

# Value-Based Health Care: From Idea to Reality

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This presentation draws on Redefining Health Care: Creating Value-Based Competition on Results (with Elizabeth O. Teisberg), Harvard Business School Press, May 2006; “A Strategy for Health Care Reform—Toward a Value-Based System,” *New England Journal of Medicine*, June 3, 2009; “What Is Value in Health Care?” *New England Journal of Medicine*, December 23, 2010; “Defining and Introducing Value in Healthcare,” *Institute of Medicine Annual Meeting*, 2007. Additional information about these ideas, as well as case studies, can be found the Institute for Strategy & Competitiveness Redefining Health Care website at <http://www.hbs.edu/rhc/index.html>. 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 O. Teisberg.

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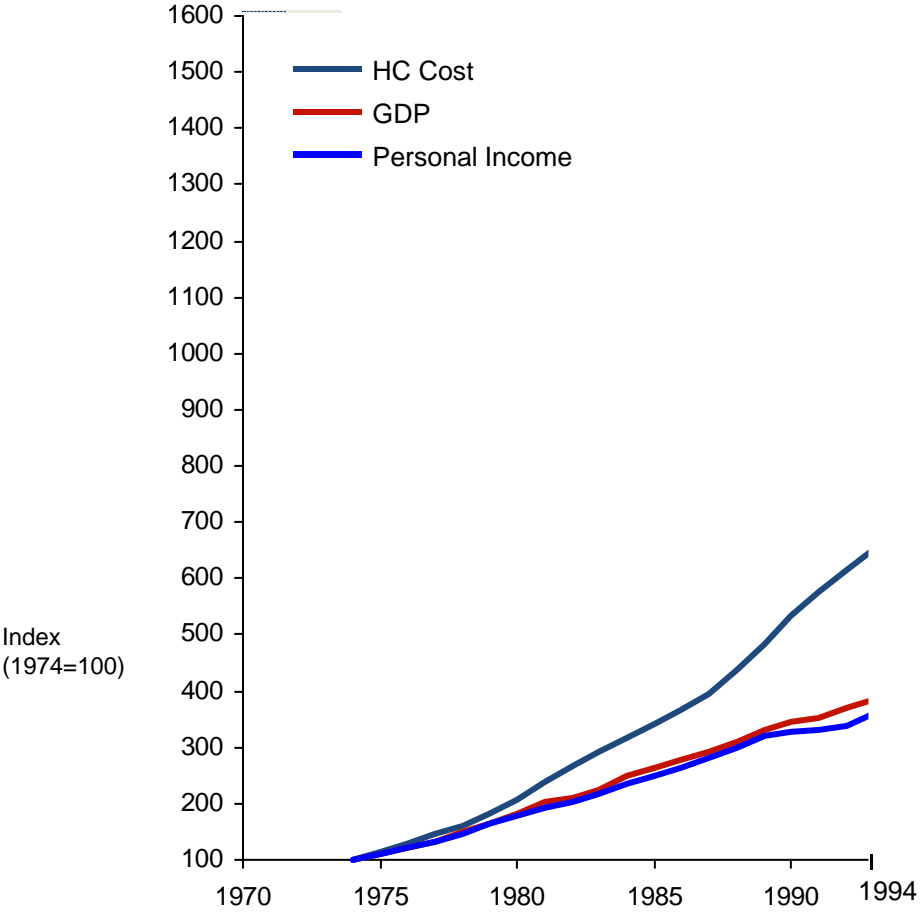
## Codman

*“[Outcomes measurement reflects] merely the common sense notion that every hospital should follow every patient it treats, long enough to determine whether or not the treatment has been successful, and then to inquire, ‘if not, why not’ with a view to preventing a similar failure in the future.”*

- Ernest Codman  
(circa 1915, Massachusetts)



# Health Care Spending Versus GDP and Wage Growth 1974-1994



Source: World Bank (GDP), OECD Health Data 2011 (Health care Spending) Bureau of Labor and Statistics (Personal Income)  
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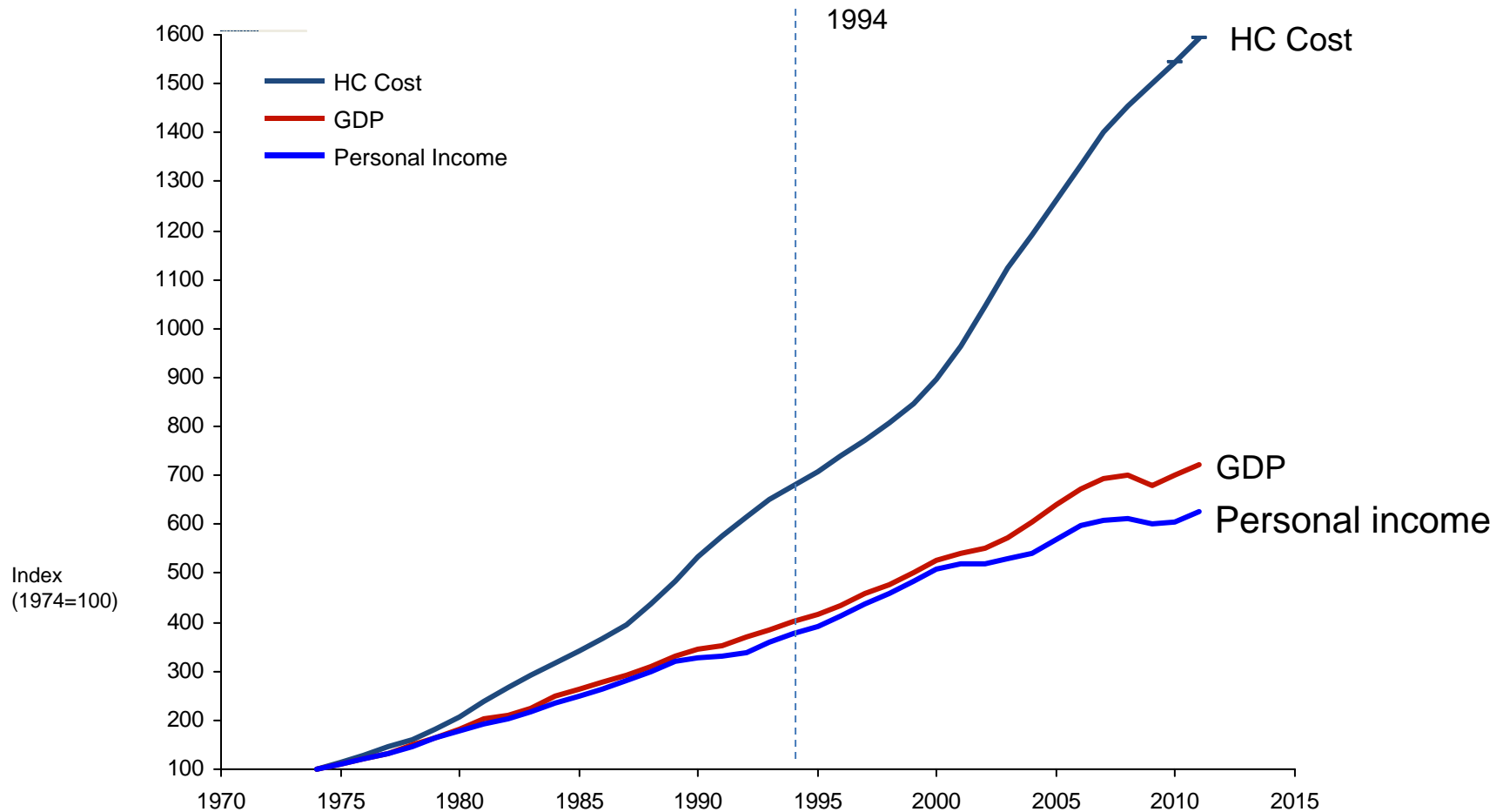
# Competition in U.S. Health Care: 1994

- Competition to **shift costs** or **capture greater revenue**
- Competition to **increase bargaining power** to secure discounts or price premiums
- Competition to **capture patients** and **restrict choice**
- Competition to **exclude less healthy individuals**



- Competition on the wrong things has led to a **zero-sum competition** which does not increase value for patients

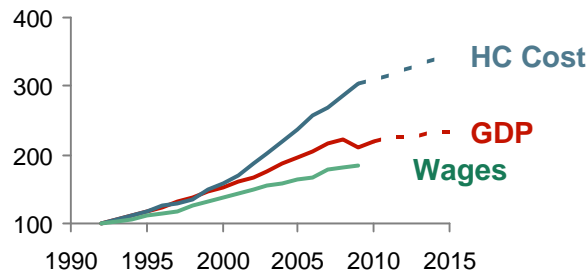
# Health Care Spending Versus GDP and Wage 1974-2004



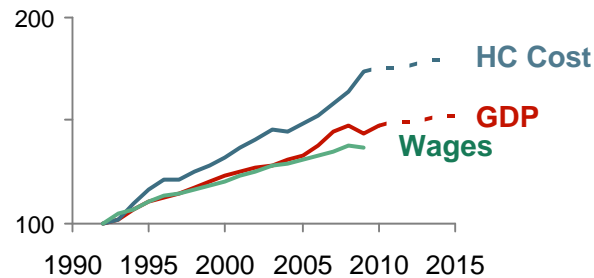
# Comparative Growth of Health Care Spending, Selected Countries 1992-2012



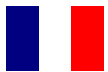
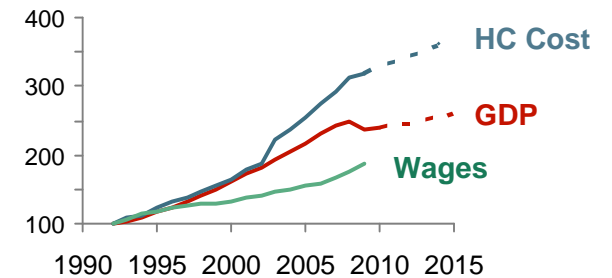
Per capita HC exp 2009  
€2,470  
(9.8% of GDP)



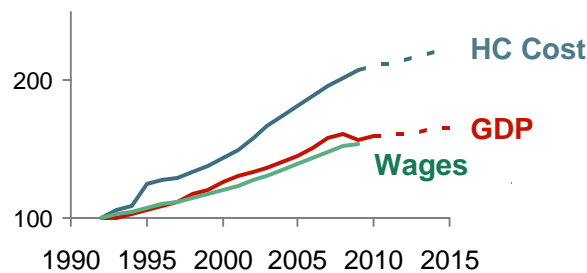
Per capita HC exp 2009  
€3,361  
(11.6% of GDP)



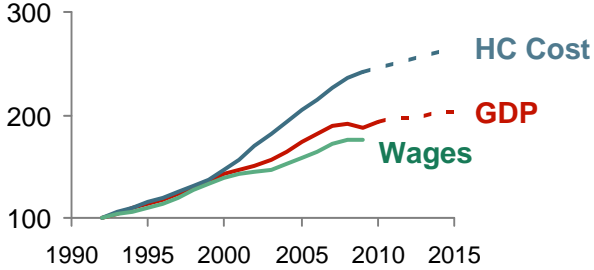
Per capita HC exp 2009  
€2,251  
(9.5% of GDP)



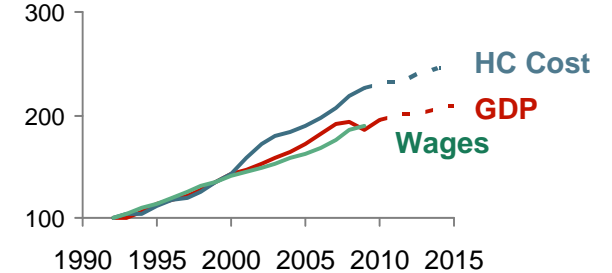
Per capita HC exp 2009  
€3,615  
(11.8% of GDP)



Per capita HC exp 2009  
€5,562  
(17.4% of GDP)

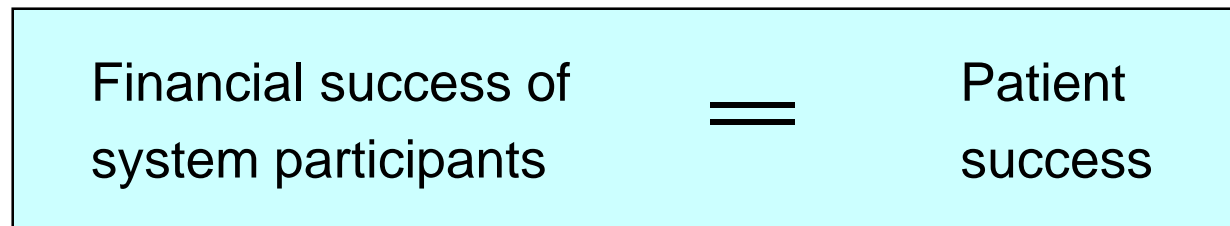


Per capita HC exp 2009  
€3,162  
(10% of GDP)



# Creating The Right Kind of Competition: 2004

- Patient **choice** and **competition** for patients are powerful forces to encourage continuous improvement in value and restructuring of care
- But competition must be **aligned with value**



- Creating positive-sum **competition on value** for patients is fundamental to creating sustainable health care in every country

## Redefining Health Care Delivery: 2006

- The only solution is to reorganize the entire delivery system around **value**

Value: Patient health outcomes per dollar spent

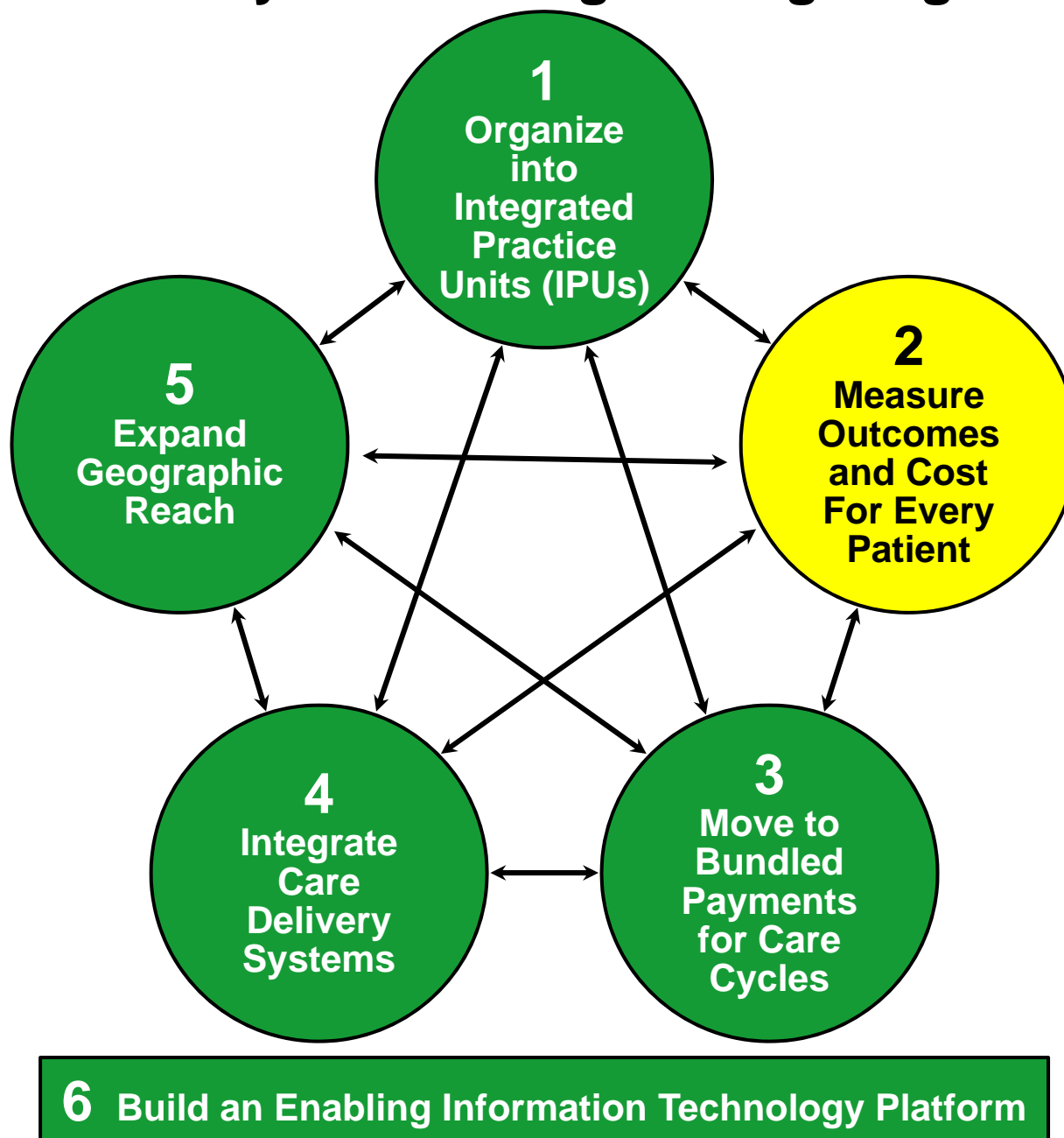
- Value is the only goal that can **unite the interests** of all system participants



- How to design a health care delivery system that **dramatically improves patient value**
- How to construct a **dynamic system** that keeps rapidly improving



# A Mutually Reinforcing Strategic Agenda



## Defining the Right Outcomes

- Results not patient experience
- Results not compliance with practice guidelines
- Results not clinical indicators (e.g. PSA score)



- Results that matter for patients
- Results for conditions not procedures
- Results for conditions not specialties
- Results for conditions not hospitals or care sites

# Measuring and Reporting Outcomes is the Single Most Important Step in Transforming Health Care

- Outcomes **define the goal** of the organization and its accountability to patients
- Outcomes **inform the team and the services** that should be part of IPUs
- Outcomes highlight and verify **value-enhancing cost reduction**
- Outcomes are critical to new **value based reimbursement models**
- Outcomes **unite clinicians and administrators** around practice improvement
- Outcomes define areas for **service line growth**

# The Tide is Turning

- Consumer Reports is now publishing **hospital quality rankings**
- Payors across the world, such as Achmea, are aggressively pushing providers towards better **outcomes measurement**
- Single payor health systems like the NHS are driving measurement and reporting of patient outcomes and are **opening up competition**



- There is widespread agreement that the **status quo has ended** and that health care is accelerating the shift towards transparency, choice and value