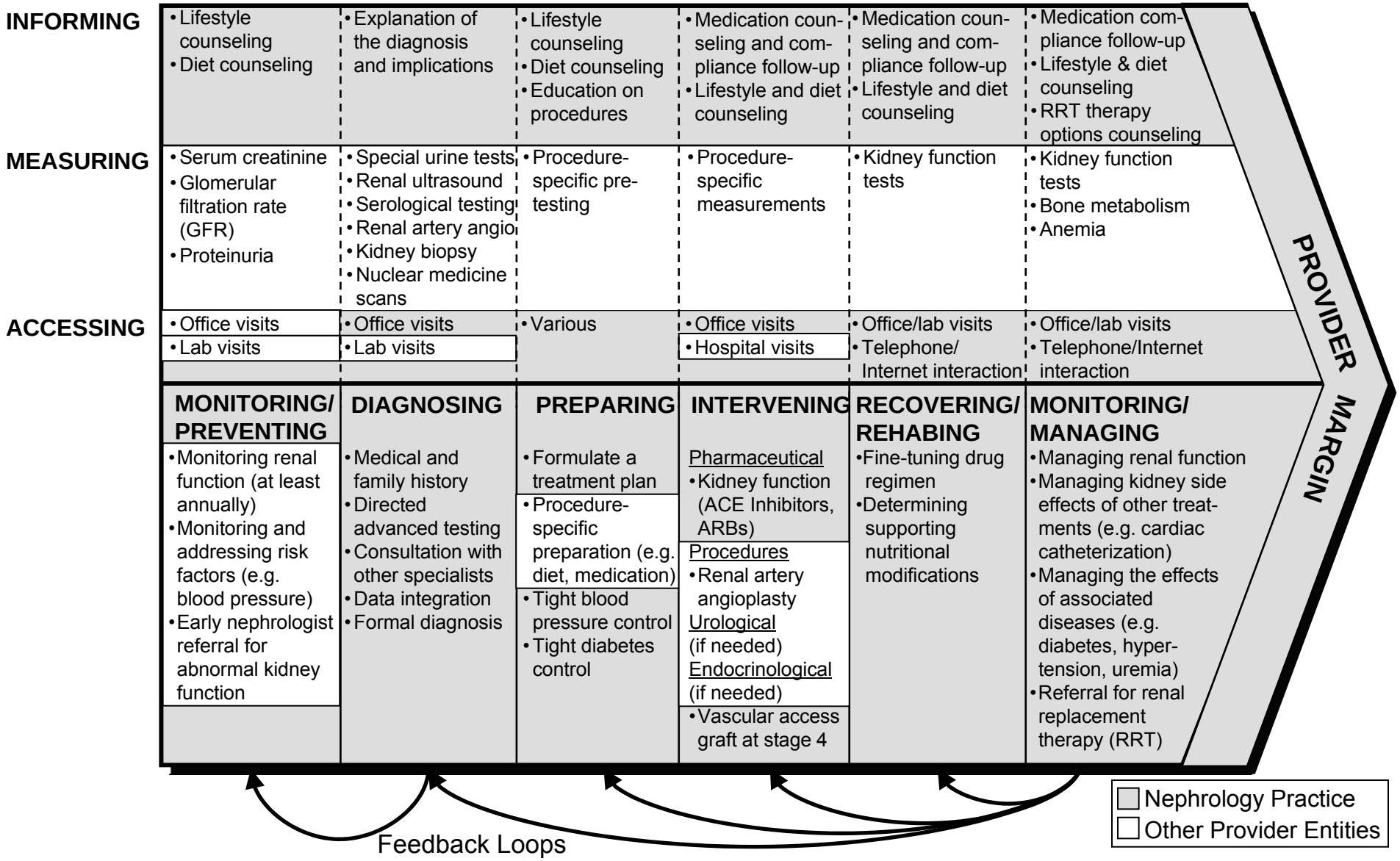
9. **Information technology** is an **enabler** of restructuring care delivery and measuring results, **not a solution itself**
   - Common data definitions
   - Interoperability standards
   - Patient-centered database

Moving to Value-Based Competition
Implications for Providers

- Organize around **integrated practice units** (IPU) for each medical condition
- Choose the appropriate **scope of services** in each facility based on **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 in high-performance medical conditions **across geographic areas** using an integrated model, versus aggregating broad line, stand-alone facilities
- Lead **new contracting models** with health plans based on care cycle reimbursement

The Care Delivery Value Chain

Chronic Kidney Disease

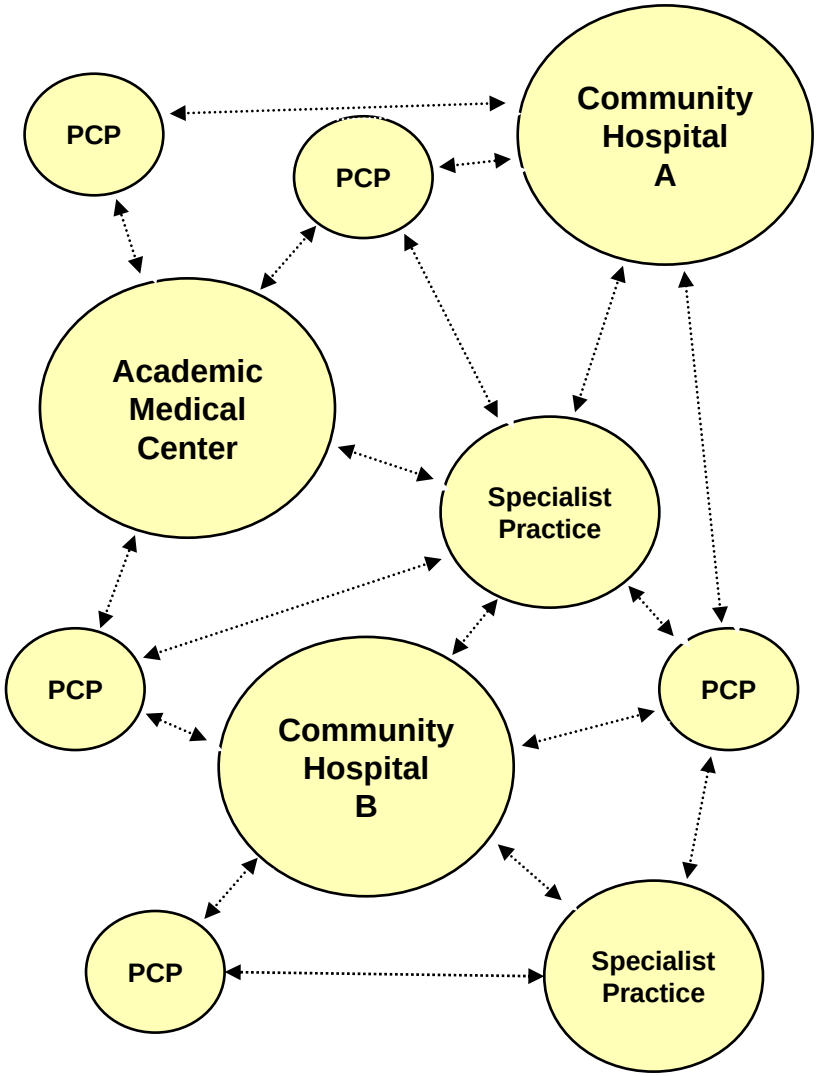


Analyzing the Care Delivery Value Chain

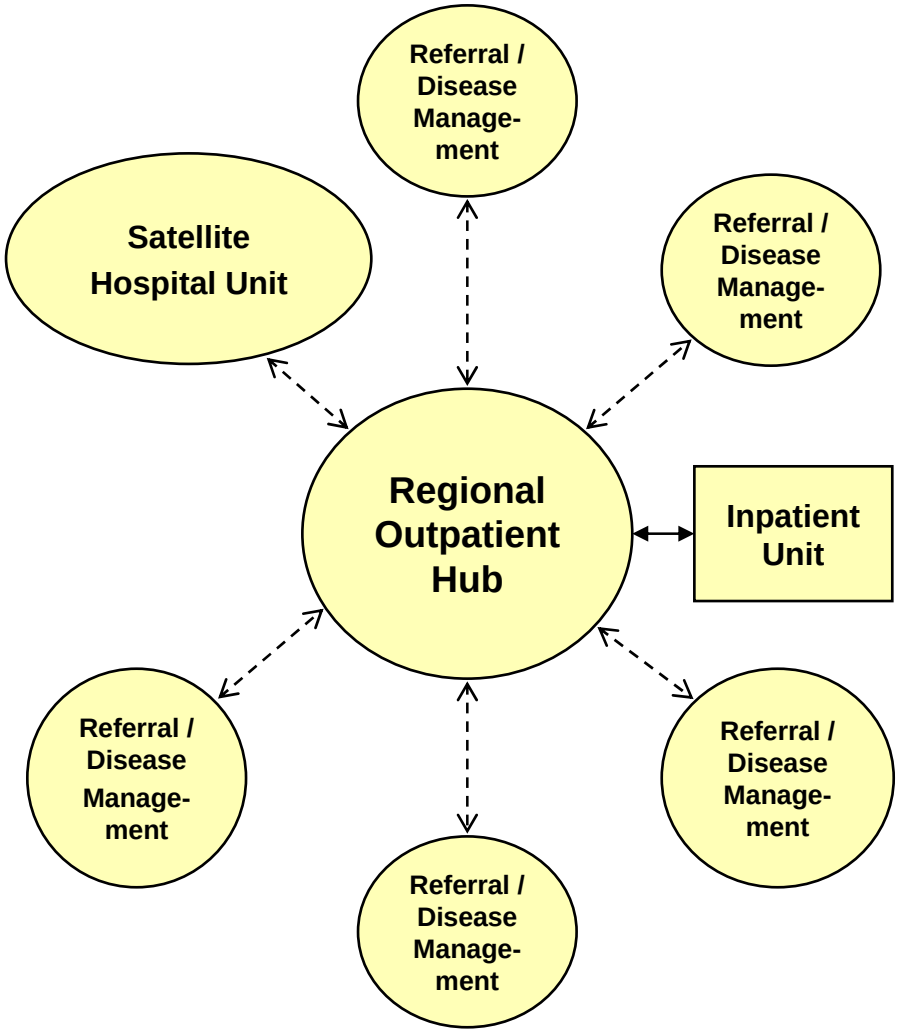
1. Are the **set of activities** and the **sequence of activities** in the CDVC aligned with value?
2. Is the appropriate **mix of skills** brought to bear on each activity and across activities, and do individuals work as a **team**?
3. Is there **appropriate coordination** across the discrete activities in the care cycle, and are handoffs seamless?
4. Is care structured to **harness linkages** (optimize overall allocation of effort) 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?

Integrating Services Across Geography

Current Model: Each Unit is Stand Alone and Offers Most Services

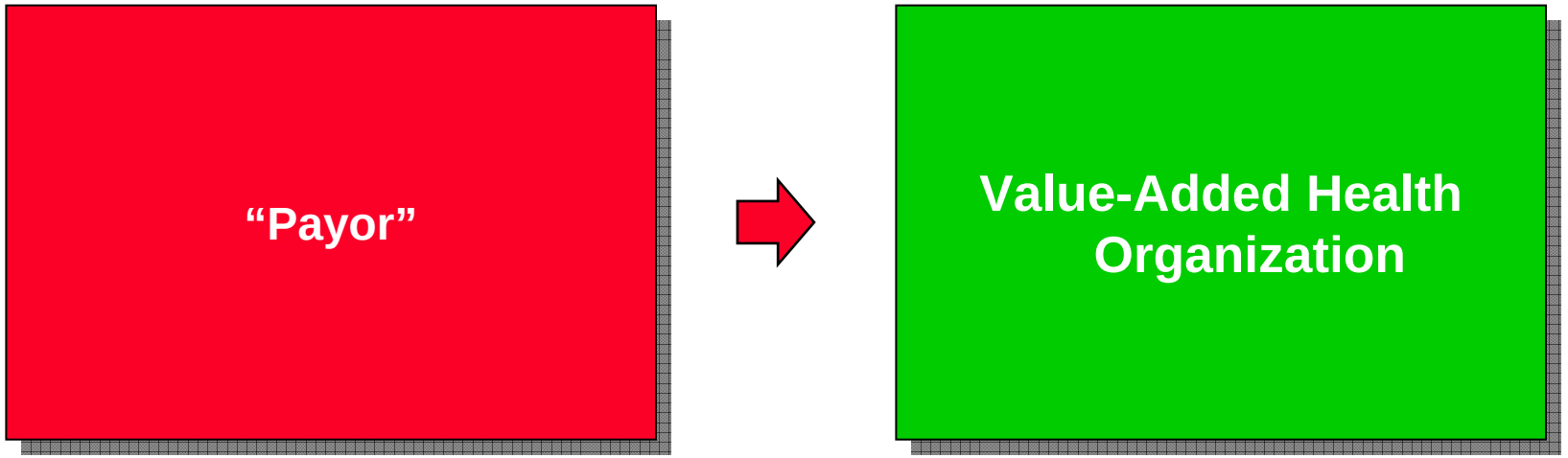


New Model: Care is Specialized and Integrated Across Geographic Units By Medical Conditions



Moving to Value-Based Competition

Health Plans



Moving to Value-Based Competition
Roles of a Health Plan

- Monitor and compare **provider results** by medical condition
- Provide advice to patients (and referring physicians) in selecting **excellent providers**
- Assist in coordinating patient care across the **full care cycle** and **across medical conditions**
- Provide for comprehensive **prevention** and **chronic disease management** services to all members
- Design new reimbursement models **for care cycles**
- Assemble and manage the **total medical records** of members
- Measure and report **overall health results** for members

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

Employers

- Set the goal of **employee health**
- Assist employees in **healthy living** and **active participation in their own care**
- Set new expectations for health plans, including **self-insured** plans
  - Assist subscribers in **accessing excellent providers** for their medical conditions
  - Contract for **care cycles** rather than discrete services
  - Provide for convenient access to **prevention, screening,** and **disease management** services
- Provide for health plan **continuity** for employees, rather than plan churning
- 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
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
- Enable the **restructuring of health care delivery** around the integrated care of **medical conditions** across the **full care cycle**
- Shift reimbursement to **bundled prices for cycles of care** instead of payments for discrete treatments or services
- End **provider price discrimination** across patients
- Remove **artificial restraints to competition** among providers and across geography

Moving to Value-Based Competition
Government – cont'd.

- Encourage the **responsibility of individuals** for their health and their health care
- Require health plans to measure and report **health outcomes** for members
- 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

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