Value-Based Health Care Delivery

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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. 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.

Redefining Health Care

- Universal coverage **is essential**, **but not enough**
- The core issue in health care is the **value of health care delivered**

Value: Patient health outcomes per dollar spent

- How to design a health care system that **dramatically improves value**
  - – Ownership of entities is secondary (e.g. non-profit vs. for profit vs. government)
- 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, 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** to substantially improve value

Creating a Value-Based Health Care System

- Competition is a powerful force to encourage **restructuring of care** and **continuous improvement in value**
  - For patients
  - For health plan subscribers
- 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

Zero or Negative Sum

Good Competition

- Competition to **increase value for patients**

Positive Sum

Principles of Value-Based Competition

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

   - Health **outcomes** are objective outcomes, not patient perceptions of the service experience
   - The costs of achieving outcomes are the **total costs**, not the costs borne by any one party

- Improving value will require going **beyond waste reduction** 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 **improve quality**

Quality = Health outcomes

- Prevention
- Early detection
- Right diagnosis
- Early and timely treatment
- Treatment earlier in the causal chain of disease
- Right treatment to the right patients
- Fewer delays in the care delivery process
- Fewer complications
- Fewer mistakes and repeats in treatment

- 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 just lowering costs
2. The best way to contain costs is to drive improvement in **quality**
3. There must be **competition for patients** based on **results**

$$\text{Value:} \quad \frac{\text{Patient health outcomes}}{\text{Total cost of achieving those outcomes}}$$

- Reward **value** 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

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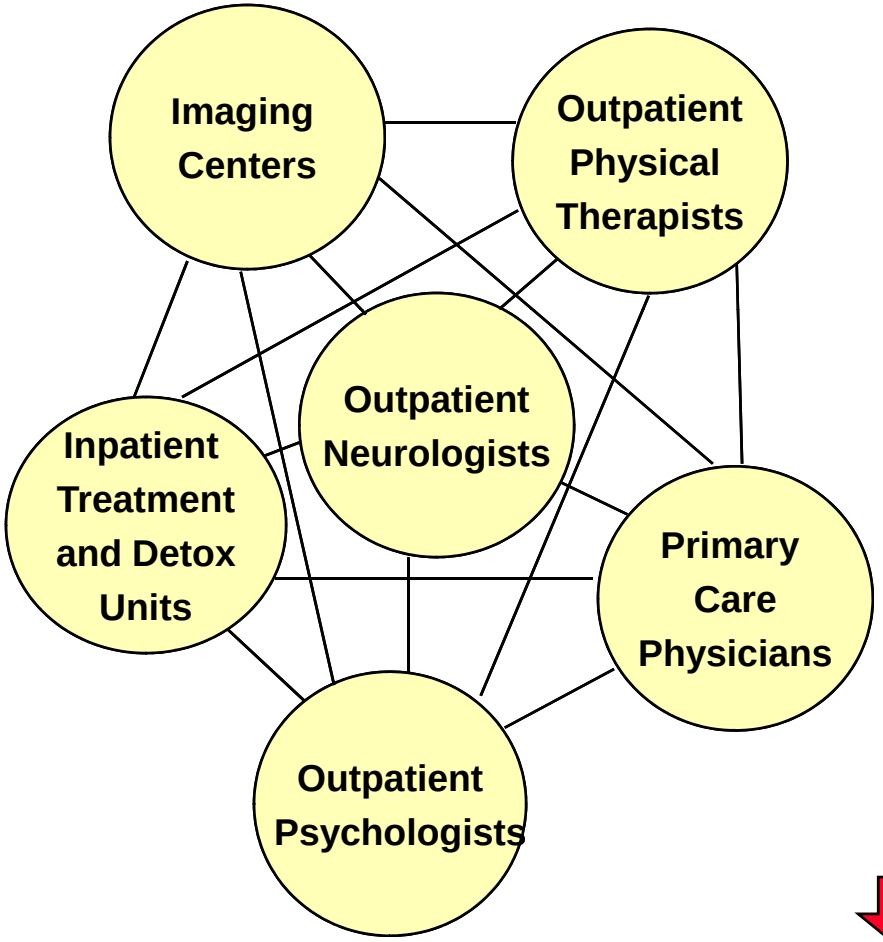
4. Competition should center on **medical conditions** over the **full cycle of care**

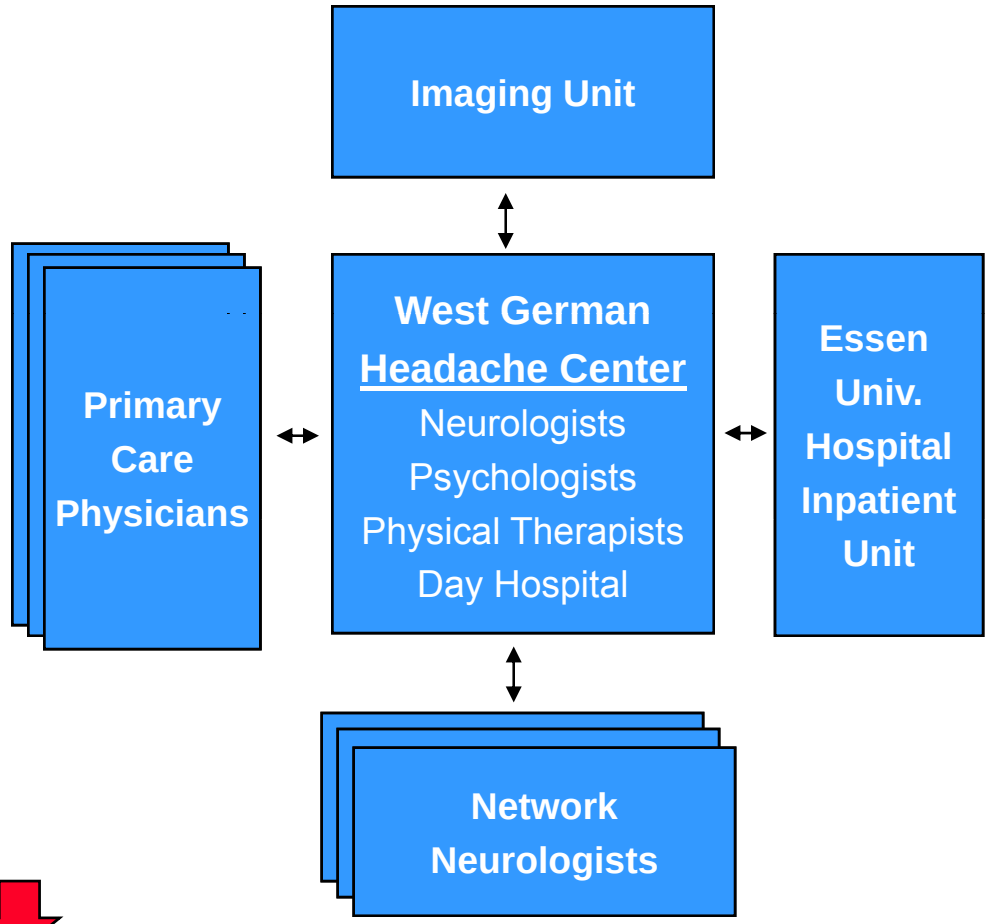
Restructuring Health Care Delivery

Migraine Care in Germany

Old Model: Organize by Specialty and Discrete Services



New Model: Organize into Integrated Practice Units (IPUs)



- Organize around the **patient over the cycle of care**, not the specialist/intervention/department

Source: Porter, Michael E., Clemens Guth, and Elisa Dannemiller, *The West German Headache Center: Integrated Migraine Care*, Harvard Business School Case 9-707-559, September 13, 2007

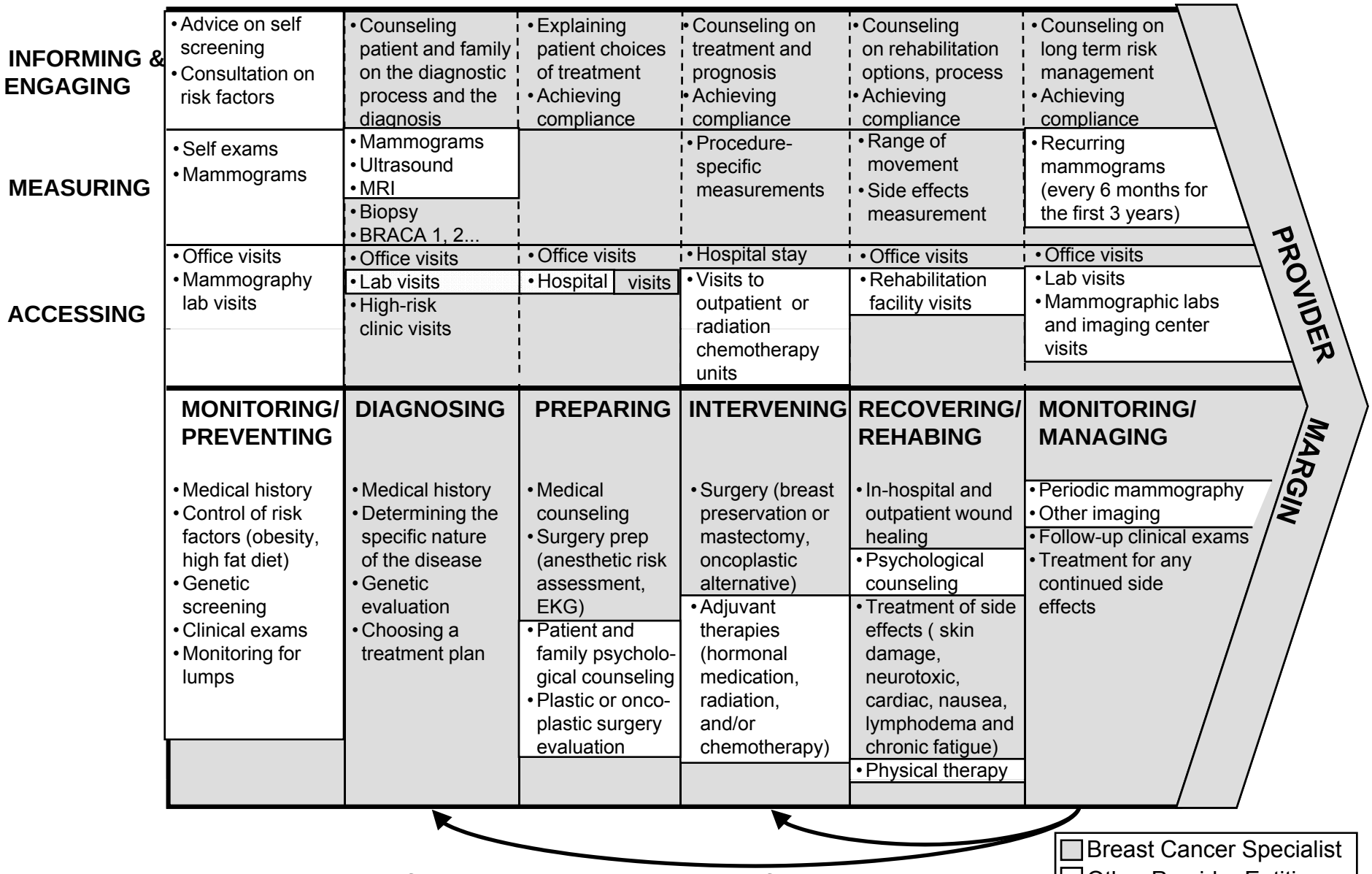
What is a Medical Condition?

- 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
- Many providers will operate **multiple IPUs**

The Cycle of Care

Care Delivery Value Chain for Breast Cancer



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

What is Integrated Care?

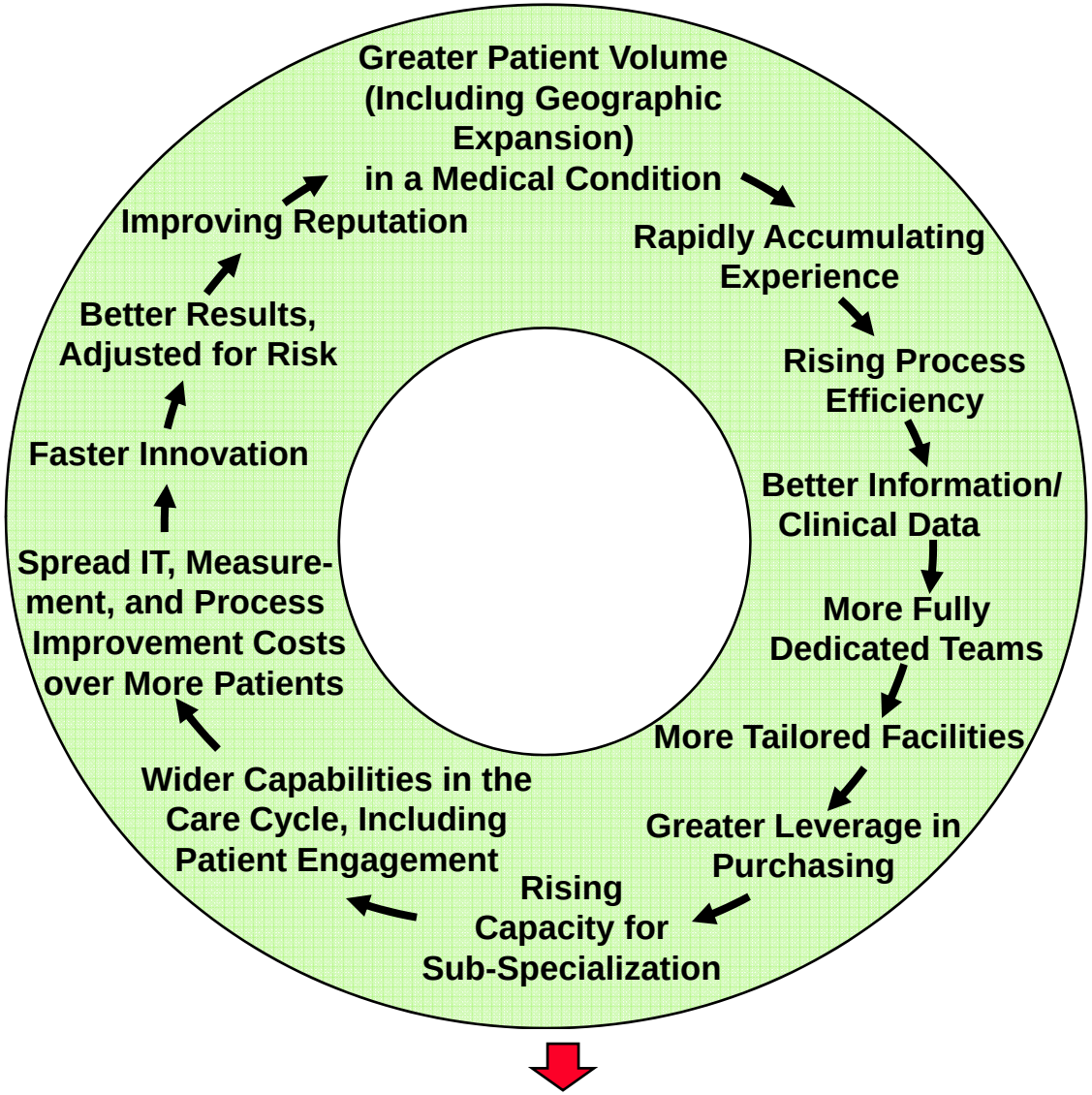
- Integration **across specialties and departments** in addressing a medical condition
- Integration **over the care cycle** for a medical condition
- Integration **across medical conditions**
- Integrated care is **not**:
  - Co-location per se
  - Care delivered by the same organization per se
  - Hyper-specialization
  - Freestanding focused factories
  - Vertically integrated health plan/provider systems

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**
3. There must be **competition for patients** 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

Experience, Scale, and Value in Health Care Delivery

The Virtuous Circle in a Medical Condition



- The virtuous cycle **extends across geography** when care for a medical condition is integrated across locations

Consequences of Service Fragmentation

- Health care delivery in every country is **highly fragmented**
  - Extreme duplication of services
  - Low volume of patients per provider
  - Duplication and fragmentation are present even **within affiliated hospitals or systems**
- Most providers **lack the scale and experience** to justify dedicated facilities, dedicated teams, and integrated care over the cycle
- Fragmentation drives organizations into **shared units**
  - Specialties
  - Imaging
  - Procedures

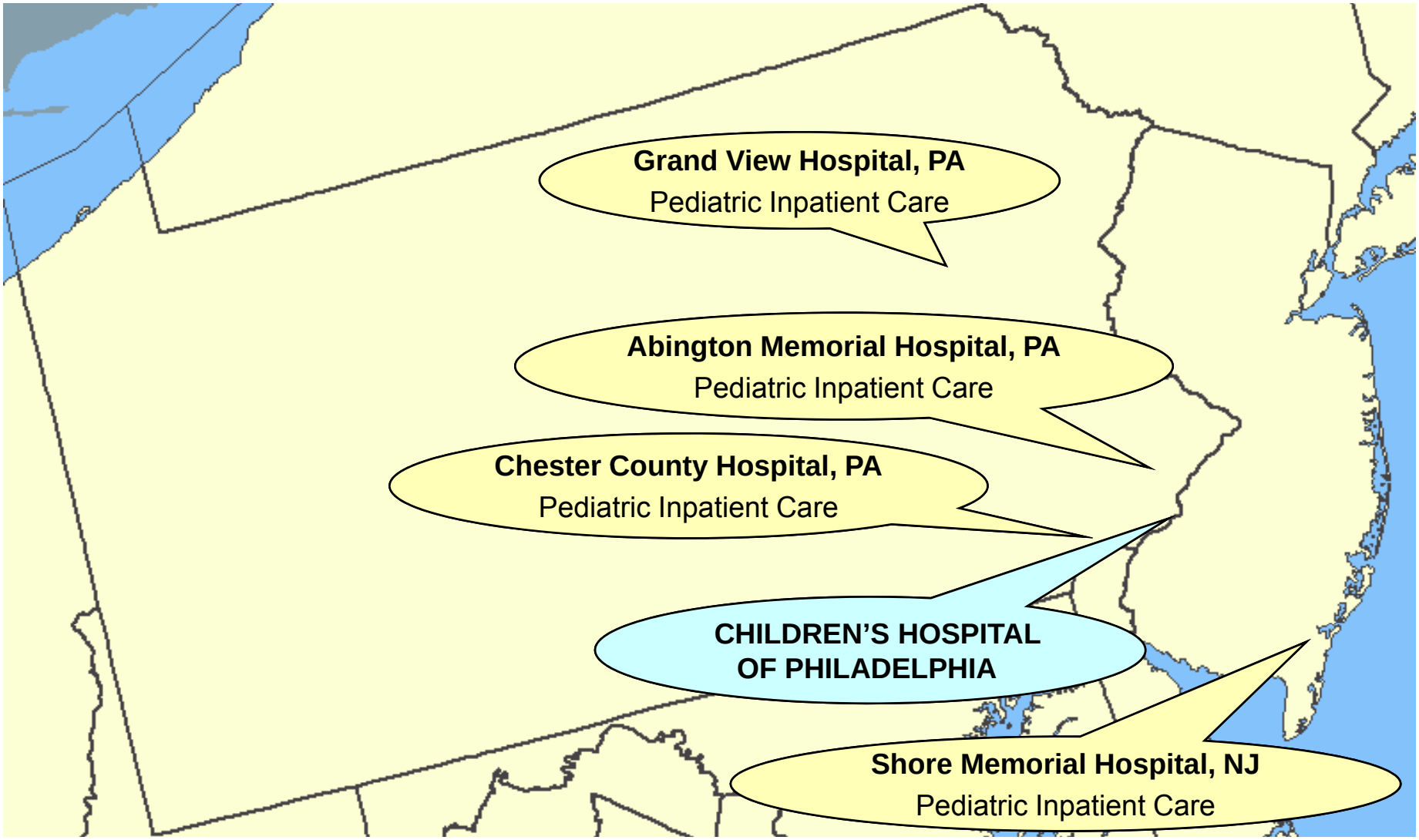
- Patient value suffers

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**
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
6. Competition should be **regional** and **national**, not just local
   - Providers should be selected based on excellence in a medical condition, rather than because they are the most convenient
   - Excellent providers can manage delivery **across multiple geographies**

Managing Care Across Geography

The Children's Hospital of Philadelphia (CHOP) Affiliations



Principles of Value-Based Competition

1. The goal should be **value for patients**, not just lowering costs
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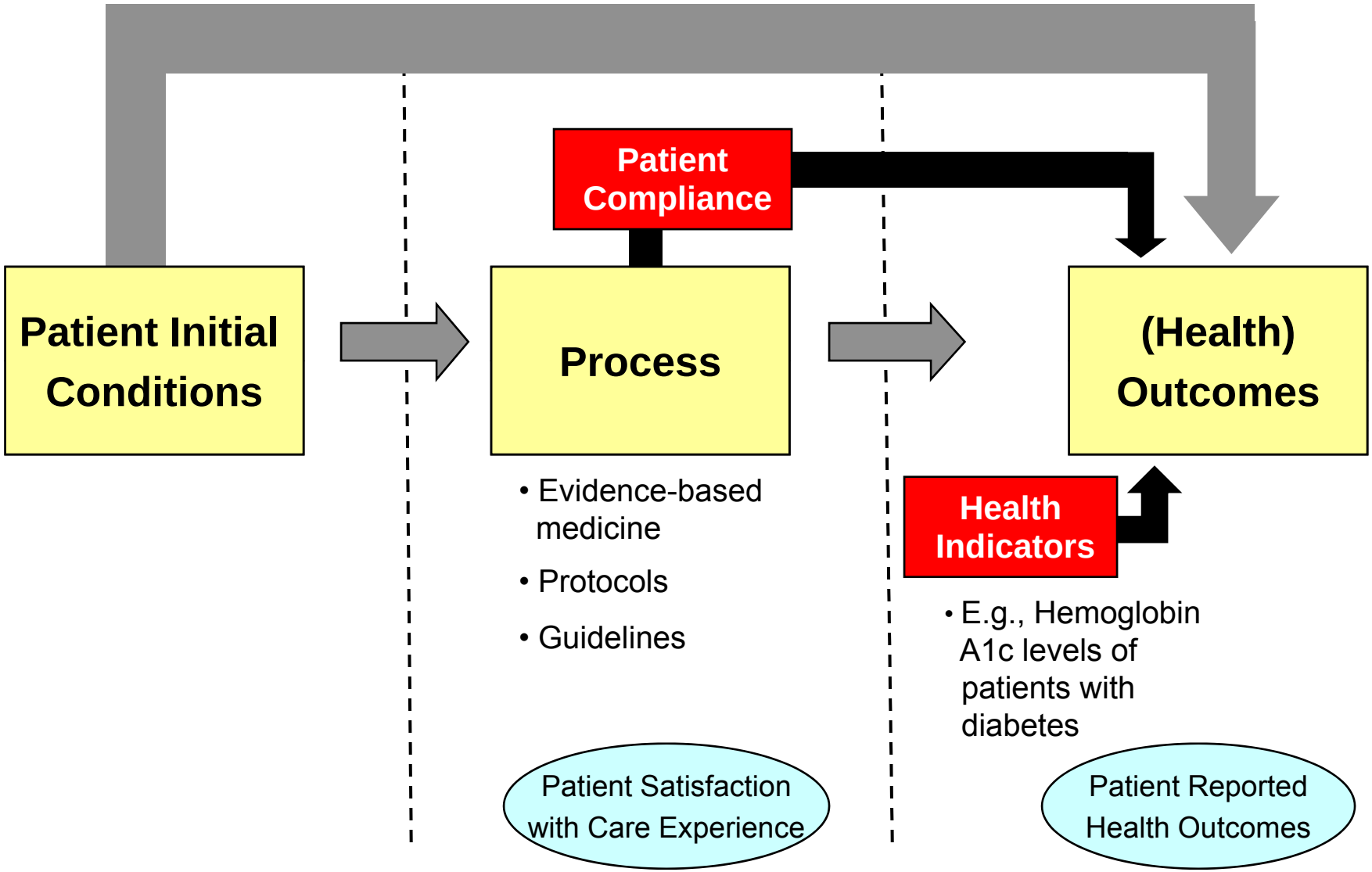
5. Value is driven by provider **experience**, **scale**, and **learning** at the medical condition level
6. Competition should be **regional** and **national**, not just local
7. **Results** must be universally measured and reported

$$\text{Value:} \quad \frac{\text{Patient health outcomes}}{\text{Total cost of achieving those outcomes}}$$

Measuring Value in Health Care



- The **primary goal is value**, not access, equity

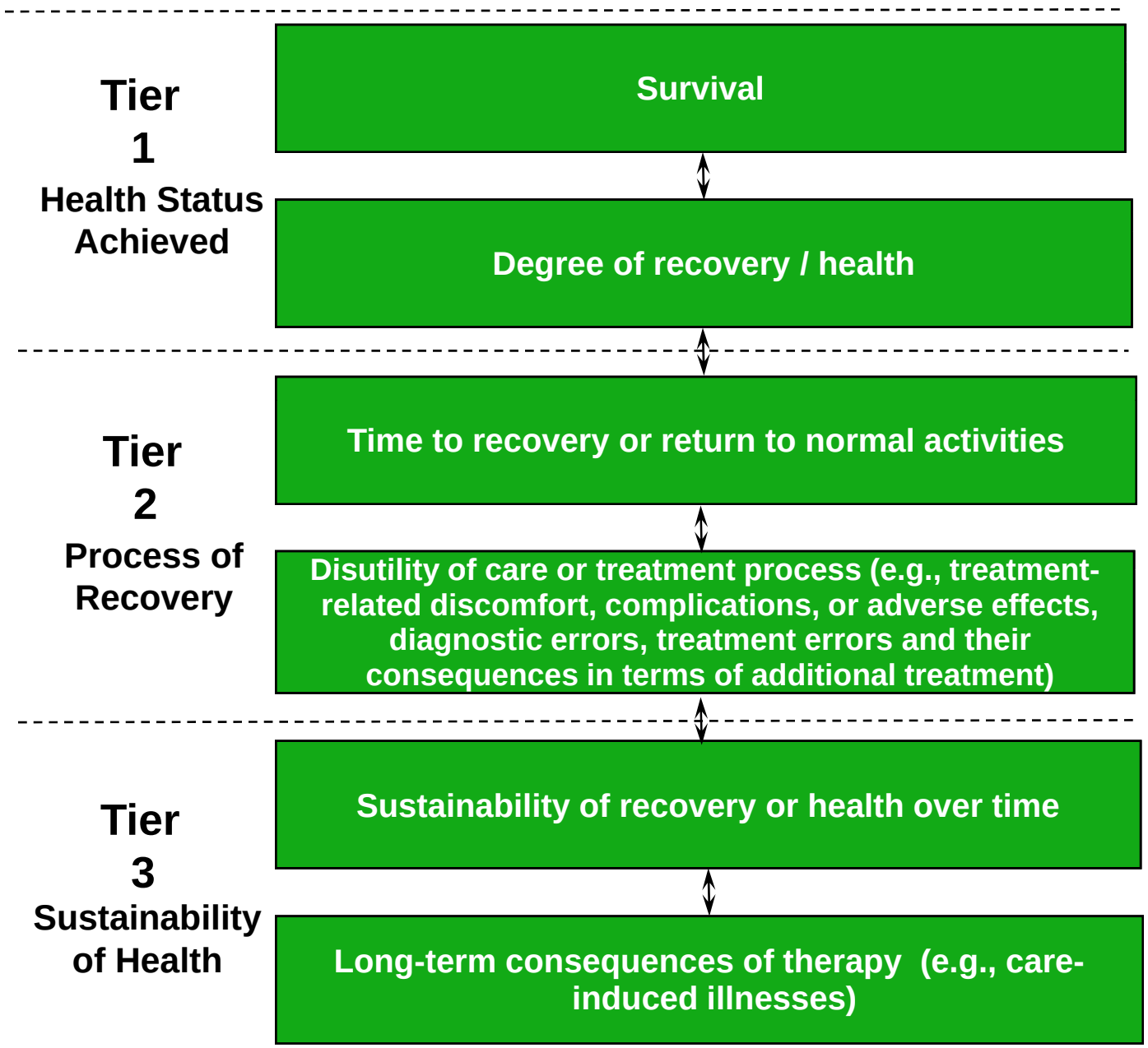
Measuring Value: The Unit of Analysis

- The **appropriate unit for measuring value** must align with **how value is created for patients**
  - Across services
  - Across time

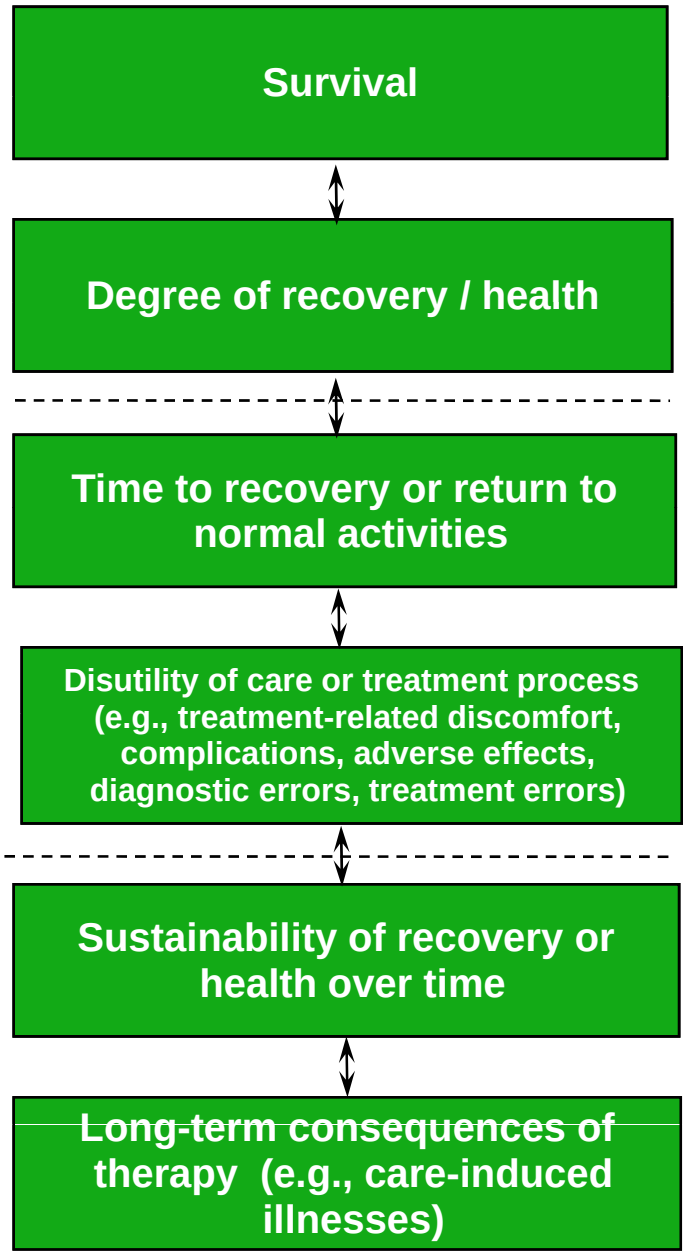
- Value should be measured for **medical conditions** over the **cycle of care**
  - vs. for hospitals, practices, clinics, or departments
  - vs. for types of service (e.g. inpatient, outpatient, tests, rehabilitation)
  - vs. for interventions or short episodes

- Current efforts suffer from measuring value at **differing/ inappropriate levels**

The Outcome Measures Hierarchy



Measuring Breast Cancer Outcomes



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

- **Remission**
- **Functional status**
- **Breast conservation outcome**

- **Time to remission**
- **Time to achieve functional status**

- **Nosocomial infection**
- **Nausea**
- **Vomiting**
- **Febrile neutropenia**
- **Limitation of motion**
- **Depression**

- **Cancer recurrence**
- **Sustainability of functional status**

- **Incidence of secondary cancers**
- **Brachial plexopathy**
- **Premature osteoporosis**

Measuring Initial Conditions
Breast Cancer

- Stage of disease
- Type of cancer (infiltrating ductal carcinoma, tubular, medullary, lobular, etc.)
- Estrogen and progesterone receptor status (positive or negative)
- Sites of metastases
- Age
- Menopausal status
- General health, including co-morbidities

- As care delivery improves, some initial conditions that once affected outcomes will **decline in importance**

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**
3. There must be **competition for patients** 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
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**

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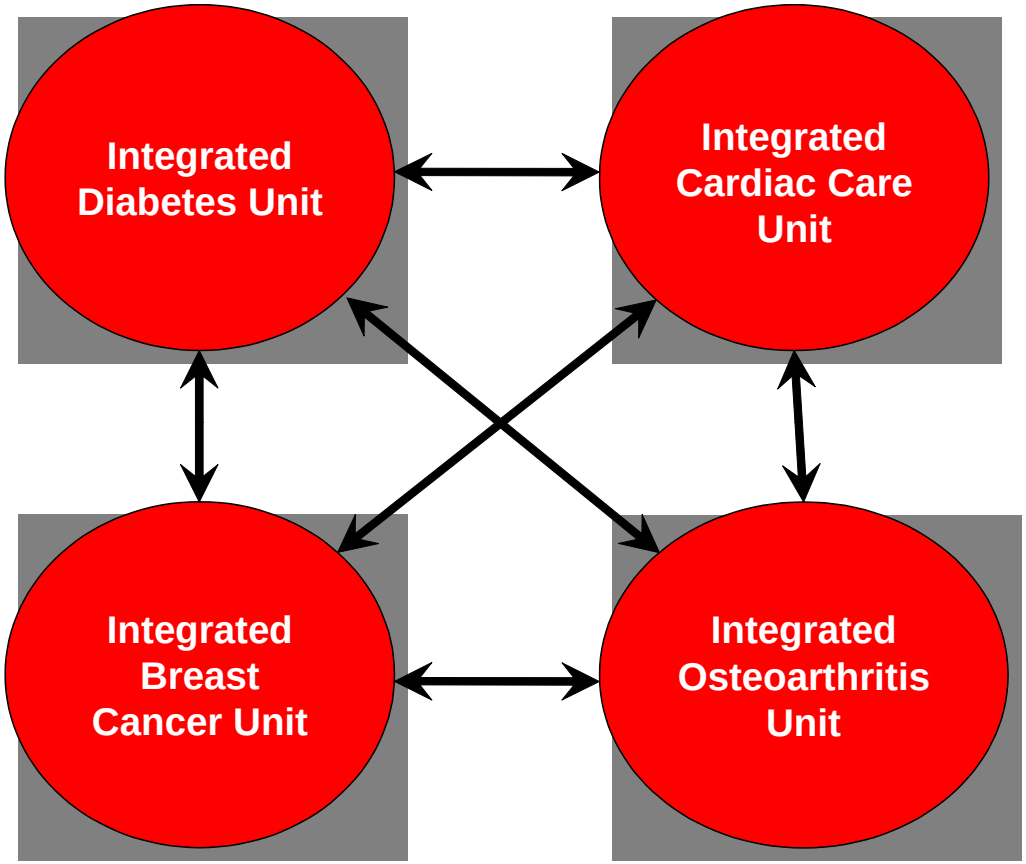
9. **Information technology** will **enable** restructuring of care delivery and **measuring results**, but is **not a solution by itself**
   - Common data definitions
   - Interoperability standards
   - Include all types of data (e.g. notes, images)
   - Patient-centered database
   - Cover the full care cycle, including referring entities
   - Accessible to all involved parties

Moving to Value-Based Competition
Implications for Providers

- Organize around **integrated practice units** (IPUs) for each medical condition
  - With mechanisms for cross-IPU coordination
- Choose the appropriate **scope of services** in each facility based on excellence in **patient value**
- **Integrate services** for each IPU / medical condition **across geographic locations**
- Employ formal **partnerships** and **alliances** with independent practices involved in the care cycle to integrate care, improve capabilities, and/or obtain consultations
- Measure **outcomes** and **costs** for every medical condition over the full care cycle
- Implement a **single, integrated, patient centric electronic medical record system** which is utilized by every unit and accessible to partners, referring physicians, and patients
- Lead the development of **new contracting models** with health plans based on bundled reimbursement for care cycles
- Expand high-performance IPUs **across geography** using an integrated model
  - Instead of a federation of broad line, stand-alone facilities

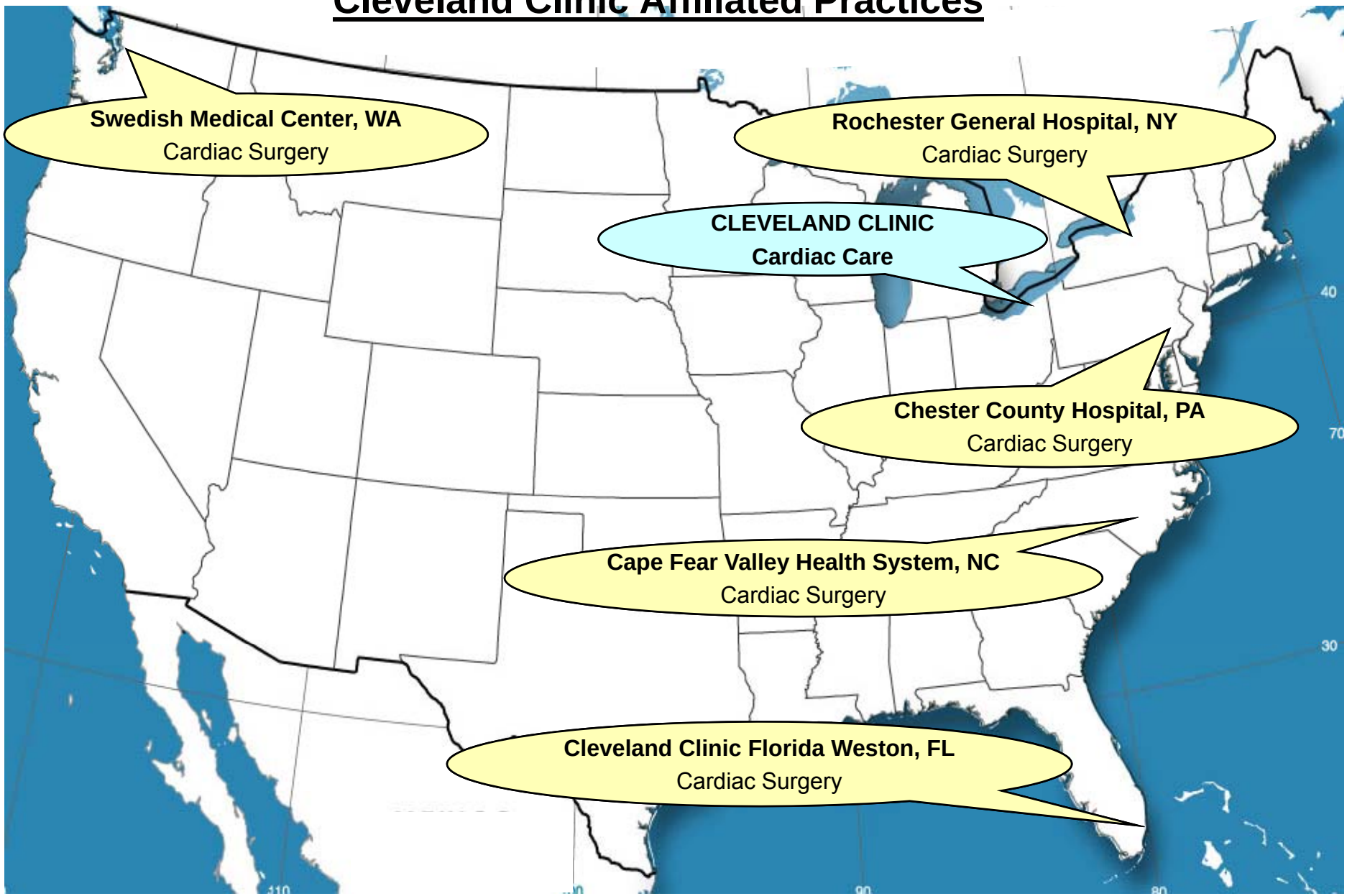
Patients with Multiple Medial Conditions
Coordinating Care Across IPUs



- The primary organization of care delivery should be around the integration required for **every patient**
- IPUs will greatly simplify the coordination of care for patients with multiple medical conditions
- The patient with multiple conditions will be **better off** in an IPU model

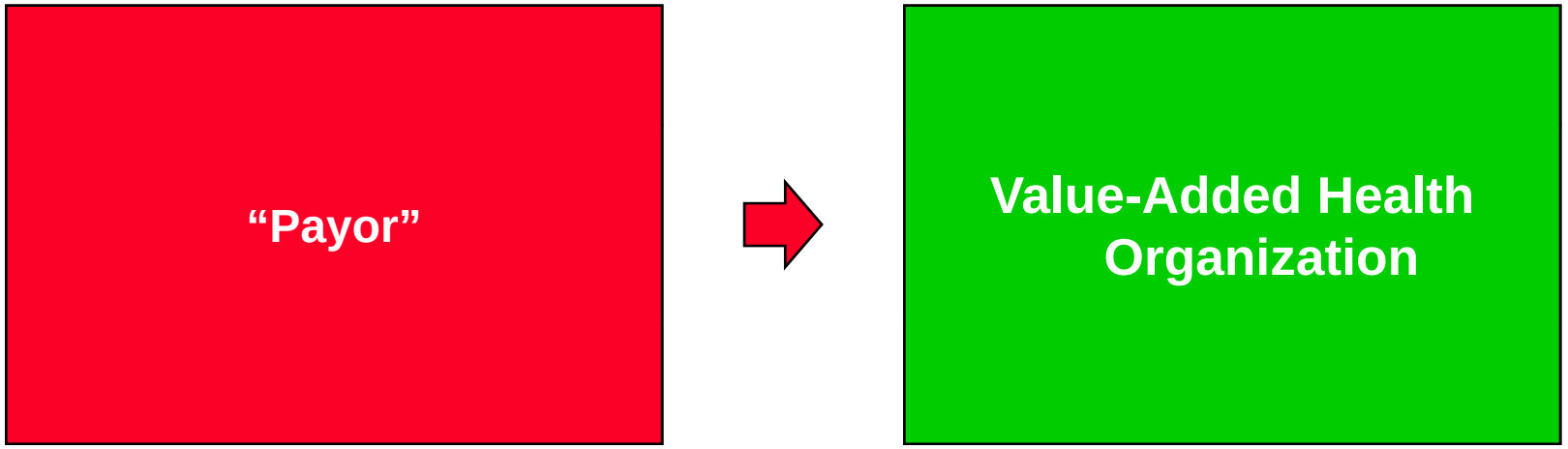
Managing Care Across Geography

Cleveland Clinic Affiliated Practices



Moving to Value-Based Competition

Health Plans



Moving to Value-Based Competition
Value-Adding Roles of Health Plans

- Assemble, analyze and manage the **total medical records** of members
- Provide for comprehensive **prevention**, **screening**, and **chronic disease management** services to all members
- 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 **care cycle** and **across medical conditions**
- Encourage and reward **integrated practice unit** models by providers
- Design new **bundled reimbursement structures** for care cycles instead of fees for discrete services
- Measure and report **overall health results** for members by medical condition versus other plans

- Health plans will require **new capabilities** and **new types of staff** to play these roles

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**
- Provide for convenient and high value **prevention, screening,** and **disease management** services
  - On site clinics
- Set **new expectations for health plans**, including self-insured plans
  - Plans should assist subscribers in **accessing excellent providers** for their medical condition
  - Plans should contract for care **cycles rather** than discrete 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**

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 or amenities
- **Comply** with treatment and preventative practices
- Work with the health plan in **long-term health management**
  - Shifting plans frequently is not in the consumer's interest

- But "consumer-driven health care" is the **wrong metaphor** for reforming the system

Moving to Value-Based Competition
Government

- Establish **universal measurement** and **reporting** of **health outcomes**
- Create IT standards including **data definitions**, **interoperability standards**, and **deadlines for implementation** to enable the collection and exchange of medical information for every patient
- Remove obstacles to the **restructuring of health care delivery** around the integrated care of medical conditions
- Shift reimbursement systems to **bundled prices for cycles of care** instead of payments for discrete treatments or services
- Limit **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

How Will Redefining Health Care Begin?

- It is **already happening** in the U.S. and other countries
- Providers, as well as health plans and employers, can take **voluntary** steps in these directions, and will **benefit** irrespective of other changes
- The changes will be **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** and **health plans** can and should take the lead