

# Value-Based Health Care Delivery

*Introduction to Social Medicine*  
*Professor Michael E. Porter*  
*October 10, 2013*

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This presentation draws on Porter, Michael E. and Thomas H. Lee. "The Strategy that Will Fix Health Care," *Harvard Business Review*, October 2013; Porter, Michael E. with Thomas H. Lee and Erika A. Pabo. "Redesigning Primary Care: A Strategic Vision to Improve Value by Organizing Around Patients' Needs," *Health Affairs*, March 2013; Porter, Michael E. and Robert Kaplan. "How to Solve the Cost Crisis in Health Care," *Harvard Business Review*, September 2011; Porter, Michael E. "What is Value in Health Care" and supplementary papers, *New England Journal of Medicine*, December 2010; Porter, Michael E. "A Strategy for Health Care Reform—Toward a Value-Based System," *New England Journal of Medicine*, June 2009; Porter, Michael E. and Elizabeth Olmsted Teisberg. Redefining Health Care: Creating Value-Based Competition on Results. (2006) Additional information about these ideas, as well as case studies, can be found at the Institute for Strategy and 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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# Solving the Health Care Problem

- The core issue in health care is the **value of health care delivered**

Value: Patient health outcomes per dollar spent

- Delivering high and improving value is the **fundamental purpose** of health care
- Value is the only goal that can **unite the interests** of all system participants
- Improving value is the only **real solution** versus cost shifting or restricting services

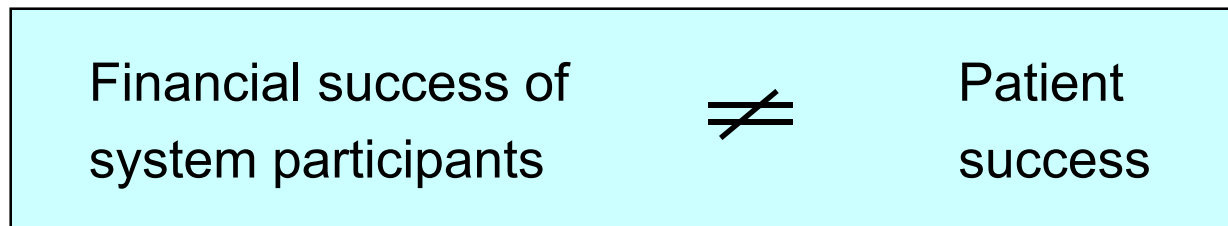
# Creating a Value-Based Health Care System

- Significant improvement in value will require **fundamental restructuring of health care delivery**, not incremental improvements
- Today's delivery approaches reflect **legacy**, medical science, organizational structures, management practices, and payment models that are obsolete.

Care pathways, process improvements, safety initiatives, **care coordinators**, disease management and other **overlays** to the current structure are beneficial, but not sufficient

# Creating The Right Kind of Competition

- Patient **choice** and **competition** for patients are powerful forces to encourage continuous improvement in value and restructuring of care
- Today's competition in health care **is not aligned with value**



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

# Principles of Value-Based Health Care Delivery

$$\text{Value} = \frac{\text{Health outcomes that matter to patients}}{\text{Costs of delivering the outcomes}}$$

- Value is measured for the **care of a patient's medical condition** over the full cycle of care
  - Outcomes are the **full set of health results for a patient's condition** over the care cycle
  - Costs are the **total costs of care for a patient's condition** over the care cycle

# Creating a Value-Based Health Care Delivery System

## The Strategic Agenda

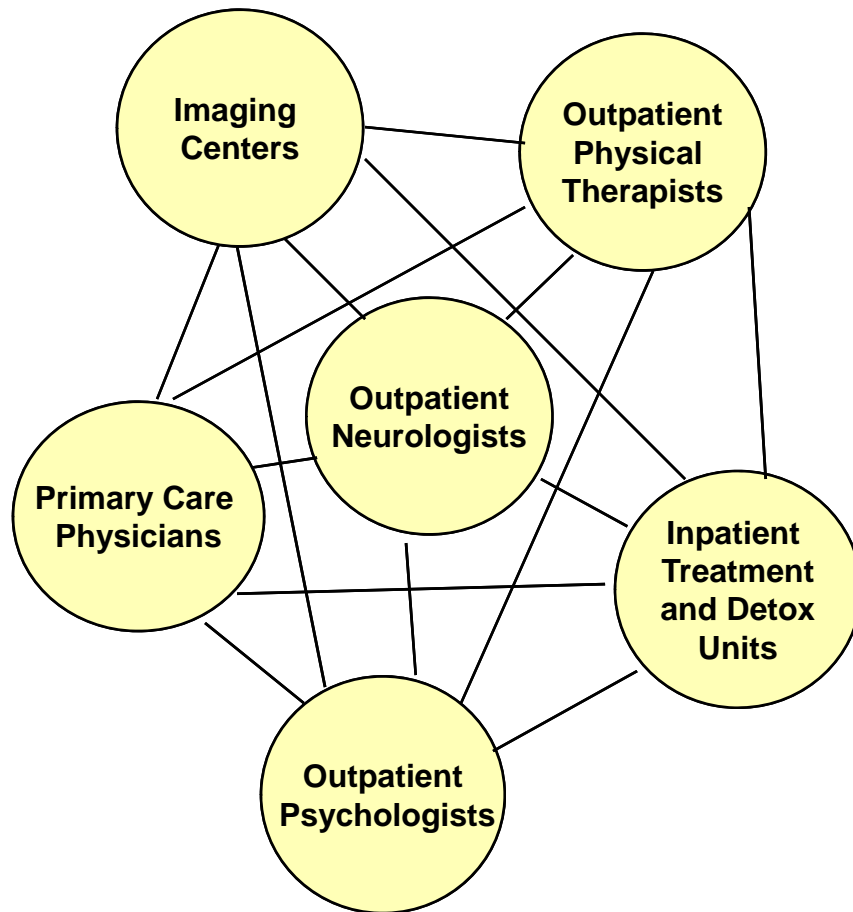
1. Organize Care into **Integrated Practice Units (IPUs)** around Patient Medical Conditions
  - Organize primary and preventive care to serve **distinct patient segments**
2. Measure **Outcomes** and **Costs** for Every Patient
3. Move to **Bundled Payments** for Care Cycles
4. Integrate Care Delivery **Systems**
5. Expand **Geographic Reach**
6. Build an Enabling **Information Technology Platform**

# 1. Organize Care Around Patient Medical Conditions

## Migraine Care in Germany

### Existing Model:

Organize by Specialty and Discrete Service

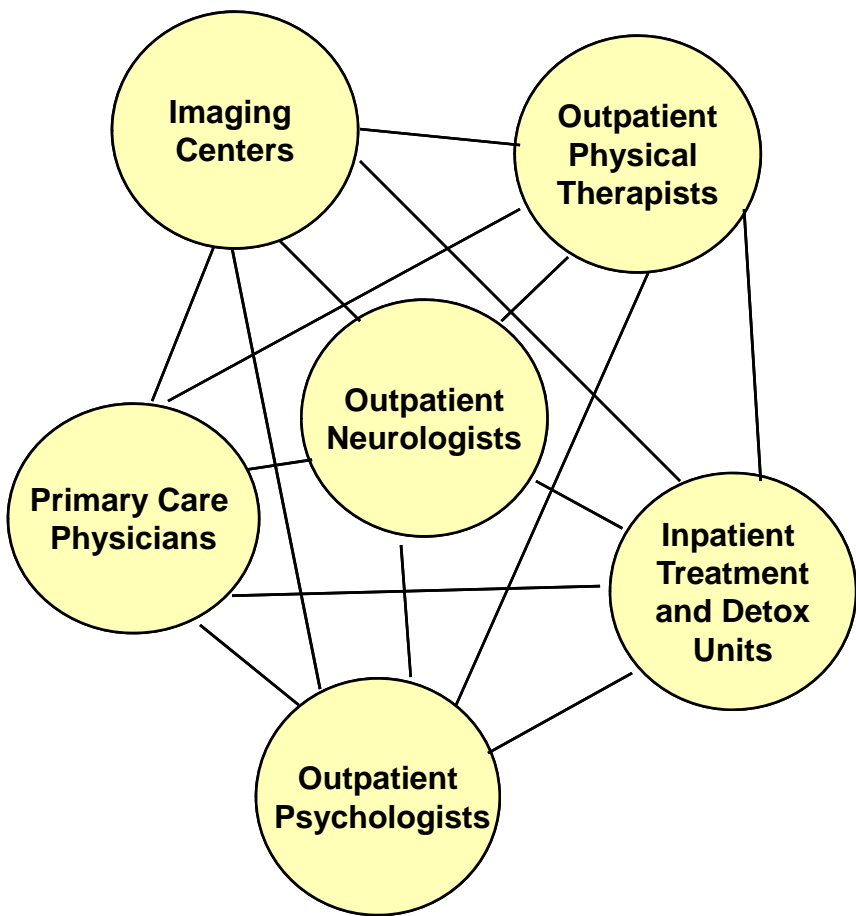


Source: Porter, Michael E., Clemens Guth, and Elisa Dannemiller, *The West German Headache Center: Integrated Migraine Care*, Harvard Business School Case 9-707-559, September 13, 2007

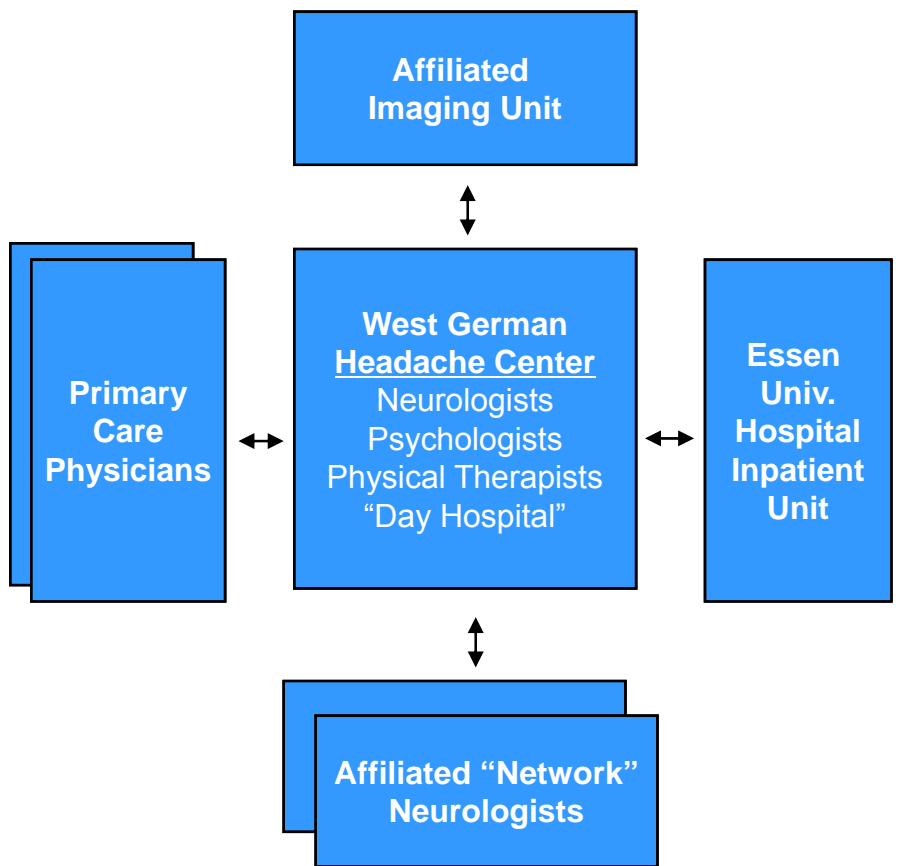
# 1. Organize Care Around Patient Medical Conditions

## Migraine Care in Germany

**Existing Model:**  
**Organize by Specialty and Discrete Service**



**New Model:**  
**Organize into Integrated Practice Units (IPUs)**



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# Over The Full Cycle of Care

## Acute Knee-Osteoarthritis Requiring Replacement

<b>INFORMING AND ENGAGING</b>	<ul style="list-style-type: none"> <li>Importance of exercise, weight reduction, proper nutrition</li> </ul>	<ul style="list-style-type: none"> <li>Meaning of diagnosis</li> <li>Prognosis (short- and long-term outcomes)</li> <li>Drawbacks and benefits of surgery</li> </ul>	<ul style="list-style-type: none"> <li>Setting expectations</li> <li>Importance of nutrition, weight loss, vaccinations</li> <li>Home preparation</li> </ul>	<ul style="list-style-type: none"> <li>Expectations for recovery</li> <li>Importance of rehab</li> <li>Post-surgery risk factors</li> </ul>	<ul style="list-style-type: none"> <li>Importance of rehab adherence</li> <li>Longitudinal care plan</li> </ul>	<ul style="list-style-type: none"> <li>Importance of exercise, maintaining healthy weight</li> </ul>
	<ul style="list-style-type: none"> <li>Joint-specific symptoms and function (e.g., WOMAC scale)</li> <li>Overall health (e.g., SF-12 scale)</li> </ul>	<ul style="list-style-type: none"> <li>Loss of cartilage</li> <li>Change in subchondral bone</li> <li>Joint-specific symptoms and function</li> <li>Overall health</li> </ul>	<ul style="list-style-type: none"> <li>Baseline health status</li> <li>Fitness for surgery (e.g., ASA score)</li> </ul>	<ul style="list-style-type: none"> <li>Blood loss</li> <li>Operative time</li> <li>Complications</li> </ul>	<ul style="list-style-type: none"> <li>Infections</li> <li>Joint-specific symptoms and function</li> <li>Inpatient length of stay</li> <li>Ability to return to normal activities</li> </ul>	<ul style="list-style-type: none"> <li>Joint-specific symptoms and function</li> <li>Weight gain or loss</li> <li>Missed work</li> <li>Overall health</li> </ul>
<b>MEASURING</b>	<ul style="list-style-type: none"> <li>PCP office</li> <li>Health club</li> <li>Physical therapy clinic</li> </ul>	<ul style="list-style-type: none"> <li>Specialty office</li> <li>Imaging facility</li> </ul>	<ul style="list-style-type: none"> <li>Specialty office</li> <li>Pre-op evaluation center</li> </ul>	<ul style="list-style-type: none"> <li>Operating room</li> <li>Recovery room</li> <li>Orthopedic floor at hospital or specialty surgery center</li> </ul>	<ul style="list-style-type: none"> <li>Nursing facility</li> <li>Rehab facility</li> <li>Physical therapy clinic</li> <li>Home</li> </ul>	<ul style="list-style-type: none"> <li>Specialty office</li> <li>Primary care office</li> <li>Health club</li> </ul>
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<b>CARE DELIVERY</b>	<b>MONITORING/PREVENTING</b> <b>MONITOR</b> <ul style="list-style-type: none"> <li>Conduct PCP exam</li> <li>Refer to specialists, if necessary</li> </ul> <b>PREVENT</b> <ul style="list-style-type: none"> <li>Prescribe anti-inflammatory medicines</li> <li>Recommend exercise regimen</li> <li>Set weight loss targets</li> </ul>	<b>DIAGNOSING</b> <ul style="list-style-type: none"> <li>Perform and evaluate MRI and x-ray                             <ul style="list-style-type: none"> <li>-Assess cartilage loss</li> <li>-Assess bone alterations</li> </ul> </li> </ul> <b>CLINICAL EVALUATION</b> <ul style="list-style-type: none"> <li>Review history and imaging</li> <li>Perform physical exam</li> <li>Recommend treatment plan (surgery or other options)</li> </ul>	<b>PREPARING</b> <ul style="list-style-type: none"> <li><b>OVERALL PREP</b> <ul style="list-style-type: none"> <li>Conduct home assessment</li> <li>Monitor weight loss</li> </ul> </li> <li><b>SURGICAL PREP</b> <ul style="list-style-type: none"> <li>Perform cardiology, pulmonary evaluations</li> <li>Run blood labs</li> <li>Conduct pre-op physical exam</li> </ul> </li> </ul>	<b>INTERVENING</b> <ul style="list-style-type: none"> <li><b>ANESTHESIA</b> <ul style="list-style-type: none"> <li>Administer anesthesia (general, epidural, or regional)</li> </ul> </li> <li><b>SURGICAL PROCEDURE</b> <ul style="list-style-type: none"> <li>Determine approach (e.g., minimally invasive)</li> <li>Insert device</li> <li>Cement joint</li> </ul> </li> <li><b>PAIN MANAGEMENT</b> <ul style="list-style-type: none"> <li>Prescribe preemptive multimodal pain meds</li> </ul> </li> </ul>	<b>RECOVERING/REHABBING</b> <ul style="list-style-type: none"> <li><b>SURGICAL</b> <ul style="list-style-type: none"> <li>Immediate return to OR for manipulation, if necessary</li> </ul> </li> <li><b>MEDICAL</b> <ul style="list-style-type: none"> <li>Monitor coagulation</li> </ul> </li> <li><b>LIVING</b> <ul style="list-style-type: none"> <li>Provide daily living support (showering, dressing)</li> <li>Track risk indicators (fever, swelling, other)</li> </ul> </li> <li><b>PHYSICAL THERAPY</b> <ul style="list-style-type: none"> <li>Daily or twice daily PT sessions</li> </ul> </li> </ul>	<b>MONITORING/MANAGING</b> <ul style="list-style-type: none"> <li><b>MONITOR</b> <ul style="list-style-type: none"> <li>Consult regularly with patient</li> </ul> </li> <li><b>MANAGE</b> <ul style="list-style-type: none"> <li>Prescribe prophylactic antibiotics when needed</li> <li>Set long-term exercise plan</li> <li>Revise joint, if necessary</li> </ul> </li> </ul>
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Orthopedic Specialist  
 Other Provider Entities

# **Integrate Across the Care Cycle** **An Orthopedic Surgeon Teaches A Course to Physical Therapists** **About Treatment Post-Surgery**



# 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
  - Involving **multiple** specialties and services
  - **Including** common co-occurring conditions and complications**Examples:** diabetes, breast cancer, knee osteoarthritis

- In primary / preventive care, the unit of value creation is **defined patient segments** with similar preventive, diagnostic, and primary treatment needs (e.g. healthy adults, frail elderly)

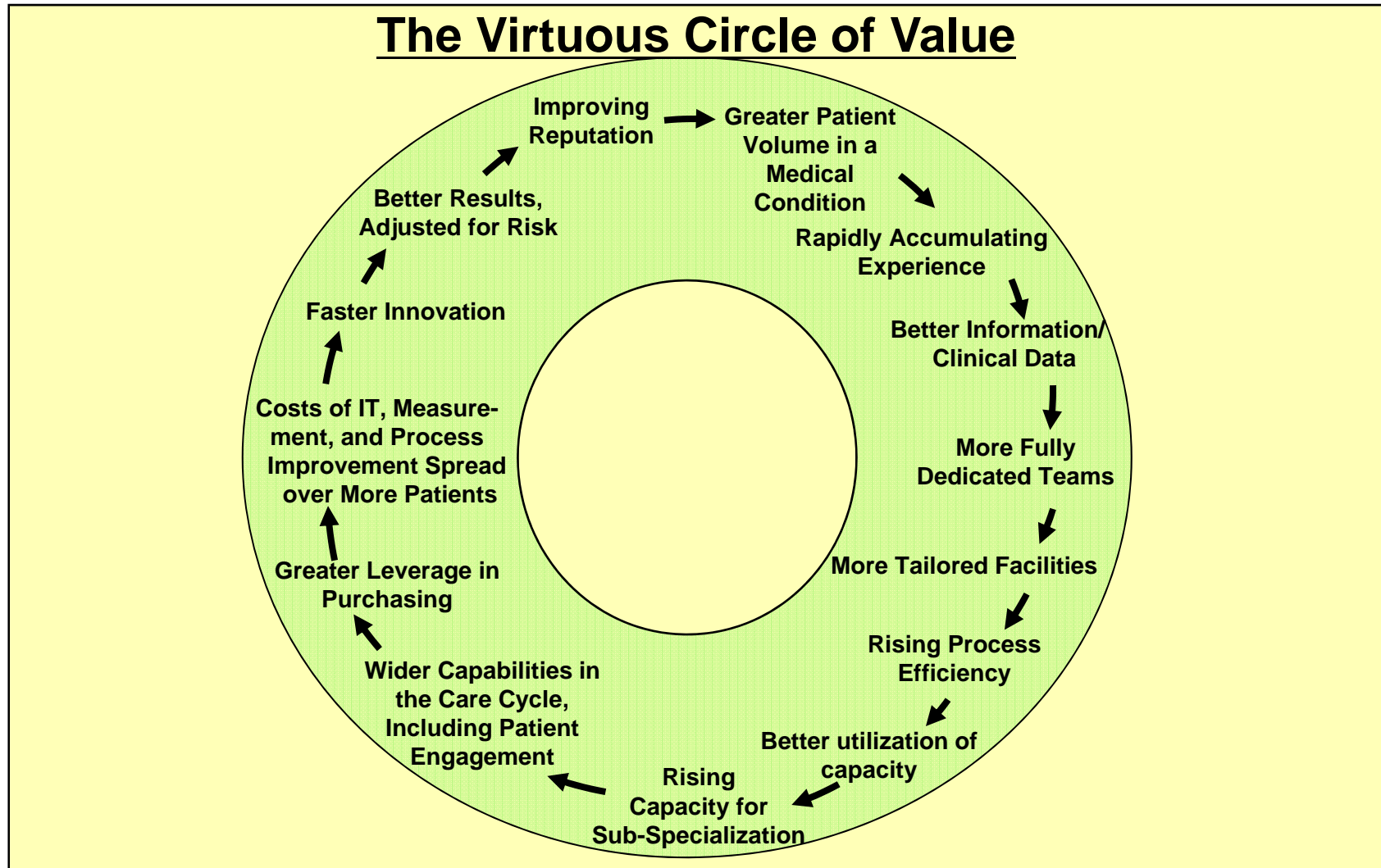


- The medical condition / patient segment is the proper **unit of value creation and value measurement** in health care delivery

# Attributes of an Integrated Practice Unit (IPU)

1. Organized around a **medical condition** or set of **closely related conditions** (or around defined patient segments for primary care)
2. Care is delivered by a **dedicated, multidisciplinary team** who devote a significant portion of their time to the medical condition
3. Providers see themselves as part of a **common organizational unit**
4. The team takes responsibility for the **full cycle of care** for the condition
  - Encompassing **outpatient, inpatient, and rehabilitative** care, as well as **supporting services** (such as nutrition, social work, and behavioral health)
5. **Patient education, engagement, and follow-up are integrated** into care
6. The unit has a **single administrative and scheduling structure**
7. To a large extent, **care is co-located in dedicated facilities**
8. A **physician team captain** or a **clinical care manager** (or both) oversees each patient's care process
9. The **team measures** outcomes, costs, and processes for each patient using a **common measurement platform**
10. The providers on the team meet **formally and informally** on a regular basis to discuss patients, processes, and results
11. **Joint accountability** is accepted for outcomes and costs

# Volume in a Medical Condition Enables Value



- Volume and experience will have an even greater impact on value **in an IPU structure** than in the current system

## **The Role of Volume in Value Creation**

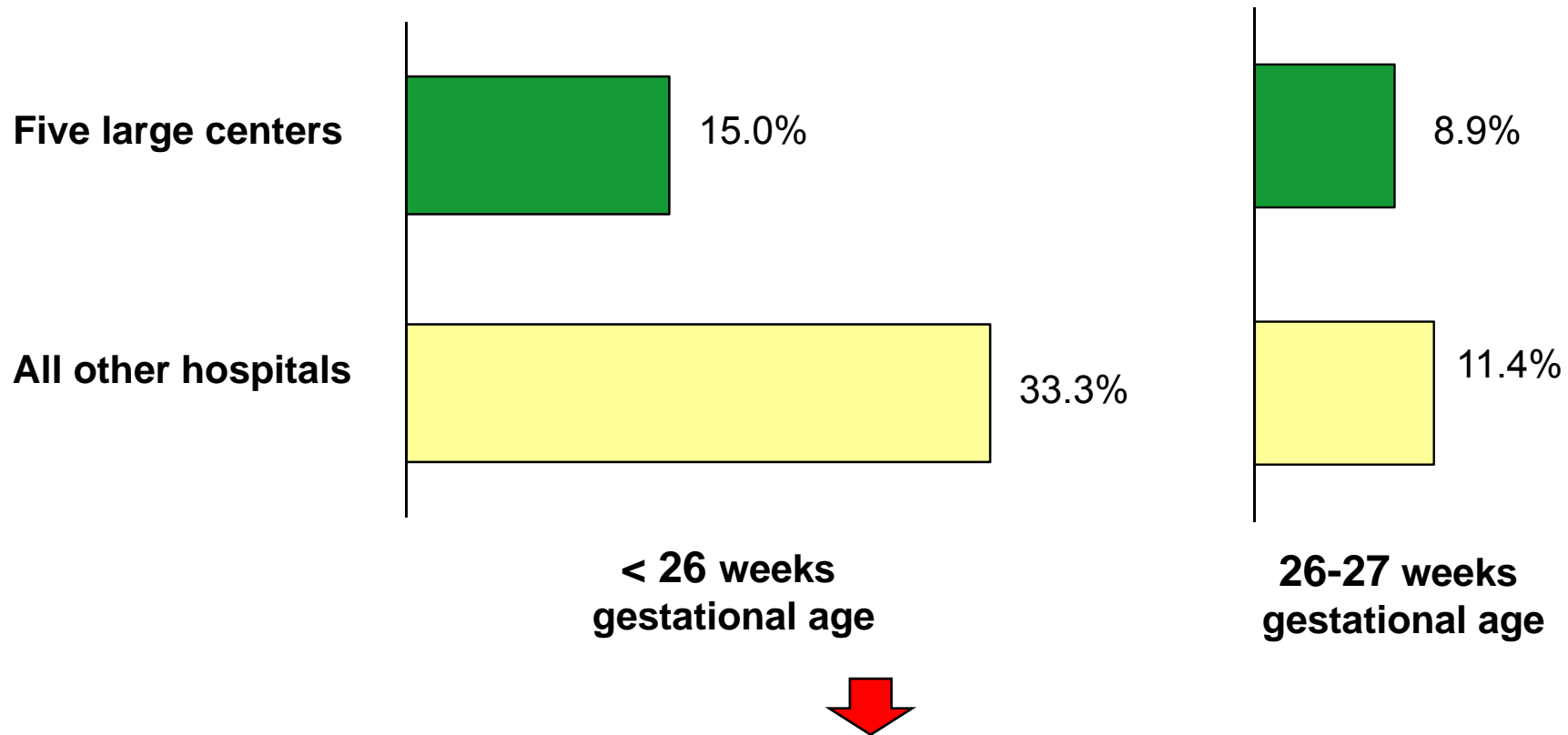
### **Fragmentation of Hospital Services in Sweden**

<b>DRG</b>	<b>Number of admitting providers</b>	<b>Average percent of total national admissions</b>	<b>Average admissions/ provider/ year</b>	<b>Average admissions/ provider/ week</b>
Knee procedure	68	1.5%	55	1
Diabetes age > 35	80	1.3%	96	2
Kidney failure	80	1.3%	97	2
Multiple sclerosis and cerebellar ataxia	78	1.3%	28	1
Inflammatory bowel disease	73	1.4%	66	1
Implantation of cardiac pacemaker	51	2.0%	124	2
Splenectomy age > 17	37	2.6%	3	<1
Cleft lip & palate repair	7	14.2%	83	2
Heart transplant	6	16.6%	12	<1

Source: Compiled from The National Board of Health and Welfare Statistical Databases – DRG Statistics, Accessed April 2, 2009.

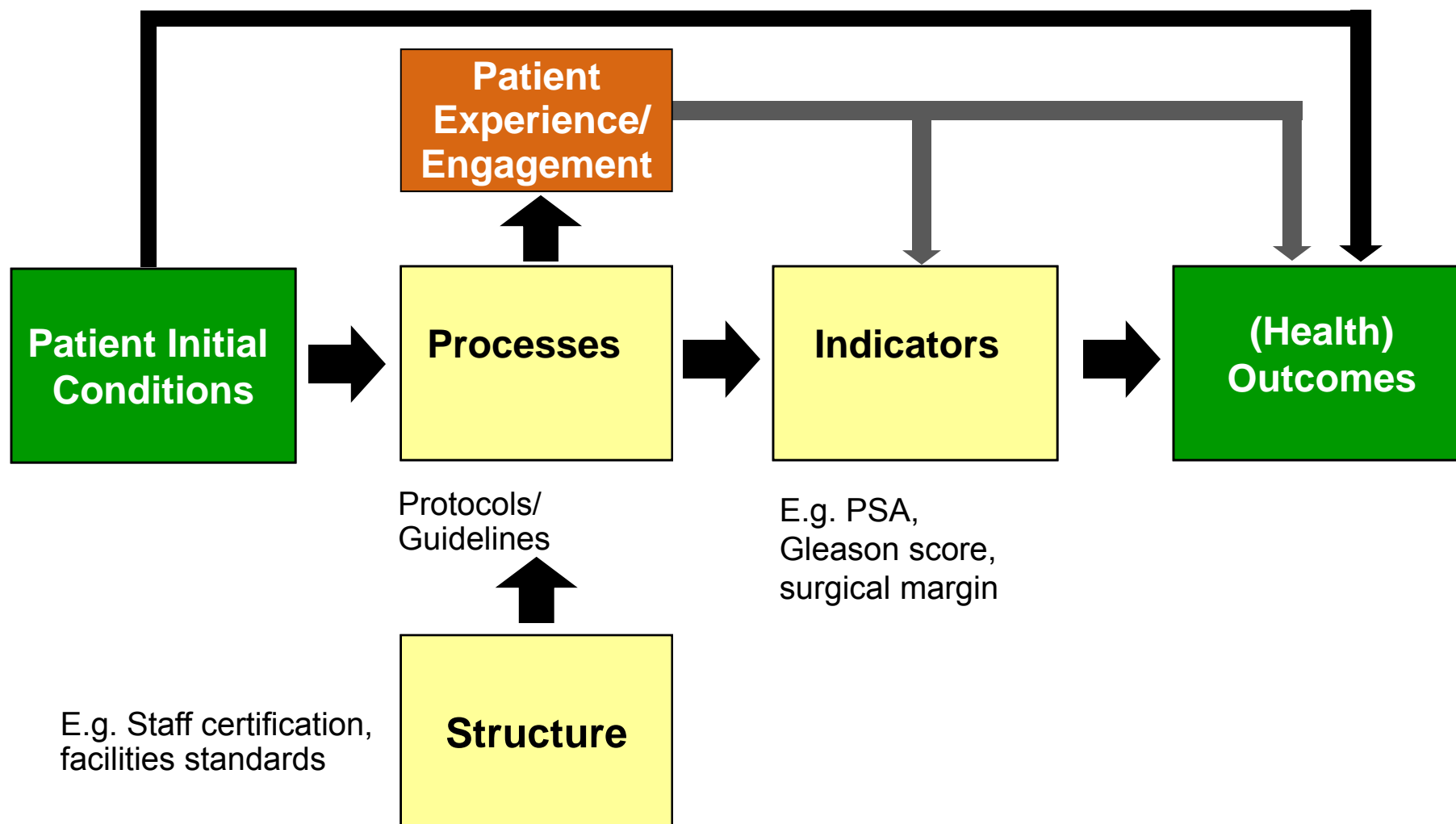
# Low Volume Undermines Value

## Mortality of Low-birth Weight Infants in Baden-Württemberg, Germany



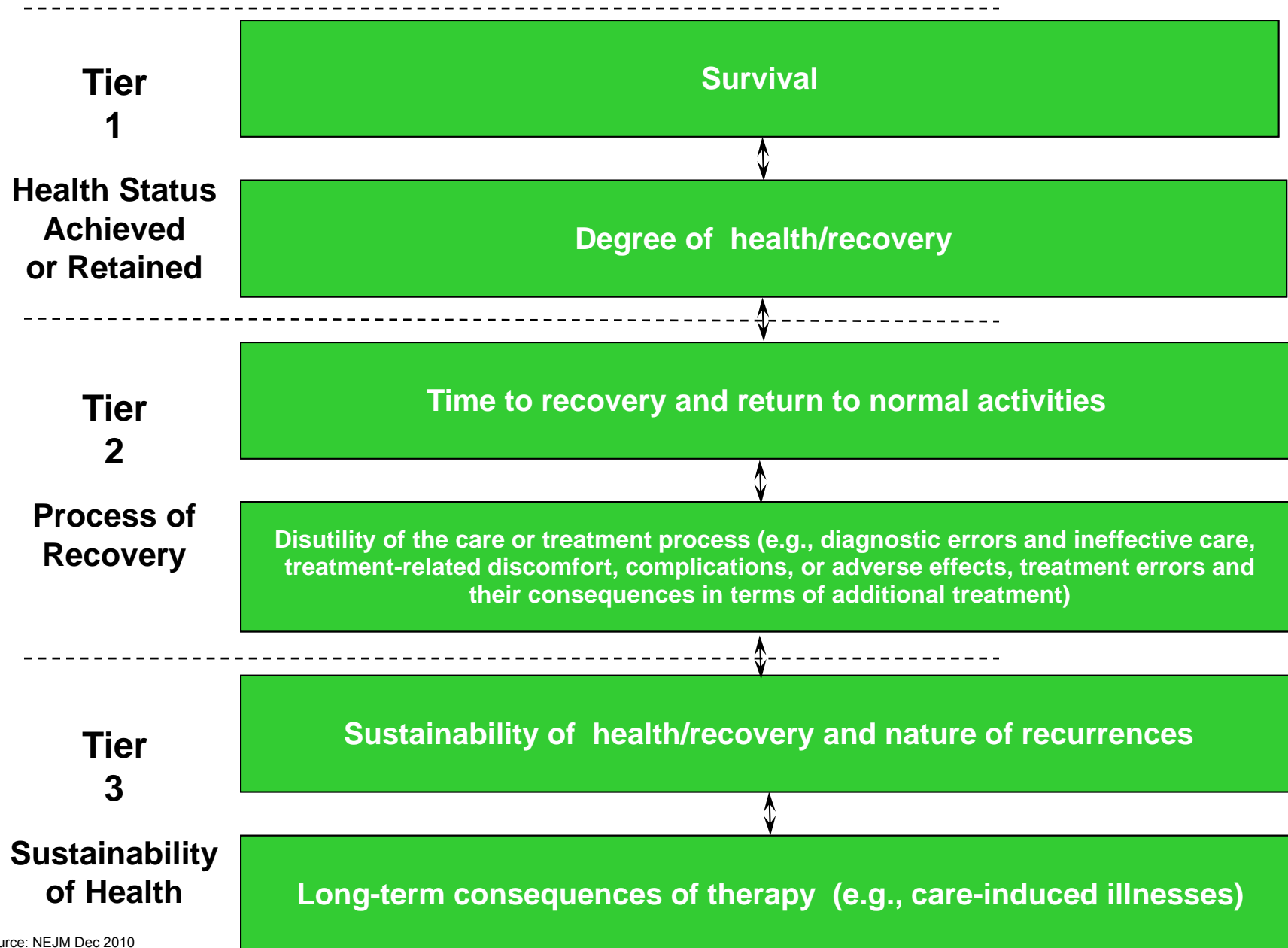
- **Minimum volume standards** are an interim step to drive value and service consolidation in the absence of rigorous outcome information

## 2. Measure Outcomes and Costs for Every Patient The Measurement Landscape

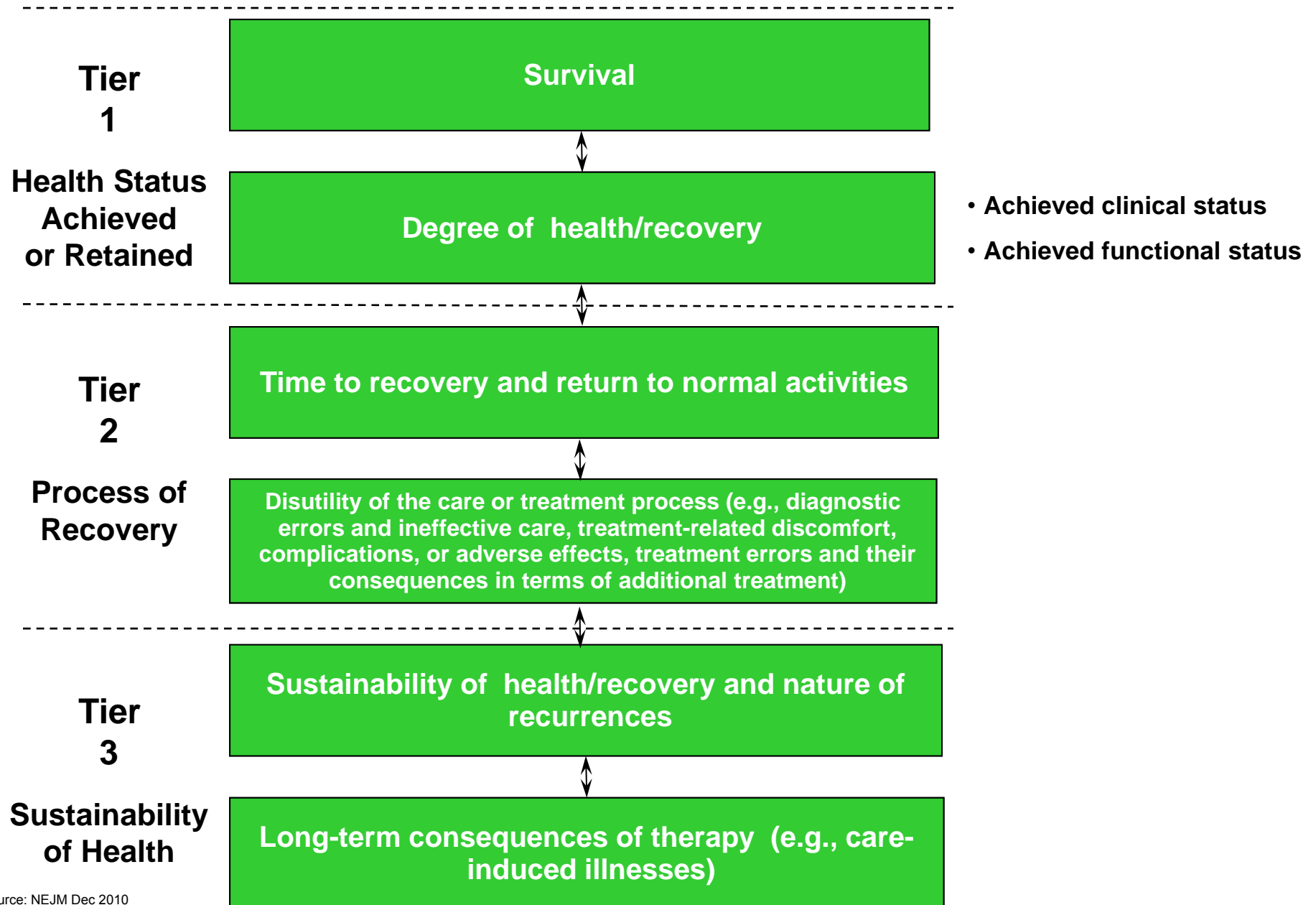




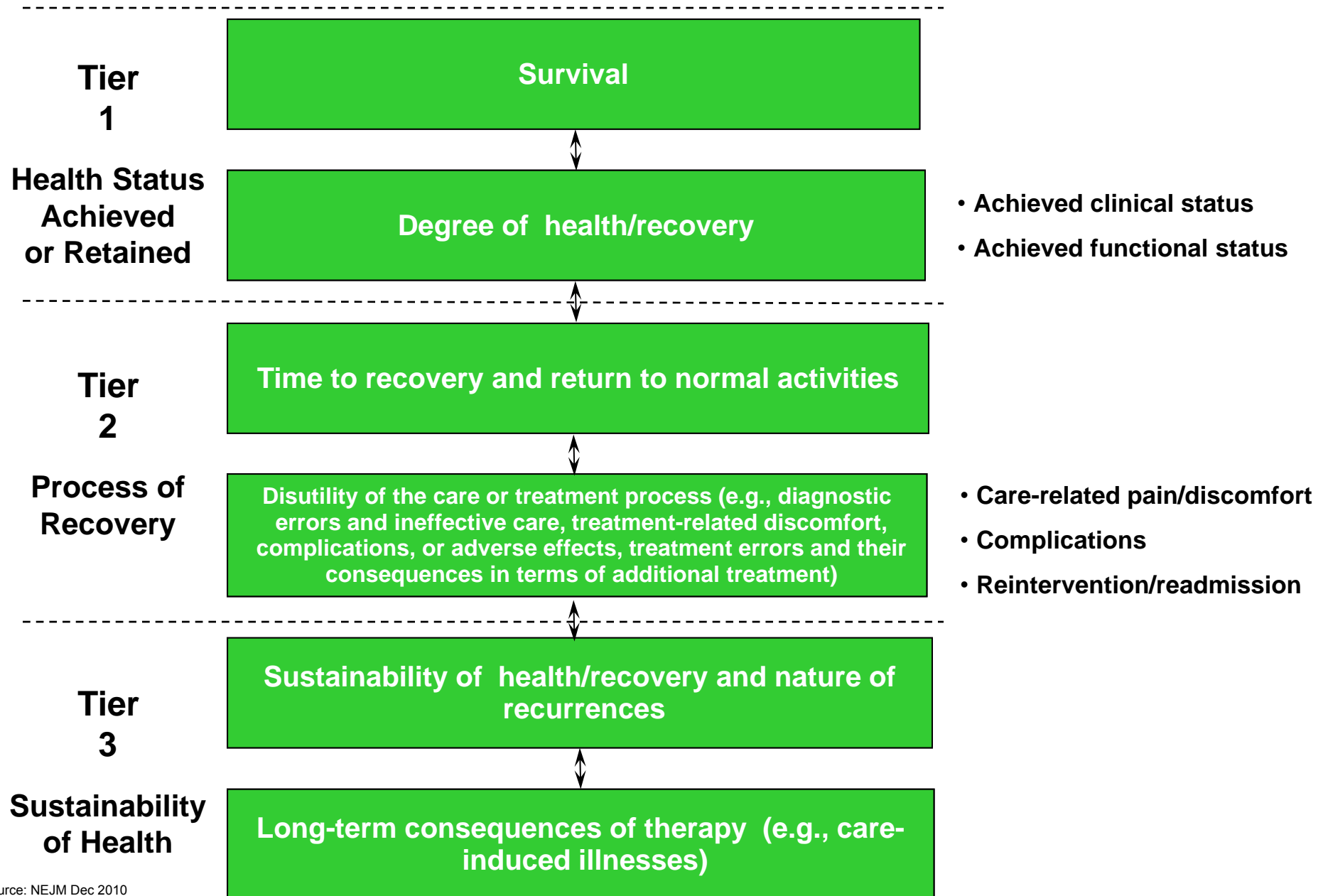
# The Outcome Measures Hierarchy



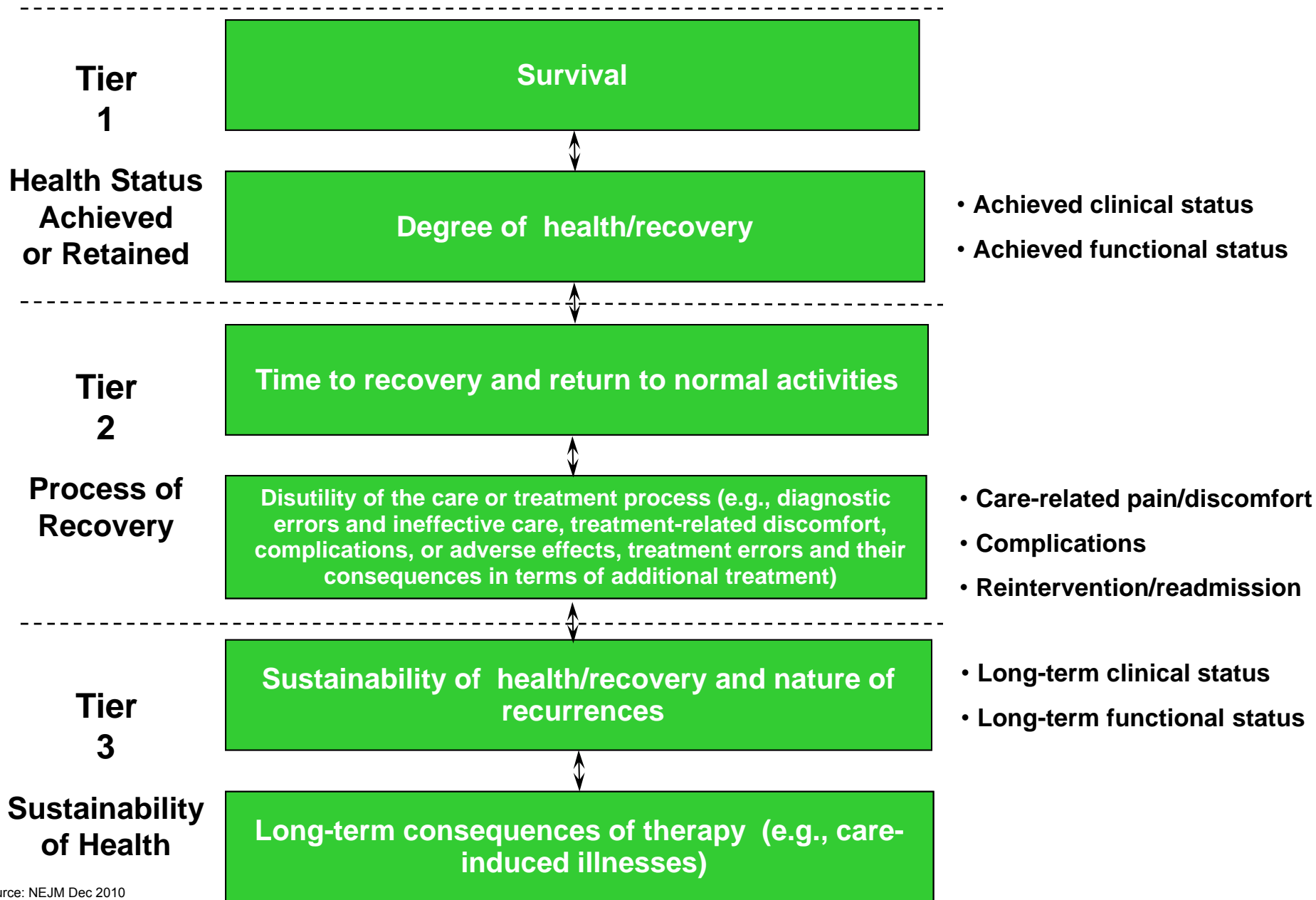
# The Outcome Measures Hierarchy



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# Measuring Multiple Outcomes

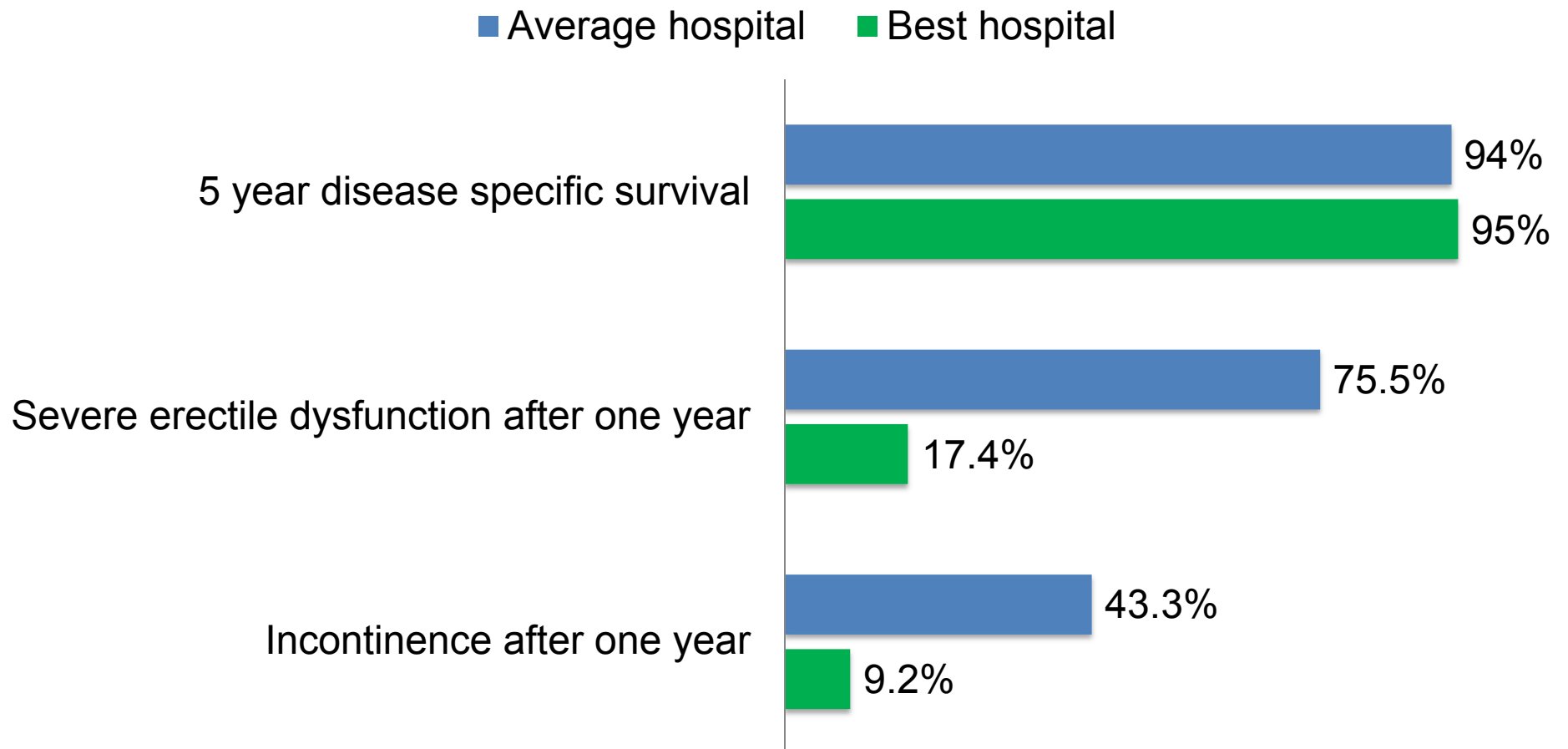
## Prostate Cancer Care in Germany

■ Average hospital    ■ Best hospital



Source: ICHOM

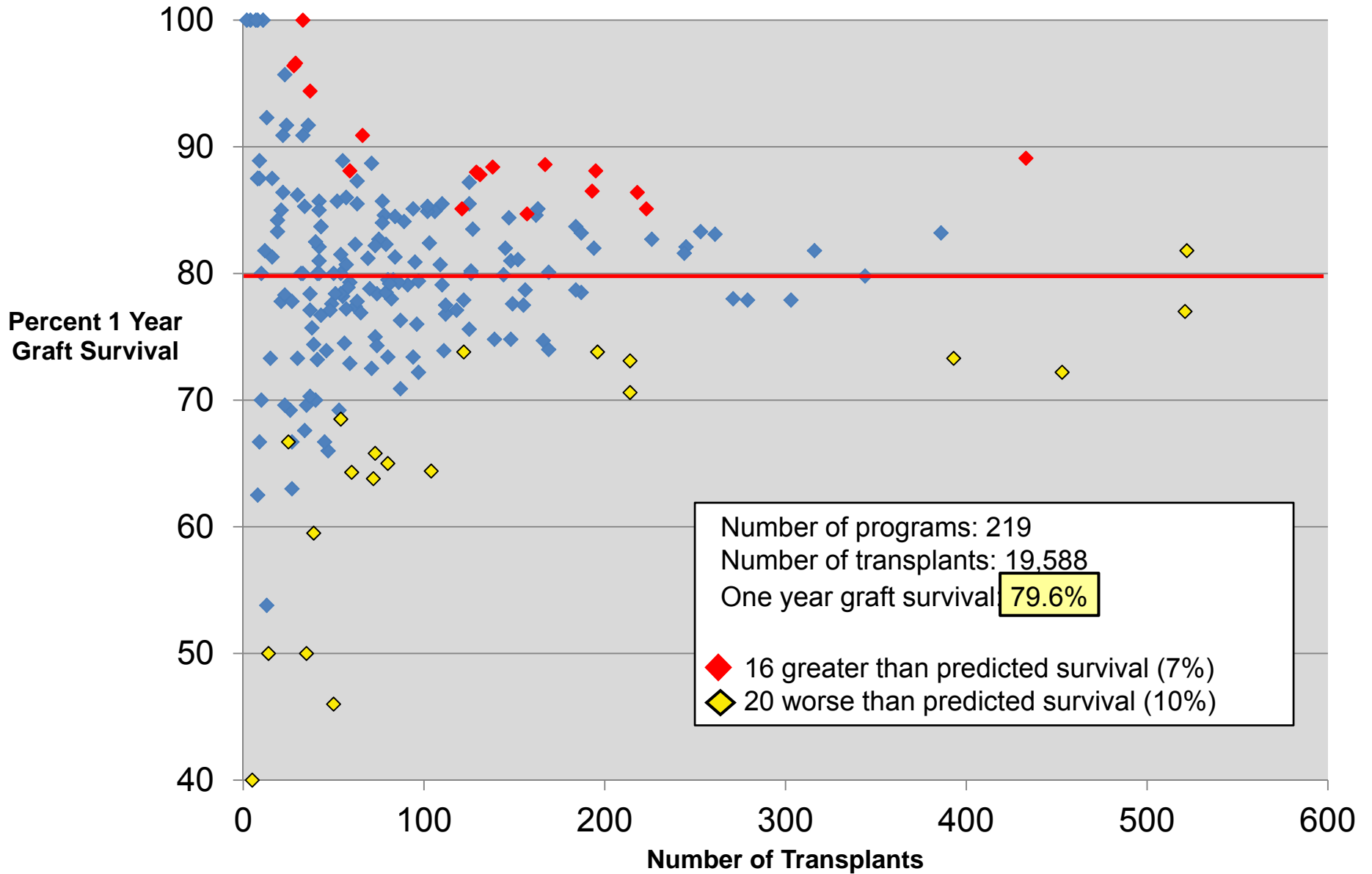
## Measuring Multiple Outcomes -- Continued Prostate Cancer Care in Germany



Source: ICHOM

# Adult Kidney Transplant Outcomes

## U.S. Centers, 1987-1989





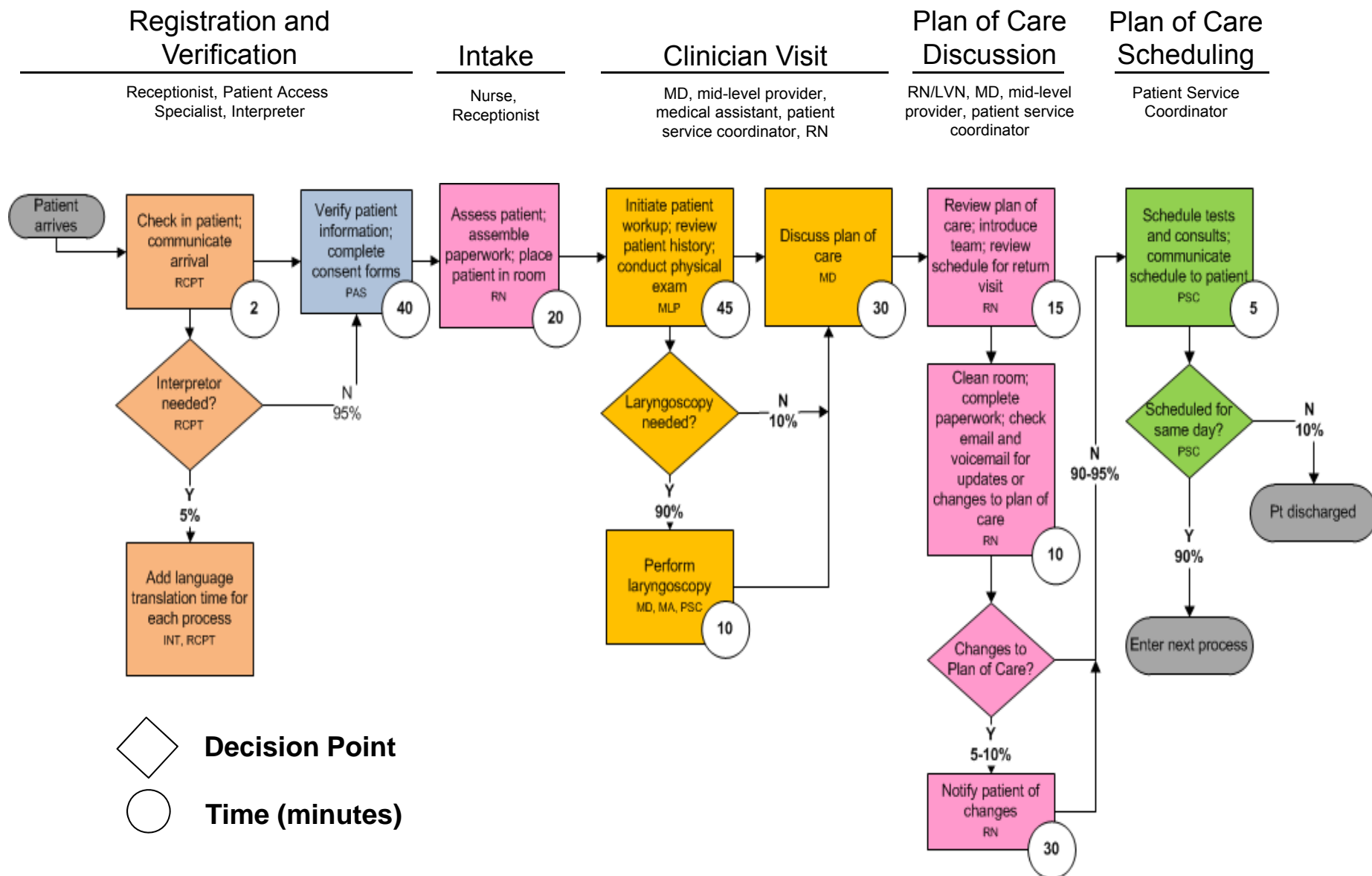


# Measuring the Cost of Care Delivery: Principles


- Cost is the **actual expense** of patient care, not the **charges** billed or collected
- Cost should be measured around the **patient**, not just the department
- Cost should be aggregated over the **full cycle of care for the patient's medical condition**
- Cost depends on the **actual use of resources** involved in a patient's care process (personnel, facilities, supplies)
  - The **time** devoted to each patient by these resources
  - The **capacity cost** of each resource
  - The **support costs** required for each patient-facing resource

# Mapping Resource Utilization

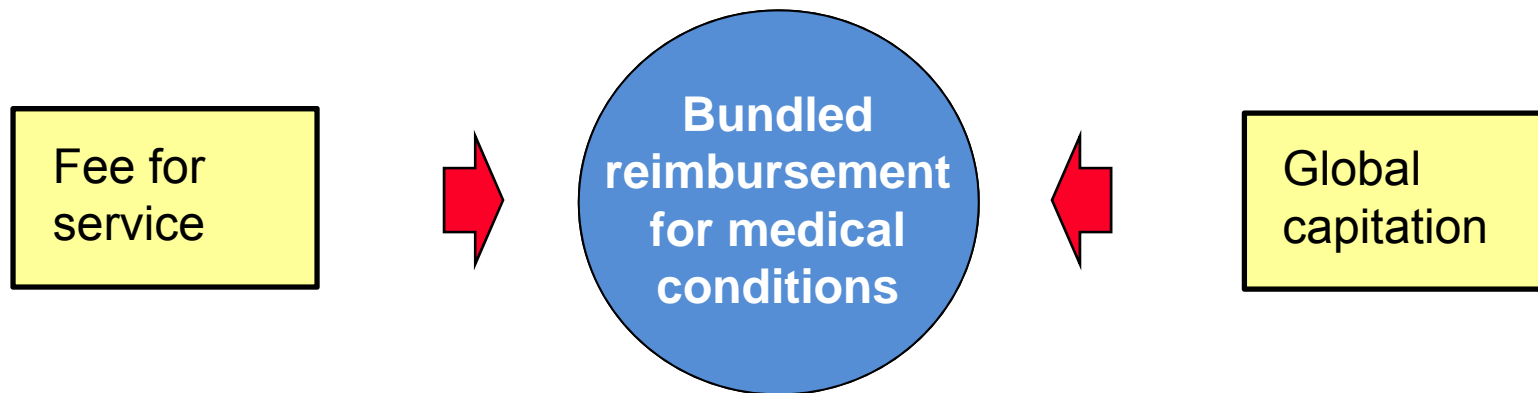
## MD Anderson Cancer Center – New Patient Visit



# Major Cost Reduction Opportunities in Health Care

- Reduce **process variation** that lowers efficiency and raises inventory without improving outcomes
- Eliminate **low-** or **non-value added** services or tests
  - Sometimes driven by protocols or to justify billing
- Rationalize redundant **administrative** and **scheduling** units
- **Improve utilization** of expensive physicians, staff, clinical space, and facilities by reducing duplication and service fragmentation
- Minimize use of **physician and skilled staff** time for less skilled activities
- Reduce the provision of routine or uncomplicated services in **highly-resourced** facilities
- **Reduce cycle times** across the care cycle
- **Optimize total care cycle cost** versus minimizing cost of individual service
- Increase **cost awareness** in clinical teams
- Many cost reduction opportunities  will actually **improve outcomes**

### 3. Reimbursing through Bundled Prices for Care Cycles



#### Bundled Price

- A single price covering the **full care cycle for an acute medical condition**
- Time-based reimbursement for overall care of a **chronic condition**
- Time-based reimbursement for **primary/preventive care** for a **defined patient segment**

# Bundled Payment in Practice

## Hip and Knee Replacement in Stockholm, Sweden

- **Components** of the bundle

- Pre-op evaluation	- All physician and staff fees and costs
- Lab tests	- 1 follow-up visit within 3 months
- Radiology	- Any additional surgery to the joint within 2 years
- Surgery & related admissions	- If post-op infection requiring antibiotics occurs, guarantee extends to 5 years
- Prosthesis	
- Drugs	
- Inpatient rehab, up to 6 days	

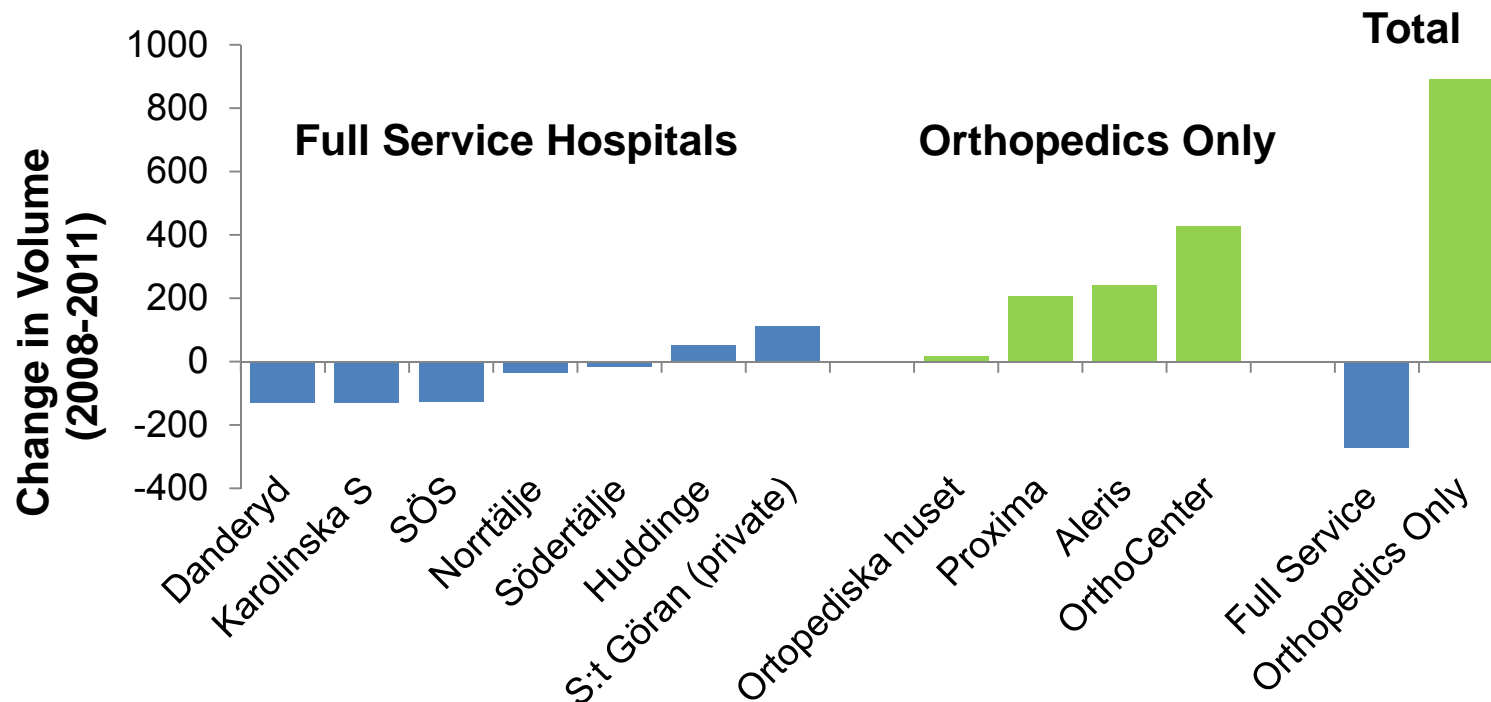
- Currently applies to all **relatively healthy patients** (i.e. ASA scores of 1 or 2)
- The same **referral process** from PCPs is utilized as the traditional system
- **Mandatory reporting** by providers to the joint registry plus supplementary reporting
- Applies to **all** qualifying patients. Provider participation is **voluntary**, but all providers are continuing to offer total joint replacements



- The Stockholm bundled price for a knee or hip replacement is about **US \$8,000**

# Hip and Knee Replacement in Stockholm, Sweden

## Provider Response

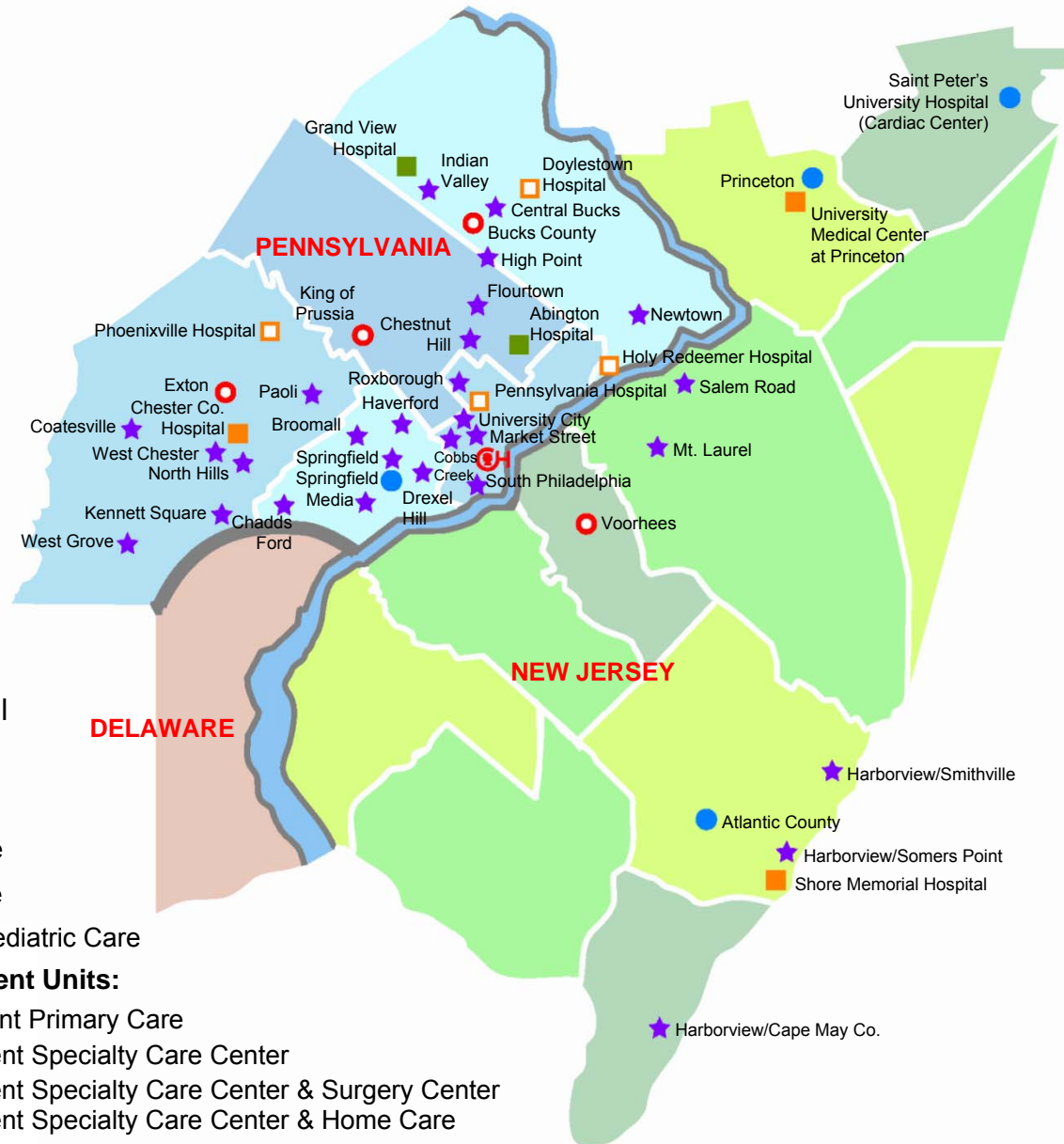



- Under bundled payment, volumes shifted from full-service hospitals to **specialized orthopedic hospitals**
- Interviews with specialized providers revealed the following **delivery innovations**:

- |   |   |
|---|---|
| – Explicit care pathways                          | – More patient education                    |
| – Standardized treatment processes                | – More training and specialization of staff |
| – Checklists                                      | – Increased procedures per day              |
| – New post-discharge visit to check wound healing | – Decreased length of stay                  |




# 4. Integrating Care Delivery Across Separate Facilities

## Children's Hospital of Philadelphia Care Network







 The Children's Hospital of Philadelphia®

**Network Hospitals:**

-  CHOP Newborn Care
-  CHOP Pediatric Care
-  CHOP Newborn & Pediatric Care

**Wholly-Owned Outpatient Units:**

-  Pediatric & Adolescent Primary Care
-  Pediatric & Adolescent Specialty Care Center
-  Pediatric & Adolescent Specialty Care Center & Surgery Center
-  Pediatric & Adolescent Specialty Care Center & Home Care

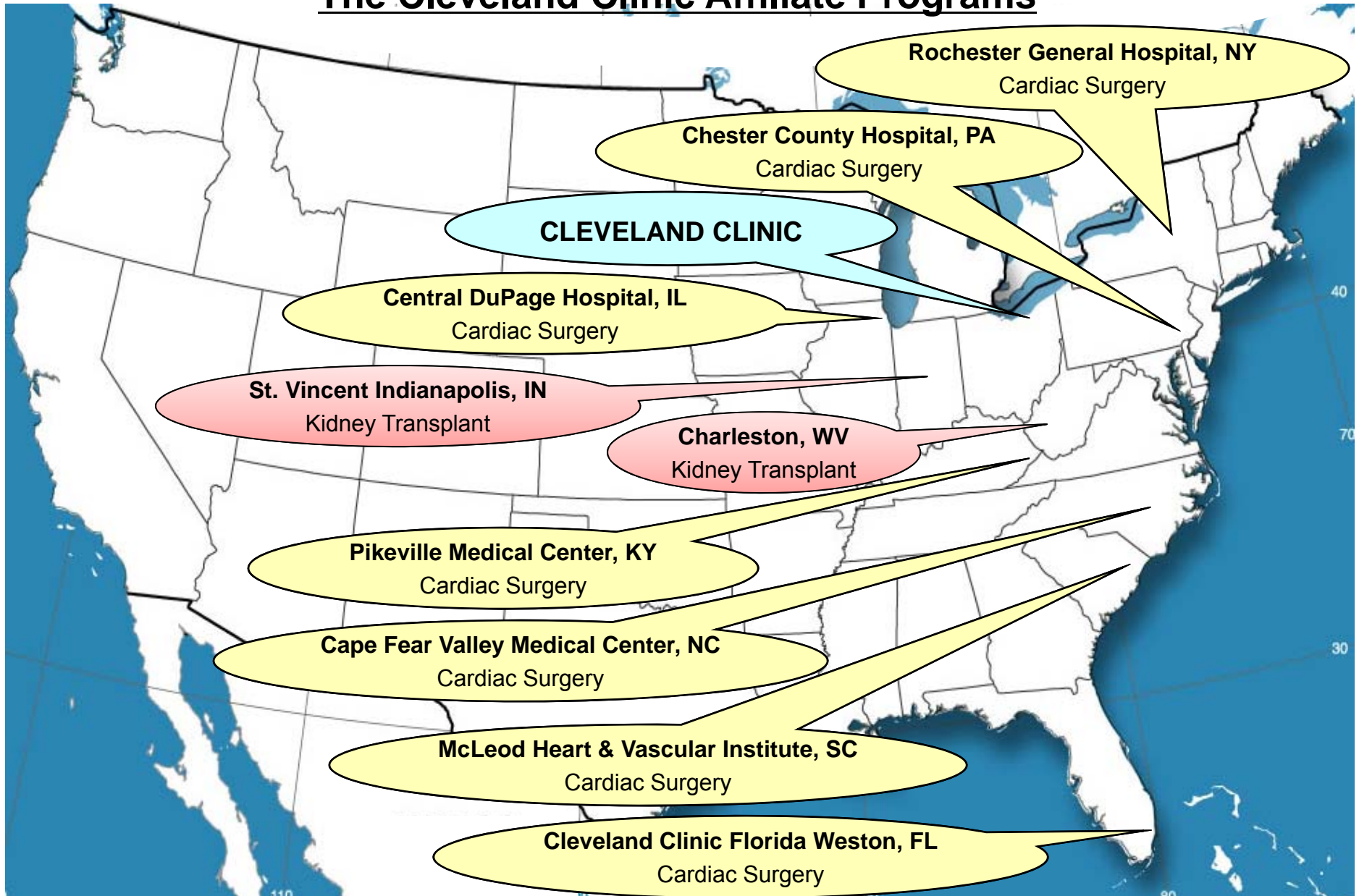
## Four Levels of Provider System Integration

1. **Define overall scope of services** where the provider can achieve high value
2. **Concentrate volume in fewer locations** in the conditions that providers treat
3. Choose the **right location** for each service based on medical condition, acuity level, resource intensity, cost level and need for convenience
  - E.g., shift routine surgeries out of tertiary hospitals to smaller, more specialized facilities
4. Integrate care **across locations through an IPU structure**



# 5. Expand Geographic Reach

## The Cleveland Clinic Affiliate Programs

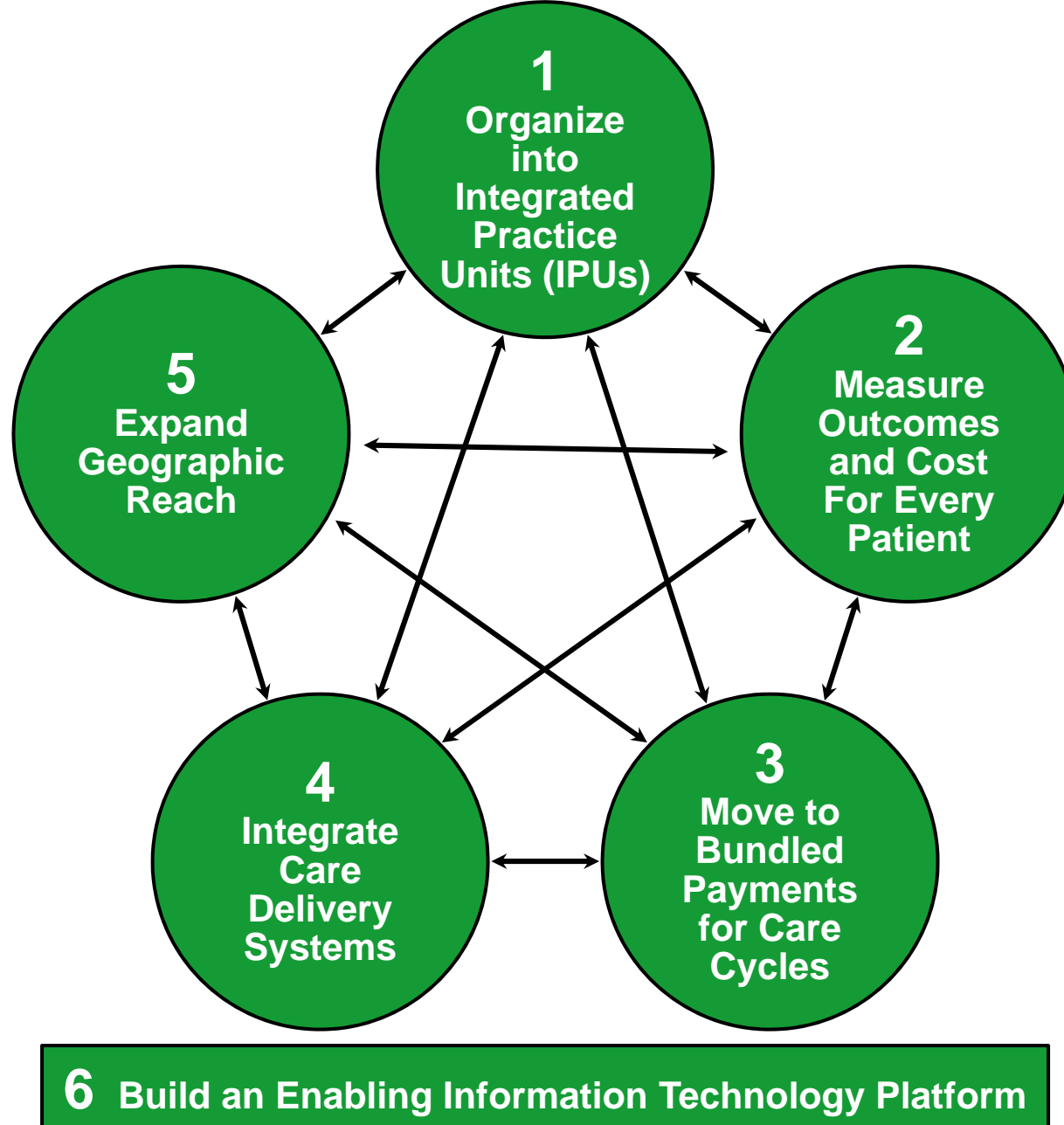


## 6. Build an Enabling Information Technology Platform

Utilize information technology to enable **restructuring of care delivery** and **measuring results**, rather than treating it as a solution itself

- Common **data definitions**
- Combine **all types of data** (e.g. notes, images) for each patient
- Data encompasses the **full care cycle**, including care by referring entities
- Allow access and communication among **all involved parties**, including with patients
- **Templates** for medical conditions to enhance the user interface
- “**Structured**” data vs. free text
- Architecture that allows easy extraction of **outcome measures**, **process measures**, and **activity-based cost measures** for each patient and medical condition
- Interoperability standards enabling communication among **different provider** (and payor) **organizations**

# A Mutually Reinforcing Strategic Agenda

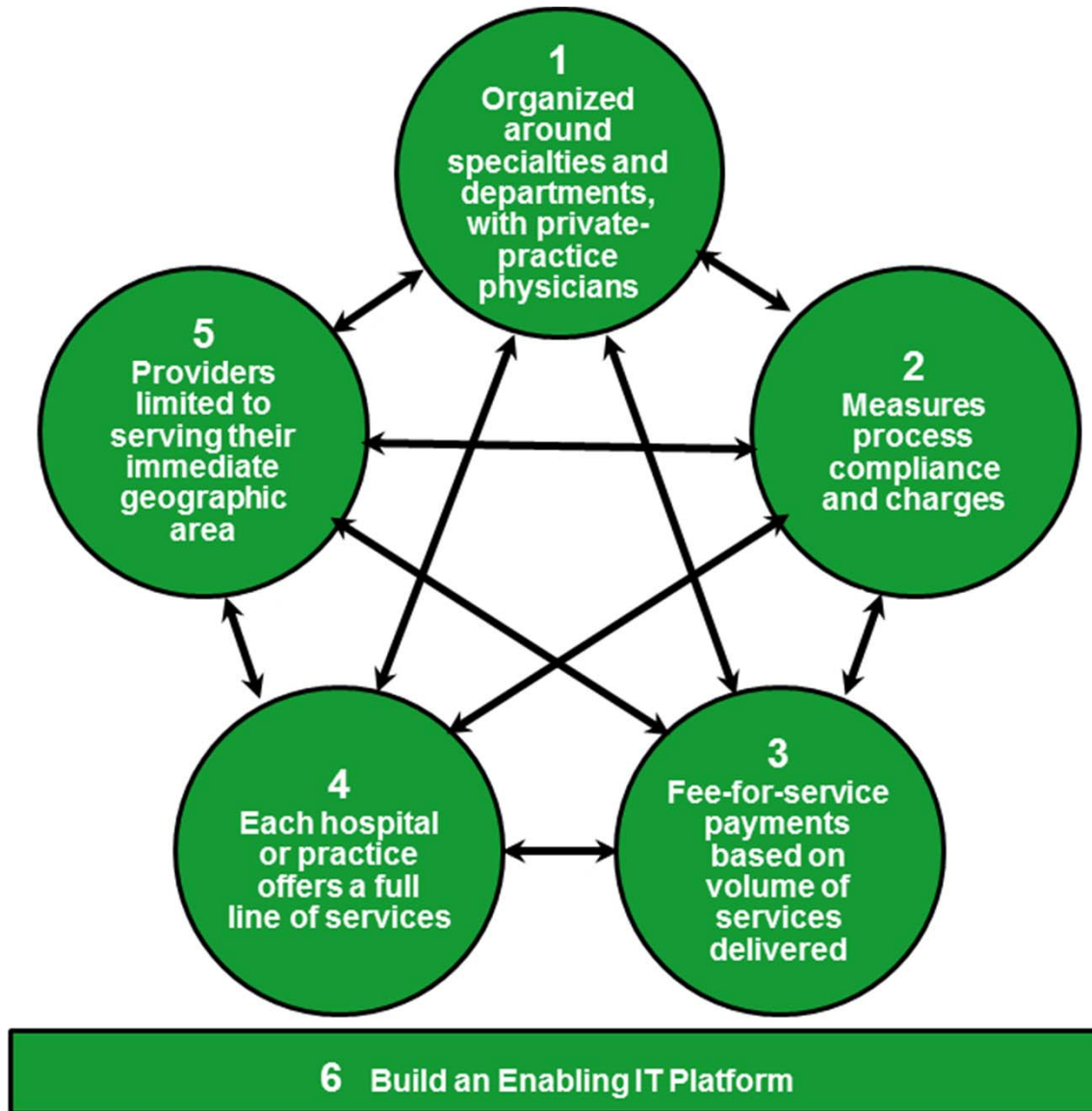


**Why Is This So Hard?**  
**(And What Do We Do About It?)**

# “Magic Bullets” Have Had Limited Impact

- **Examples:**
  - **Evidence-based medicine/clinical effectiveness research/guidelines**
    - **Fail to represent many individual patient** circumstances
  - **Eliminating fraud**
    - Does **not** address **root causes** of low-value health care
  - **Eliminating errors**
    - This alone **does not lead to a redesign** of overall care that improves value
  - **Global capitation to control spending**
    - Reduces spending, but **does not improve value**
  - **Turning patients into consumers**
    - **Information** about price and outcomes is **lacking**
  - **Electronic medical records**
    - **Silo-ed IT systems** make **cost/outcomes measurement difficult**
  - **New low cost models of primary care**
    - **Limited effect on complex health care costs**

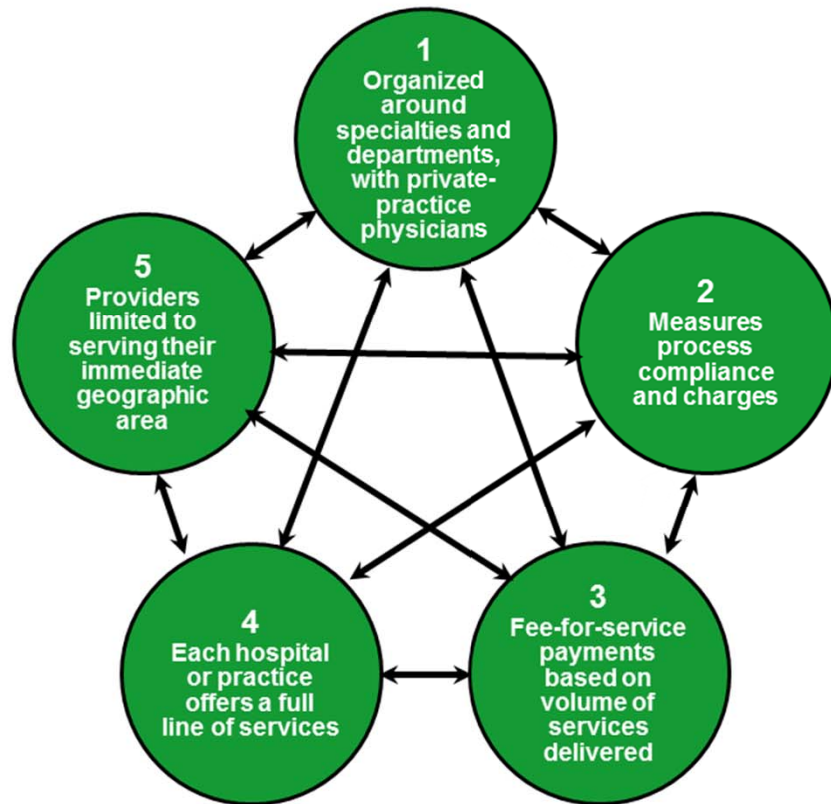
# Why We Are Stuck Legacy System



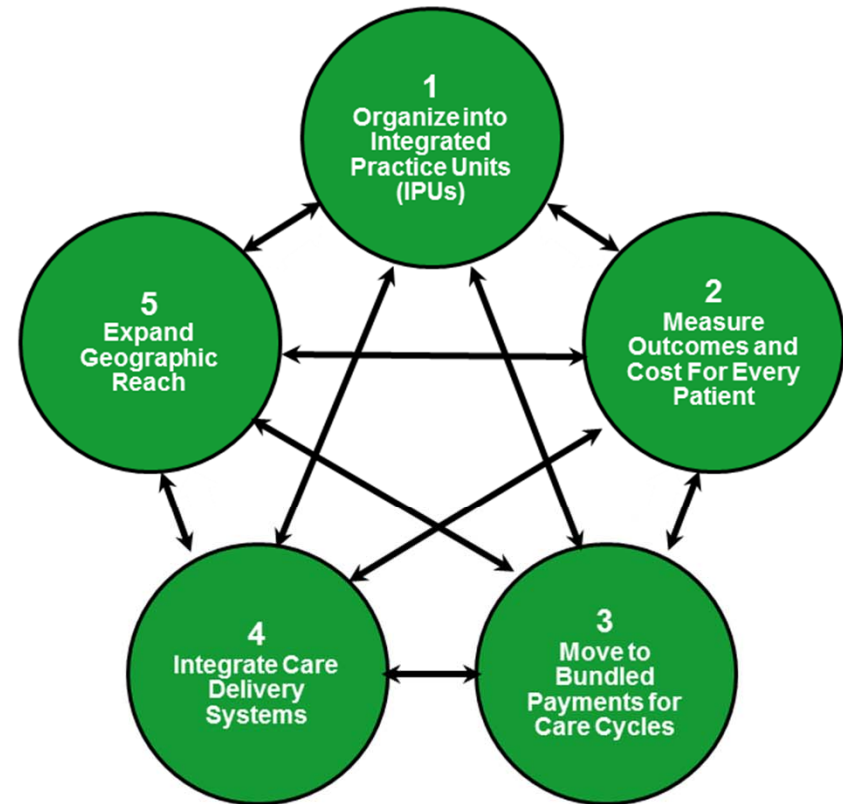
# Getting Unstuck

## Legacy System

## A Mutually Reinforcing Strategic Agenda



6 Build an Enabling Information Technology Platform



6 Build an Enabling Information Technology Platform

# This Won't Be Easy ...

## Common Reactions

- “How can we create real teams if our physicians are not our employees?”
  - “... or even if they are employees, but are paid by RVU?”
- “We can't ask anyone to stop doing anything as long as we all have our own bottom lines.”



## ... But We Have to Get Going

### Common Reactions

- “How can we create real teams if our physicians are not our employees?”
  - “... or even if they are employees, but are paid by RVU?”
- “We can’t ask anyone to stop doing anything as long as we all have our own bottom lines.”



### First Steps

- Measure what matters to patients – benchmark and report
- Use narrative (patient stories) to create organizational shared purpose
- Create financial and nonfinancial incentives for improvement of value

# Creating a Value-Based Health Care Delivery System

## Implications for Physician Leaders

1. Integrated Practice Units (IPUs)

- Lead **multidisciplinary teams**, not specialty silos

2. Measure Cost and Outcomes

- Become an expert in **measurement** and **process improvement**

3. Move to Bundled Prices

- Proactively develop new **bundled reimbursement options** and **care guarantees**

4. Integrate Across Separate Facilities

- Champion **value enhancing rationalization, relocation, and integration** with sister hospitals, as well as between inpatient and outpatient units, instead of protecting turf

5. Expand Excellence Across Geography

- Create networks and affiliations to expand high-value care **across geography**

6. Enabling IT Platform

- Become a **champion for the right EMR** systems, not an obstacle to their adoption and use

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