Value-Based Competition in Health Care

Professor Michael E. Porter Harvard Business School

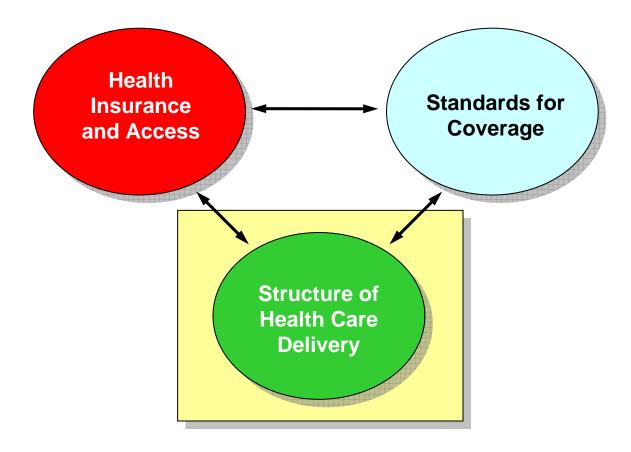
June 11, 2007

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.

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



Creating a Value-Based Health Care System

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

Financial success of Patient system participants success



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

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

- 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

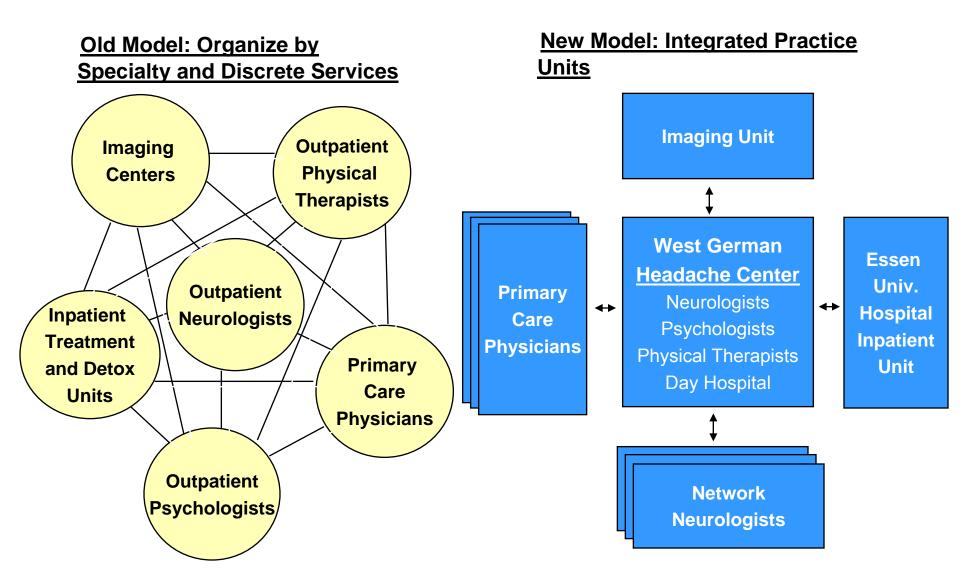


Better health is inherently less expensive than poor health

- 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
- 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"

- 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
- 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: Medical Conditions <u>Migraine Care in Germany</u>



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

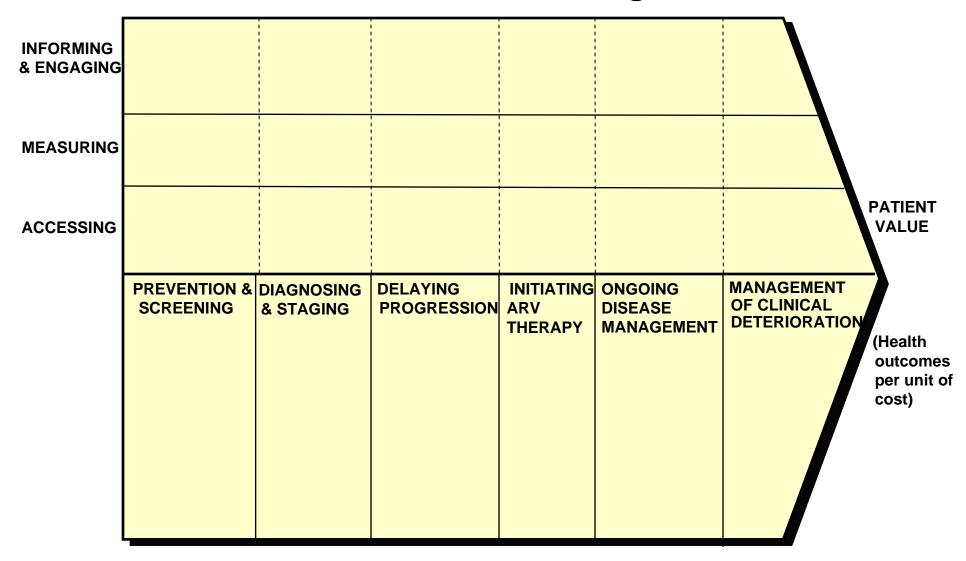
INFORMING & ENGAGING	Advice on self screeningConsultation on risk factors	Counseling patient and family on the diagnostic process and the diagnosis	supporting patient choices of treatment	Counseling patient and family on treatment and prognosis	• Counseling patient and family on rehabilitation options and process	Counseling patient and family on long term risk management
MEASURING	•Self exams •Mammograms	Mammograms Ultrasound MRI Biopsy BRACA 1, 2		• Procedure- specific measurements	Range of movement Side effects measurement	•Recurring mammograms (every 6 months for the first 3 years)
ACCESSING	Office visits Mammography lab visits	Office visits Lab visits High-risk clinic visits	Office visits Hospital visits	Hospital stay Visits to outpatient or radiation chemotherapy units	Office visits Rehabilitation facility visits	Office visits Lab visits Mammographic labs and imaging center visits PROPITED REPROPITED REPROPITE
	MONITORING/ PREVENTING	DIAGNOSING	PREPARING	INTERVENING	RECOVERING/ REHABING	MONITORING/ MANAGING
	Medical history Monitoring for lumps Control of risk factors (obesity, high fat diet) Clinical exams Genetic screening	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 oncoplastic surgery evaluation	Surgery (breast preservation or mastectomy, oncoplastic 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, lymphodema and chronic fatigue) Physical therapy	MANAGING Periodic mammography Other imaging Follow-up clinical exams for next 2 years Treatment for any continued side effects
		are often the b				☐ Breast Cancer Specialist ☐ Other Provider Entities

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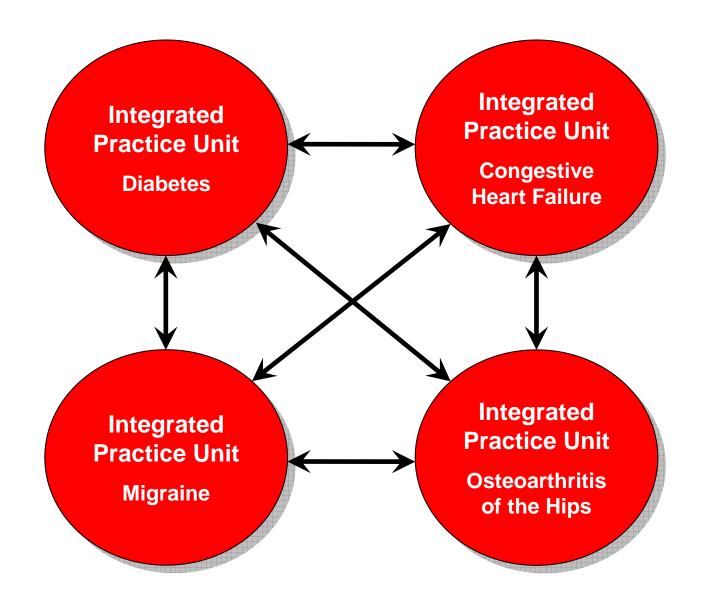
Cycles of Care vs. Discrete Services

- 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

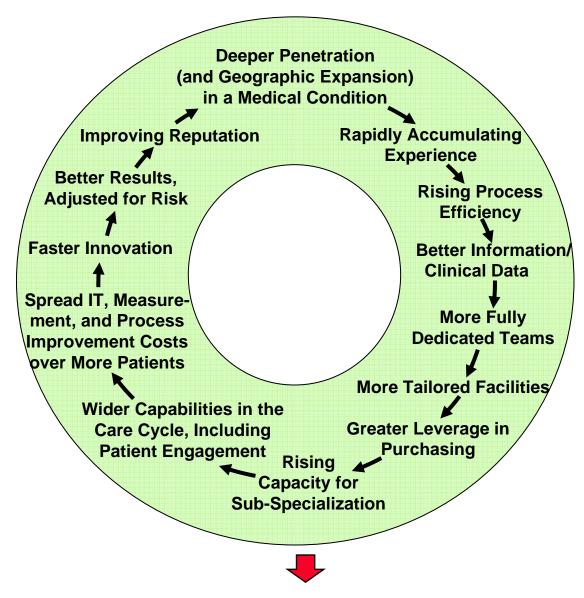


Integrating Care Delivery: Patients With Multiple Medical Conditions



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

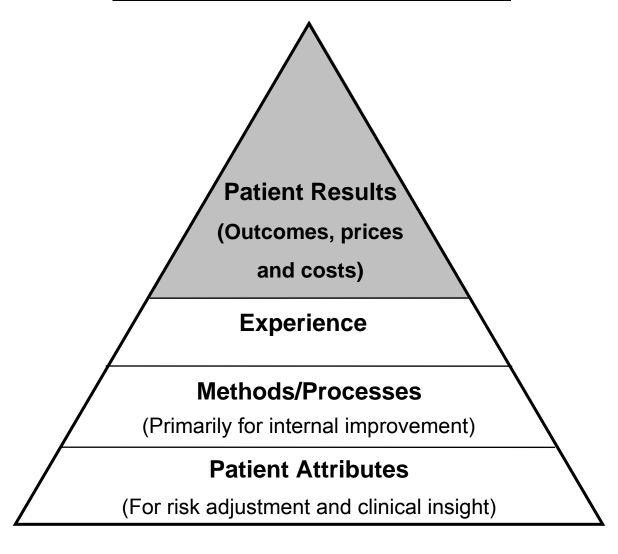
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- 5. Value is driven by provider **experience**, **scale**, and **learning** at the medical condition level
- 6. Competition should be regional and national, not just local
 - Manage care cycles across geography
 - Utilize partnerships and inter-organizational integration among separate institutions

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- 7. Results must be universally measured and reported

Results: Patient health outcomes over the care cycle

Total cost of achieving those outcomes

Measuring Results The Information Hierarchy



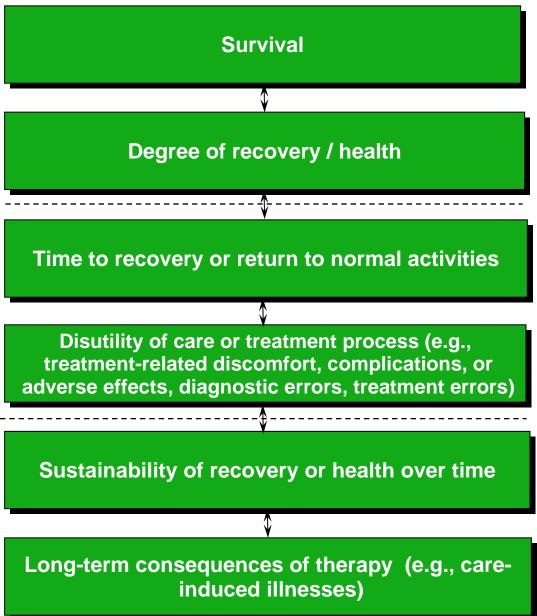
Measuring Results Principles

- 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



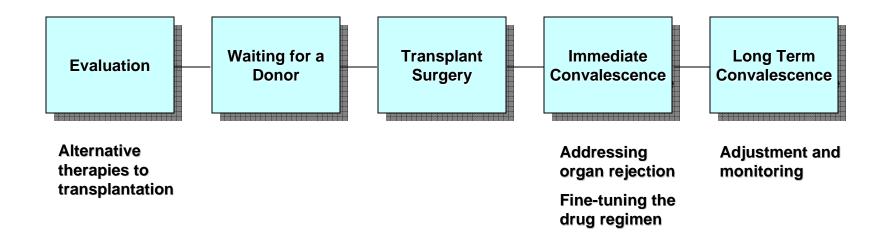
 The feasibility of universal outcome measurement at the medical condition level has been conclusively demonstrated

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



- 1. The goal should be value for patients, not just lowering costs
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- 7. Results must be universally measured and reported
- 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

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

INFORMING MEASURING	Lifestyle counseling Diet counseling Serum creatinine Glomerular filtration rate (GFR) Proteinuria	Explanation of the diagnosis and implications Special urine tests Renal ultrasound Serological testing Renal artery angio Kidney biopsy Nuclear medicine scans	• Procedure- specific pre- testing	Medication counseling and compliance follow-up Lifestyle and diet counseling Procedure-specific measurements	seling and com- pliance follow-up	• Medication compliance follow-up • Lifestyle & diet counseling • RRT therapy • options counseling • Kidney function tests • Bone metabolism • Anemia • Office/lab visits • Telephone/Internet interaction
ACCESSING	Office visits Lab visits MONITORING/PREVENTING Monitoring renal function (at least annually) Monitoring and addressing risk factors (e.g. blood pressure) Early nephrologist referral for abnormal kidney function	Office visits Lab visits DIAGNOSING Medical and family history Directed advanced testing Consultation with other specialists Data integration Formal diagnosis	• Various • PREPARING • Formulate a treatment plan • Procedure-specific preparation (e.g. diet, medication) • Tight blood pressure control • Tight diabetes control	Hospital visits	Office/lab visits Telephone/ Internet interaction RECOVERING/ REHABING Fine-tuning drug regimen Determining supporting nutritional modifications	
,	1	Feedback Lo	pops			☐ Nephrology Practice ☐ Other Provider Entities

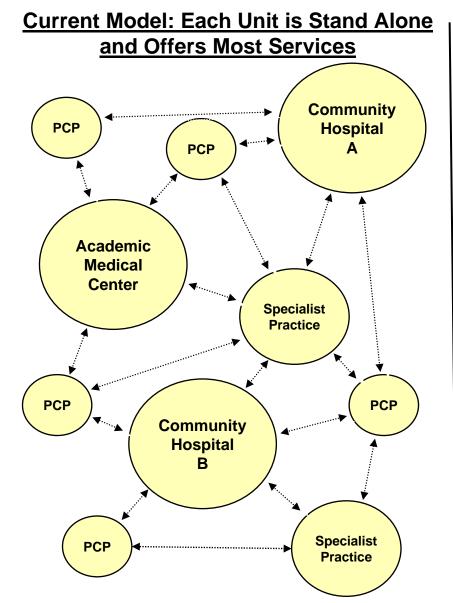
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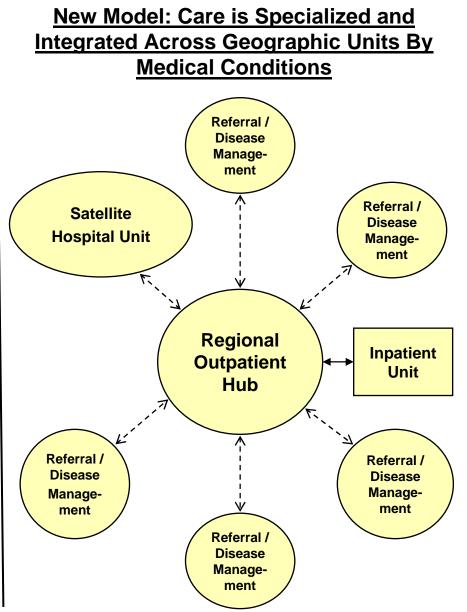
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Analyzing the Care Delivery Value Chain

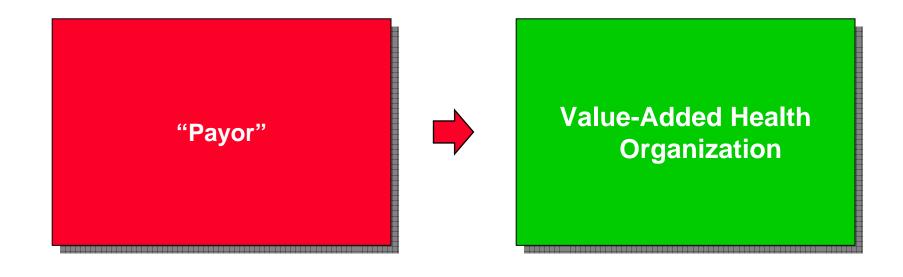
- 1. Are the **set of activities** and the **sequence of activities** in the CDVC aligned with value?
- 2. Is the appropriate **mix of skills** brought to bear on each activity and across activities, and do individuals work as a **team**?
- 3. Is there **appropriate coordination** across the discrete 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





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 individuallypurchased 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