

# Value-Based Competition in Health Care: Implications for Physician Practices

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This presentation draws on a forthcoming book with Elizabeth Olmsted Teisberg ([Redefining Health Care: Creating Value-Based Competition on Results](#), Harvard Business School Press). Earlier publications about the work include the *Harvard Business Review* article “Redefining Competition in Health Care” and the associated *Harvard Business Review* Research Report “Fixing Competition in U.S. 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.

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# The Paradox of U.S. Health Care

- The United States has **more competition** than virtually any other health care system in the world

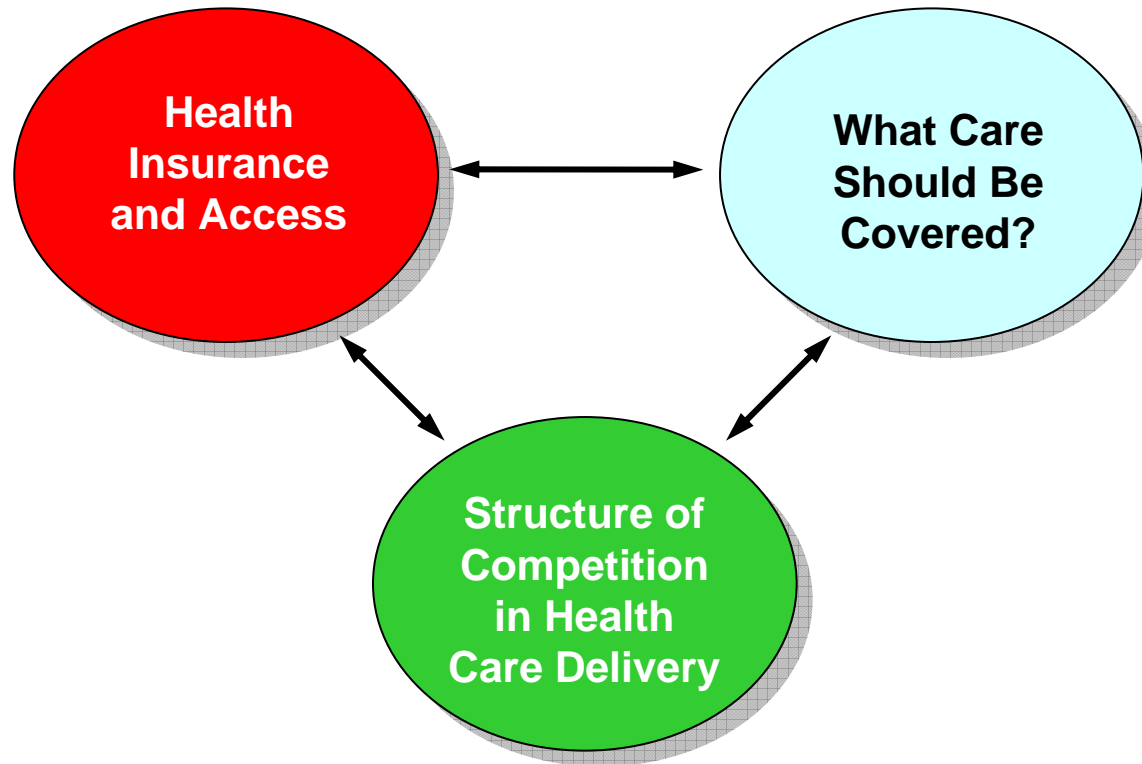
BUT

- Costs are **high** and **rising**
- Services are **restricted** and fall short of recommended care
- Standards of care often **lag** accepted benchmarks
- Preventable treatment **errors** are common
- In other services, there is **overuse** of care
- 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**



How is this state of affairs possible?

# Issues in Health Care Reform



# Zero-Sum Competition in Health Care

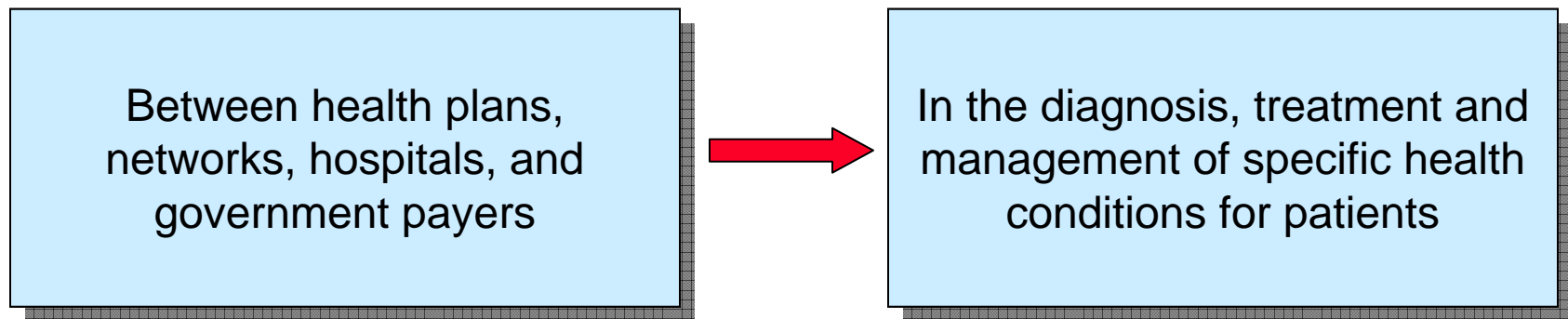
- Competition to **shift costs**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to reduce costs by **restricting services**



- None of these forms of competition **increase value for patients**
  - Gains of one system participant come **at the expense** of others
  - These types of competition **reduce value** through added administrative costs
  - These types of competition result in major **cross subsidies** in the system
  - These types of competition **slow innovation**
  - Adversarial competition proliferates **lawsuits**, with huge direct and indirect costs

# The Root Causes

- Competition in health care is not focused on **value for patients**
- Competition in the health care system takes place at the **wrong level** on the **wrong things**



- Competition at the right level has been **reduced** or **eliminated** by health plans, by providers/provider groups, and by default
- Efforts to improve health care delivery have sought to **micromanage providers** and **level the playing field** rather than foster provider competition based on **results**
  - Recent quality and pay for performance initiatives do not address quality directly, but process compliance

# Why Competition Went Wrong?

- **Wrong definition of the product:** health care as a commodity, health care as discrete interventions/treatments
  - **Wrong objective:** reduce costs (vs. increase value)
    - Piecemeal view of costs
  - **Wrong geographic market:** local
  - **Wrong provider strategies:** breadth, convenience and forming large groups
  - **Wrong industry structure:** mergers and regional consolidation; but highly fragmented at the service level
  - **Wrong information:** patient satisfaction and (recently) process compliance, not results
  - **Wrong patient attitudes and incentives:** little responsibility
  - **Wrong health plan strategies and incentives:** the culture of denial
  - **Wrong incentives for providers:** pay to treat, reward invasive care
- 
- **Employers went along:** discounts and pushing costs to employees

# Principles of Positive Sum Competition

- The focus should be on **value for patients**, not just lowering costs.
  - Improving quality in health care usually also lowers cost
- There must be **unrestricted competition** based on **results**.
- Competition should **center on medical conditions** over the **full cycle of care**.
- Value is driven by **provider experience**, **expertise**, and **uniqueness** at the disease or condition level.
- Competition should be **regional** and **national**, not just local.
- Results and price **information** to support value-based competition must be collected and made widely available.
- **Innovations** that increase value must be actively encouraged and strongly rewarded

# Moving to Value-Based Competition

## Providers

1. Redefine the business around **medical conditions**
2. Choose the **range and types of services provided** based on excellence in value, both within and across locations
  - Deliver care at the **right** place
  - **Separate** providers and health plans
3. Organize and manage around **medically integrated practice areas**
4. Create a **distinctive strategy** in each practice area
5. Design **care delivery value chains** that enable these strategies and continually improve them
6. Collect comprehensive **results, methods, experience**, and **patient attributes** for each practice area, covering the **complete care cycle**
7. **Accumulate costs** by practice area and value chain activity over the care cycle
8. Build the capability for **single billing for cycles of care**, and **bundled pricing**
9. **Market** services based on excellence, uniqueness, and results at the practice area level
10. Grow locally and geographically in **areas of strength**, using a medically integrated care delivery approach



# What Business Are We In?

Nephrology practice



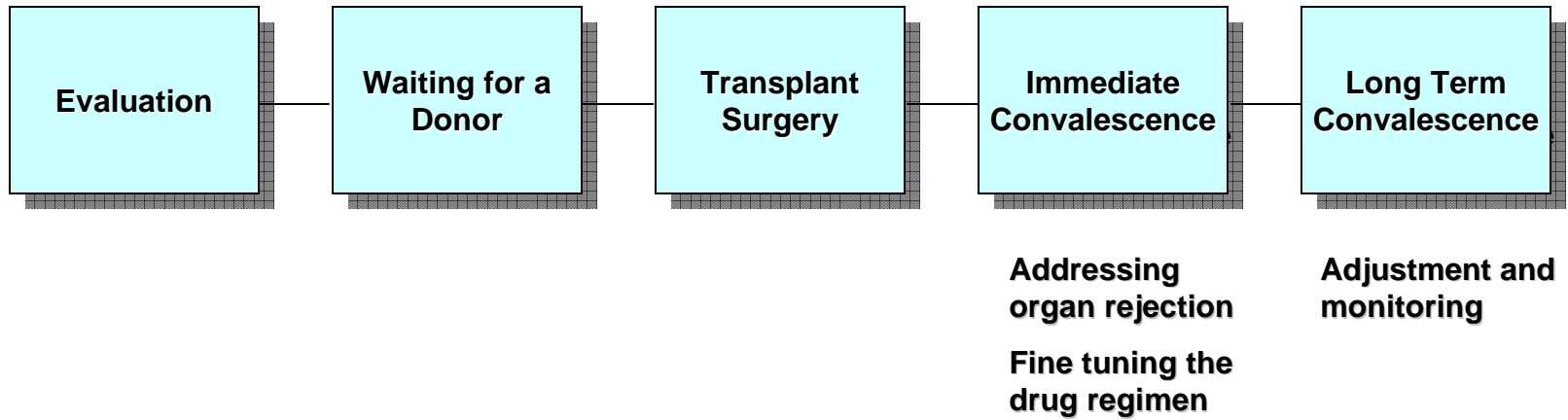
- Chronic Kidney Disease
- End-Stage Renal Disease
- Transplants
- Hypertension Management

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# Organ Transplant Care Cycle

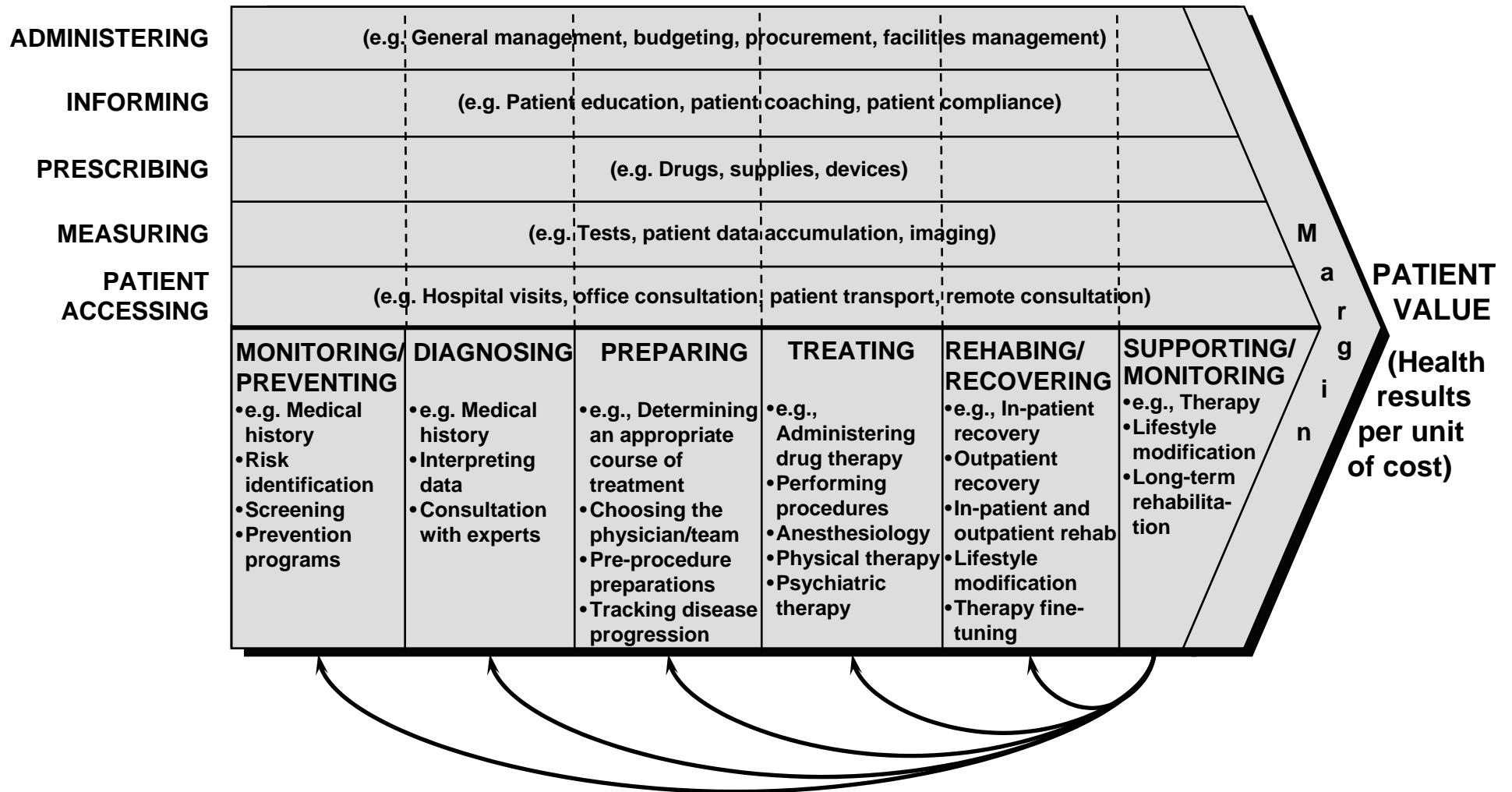


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# The Care Delivery Value Chain for a Practice Area

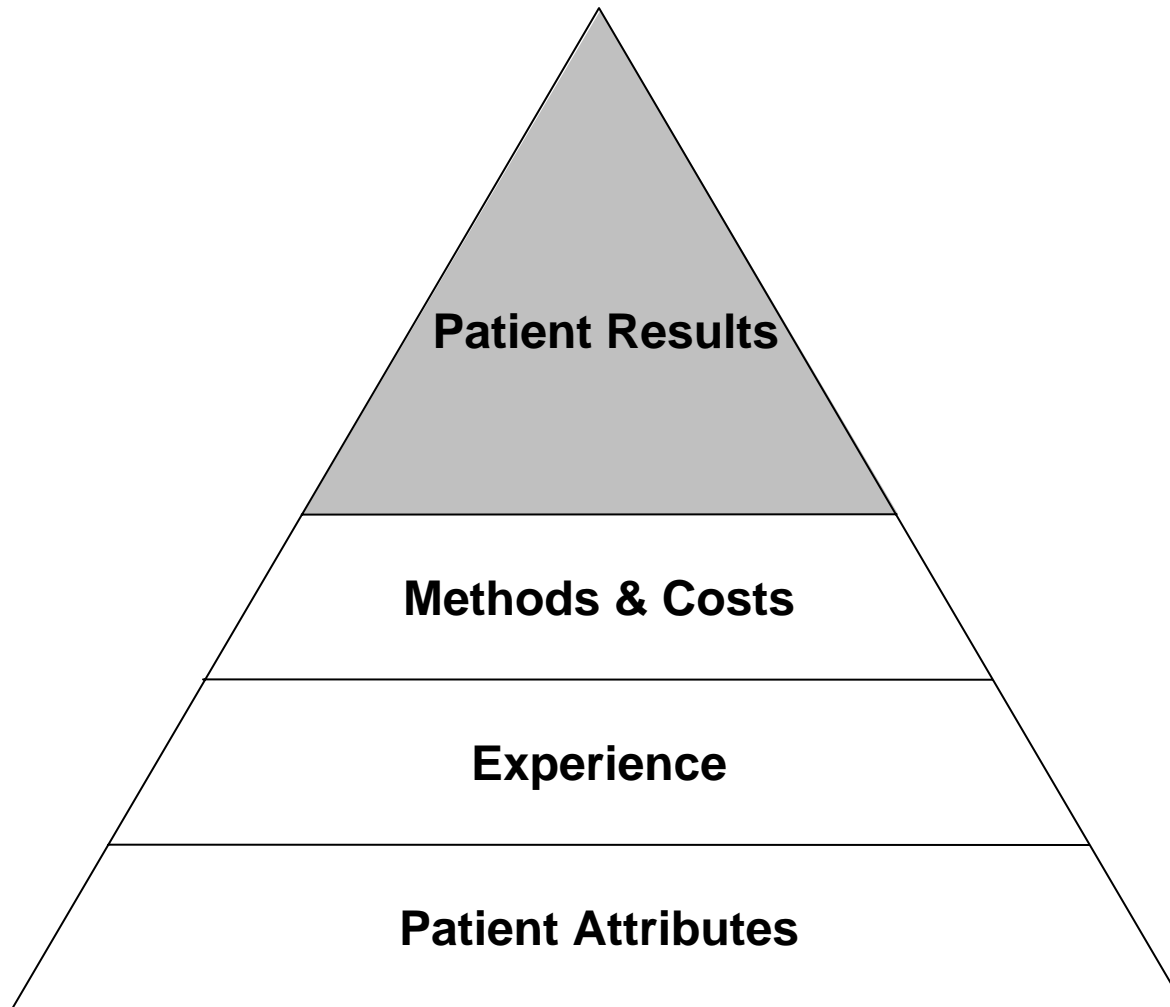


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# Information Hierarchy



# Boston Spine Group

## Clinical and Outcome Information Collected and Analyzed

### RESULTS

### METHODS

#### Patient Outcomes

*(before and after treatment, multiple times)*

Visual Analog Scale (pain)

Owestry Disability Index, 10 questions (functional ability)

SF-36 Questionnaire, 36 questions (burden of disease)

Length of hospital stay

Time to return to work or normal activity

#### Service Satisfaction

*(periodic)*

Office visit satisfaction metrics (10 questions)

#### Overall medical satisfaction

("Would you have surgery again for the same problem?")

#### Medical Complications

Cardiac

Myocardial infarction

Arrhythmias

Congestive heart failure

Vascular deep venous thrombosis

Urinary infections

Pneumonia

Post-operative delirium

Drug interactions

#### Surgery Complications

Patient returns to the operating room

Infection

Nerve injury

Sentinel events (wrong site surgeries)

Hardware failure

#### Surgery Process Metrics

Operative time

Blood loss

Devices or products used

Length of hospital stay

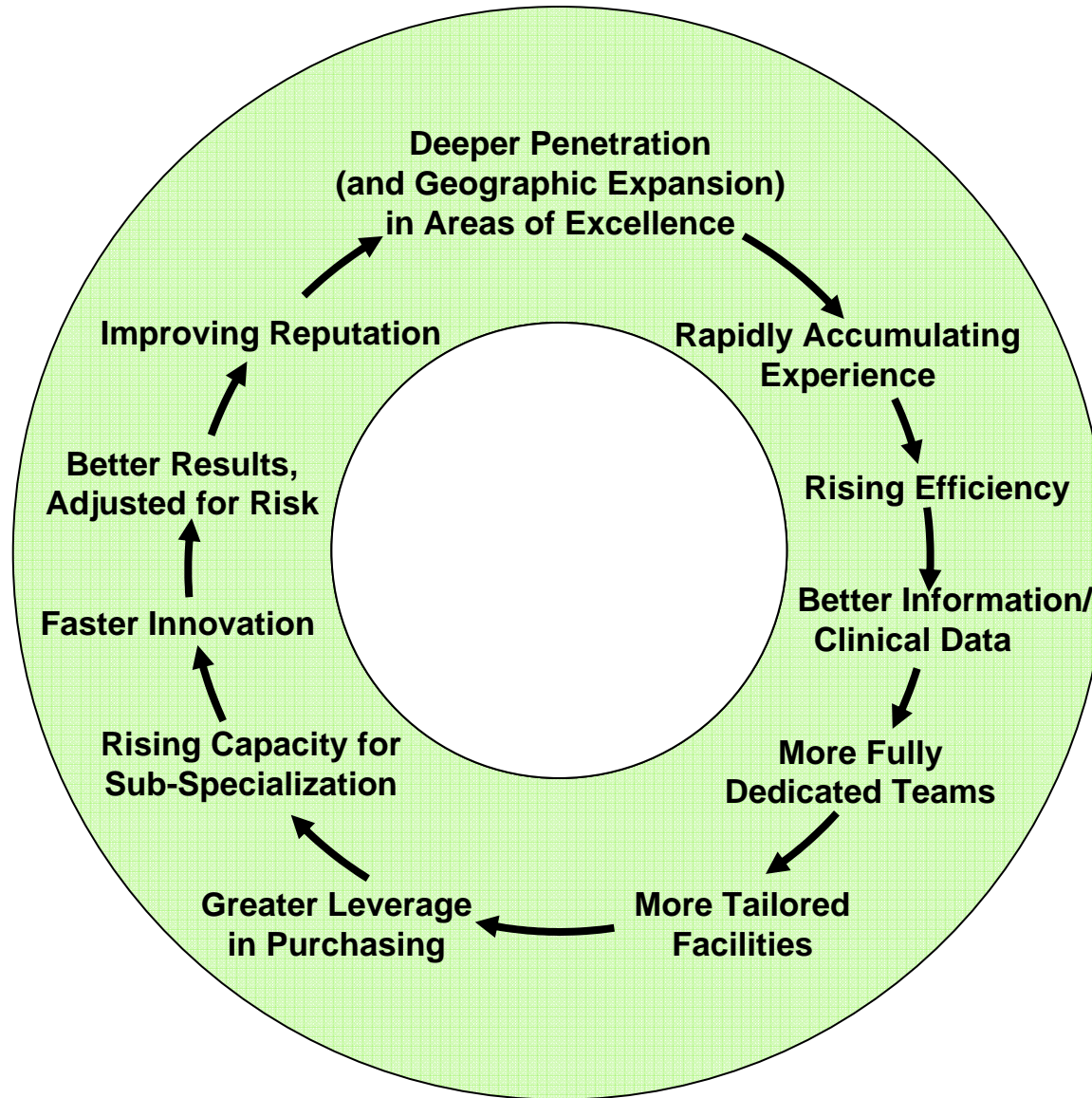


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# The Virtuous Circle in Health Care Delivery



# How Will Redefining Health Care Begin?

- It is **already happening!**
- Each **system** participant can take **voluntary** steps in these directions, and will **benefit**.
- 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.