

Redefining Health Care: Creating Value-Based Competition on Results

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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.

The Paradox of U.S. Health Care

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

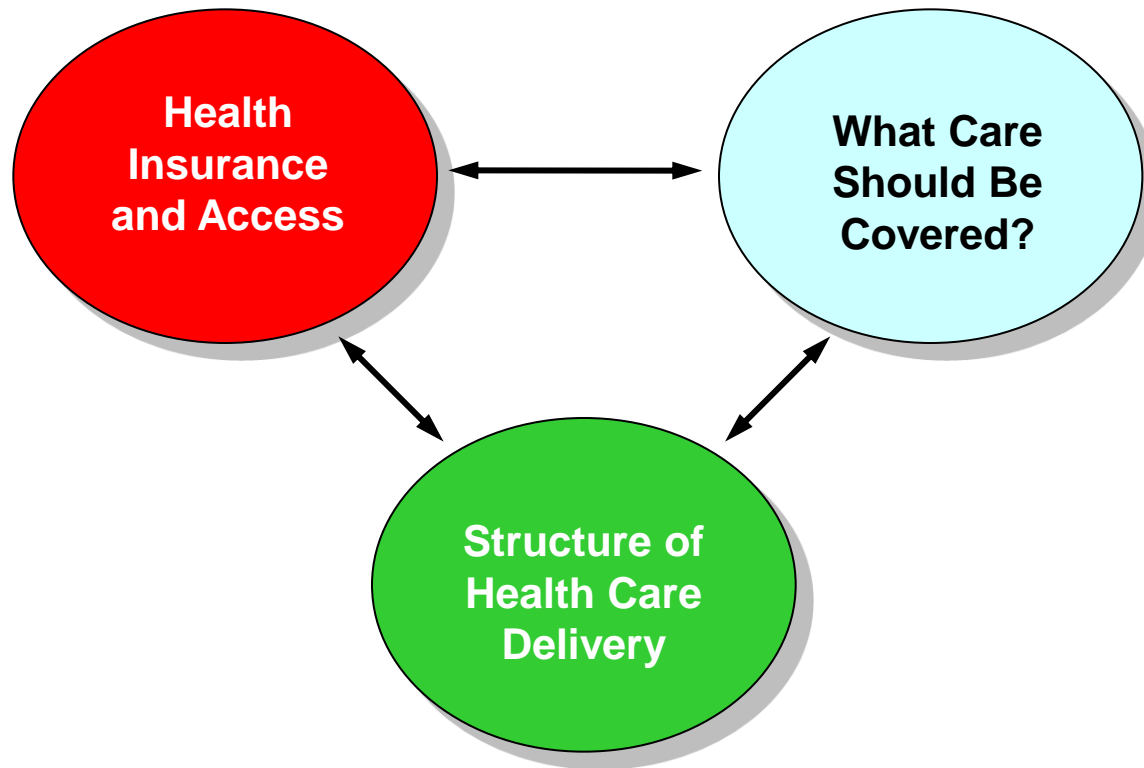
BUT

- Costs are **high** and **rising**
- Services are **restricted** and 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**



How is this state of affairs possible?

Issues in Health Care Reform



Zero-Sum Competition in Health Care

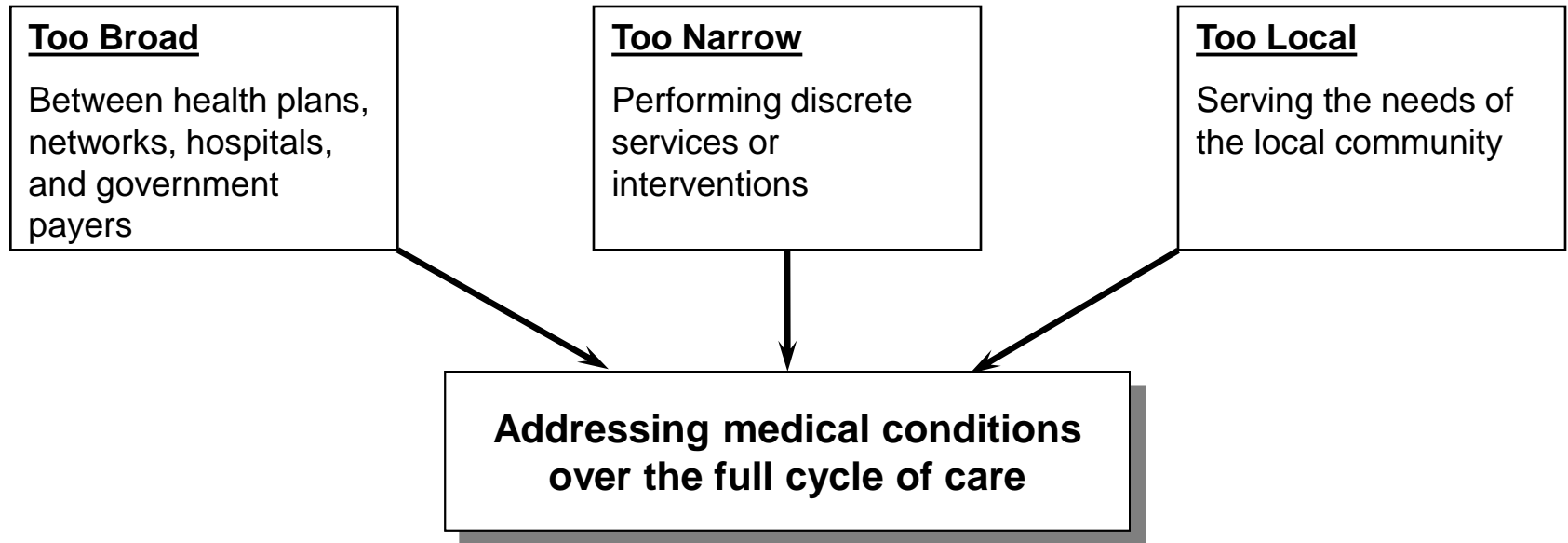
- Competition to **shift costs**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to reduce costs by **restricting services**



- 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 inappropriate **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 aligned with **value for patients**
- Competition in the health care system takes place at the **wrong level** on the **wrong things**

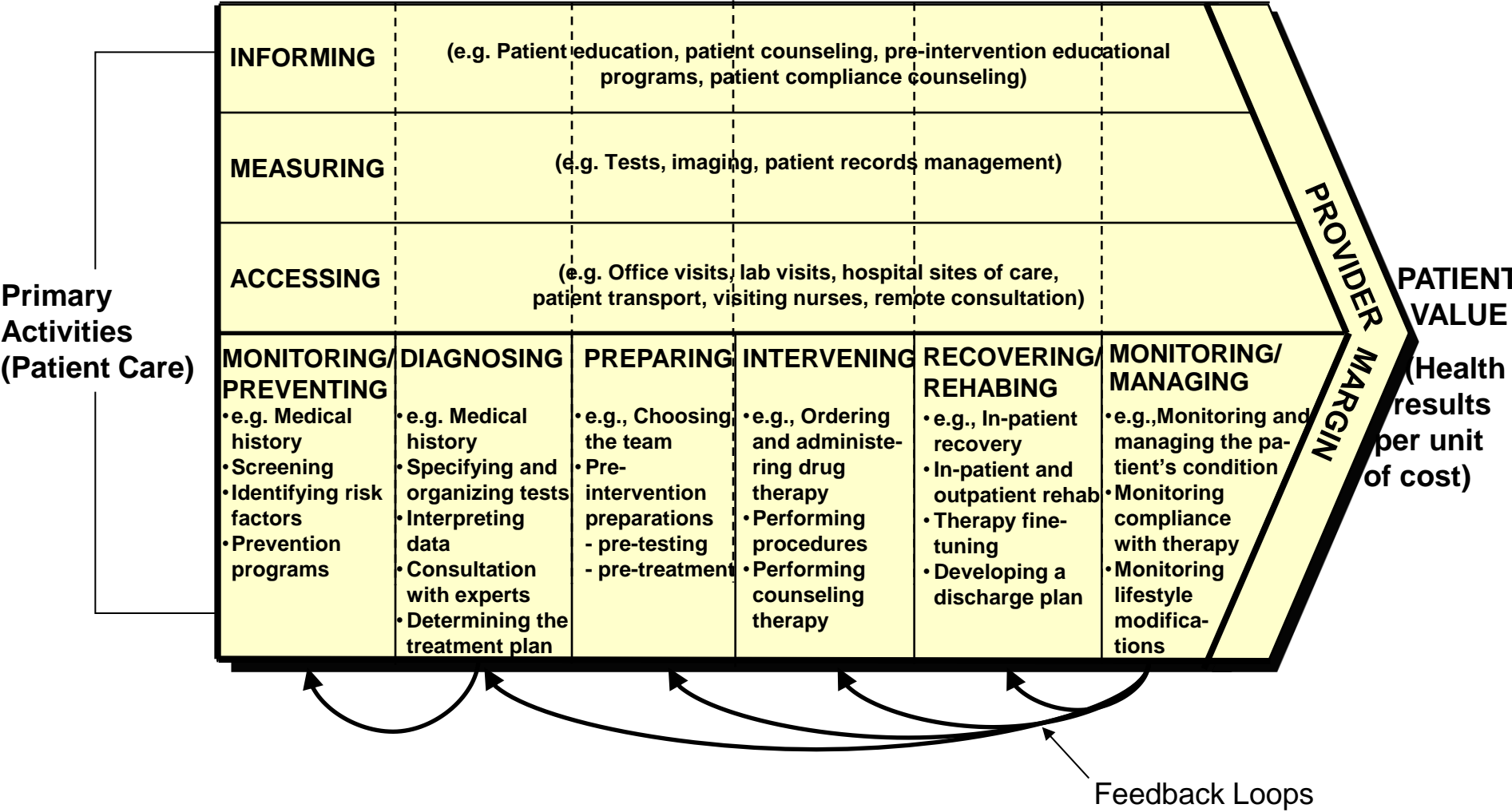


- Competition at the right level has been **reduced** or **eliminated** by networks, providers/provider groups, and by default
- Efforts to improve health care delivery have sought to **micromanage providers** and “**lift all boats**” rather than foster provider competition based on **results**
 - Recent quality and pay for performance initiatives do not address quality directly, but process compliance
- Consumer-driven health care will not work unless the **nature of competition** is transformed

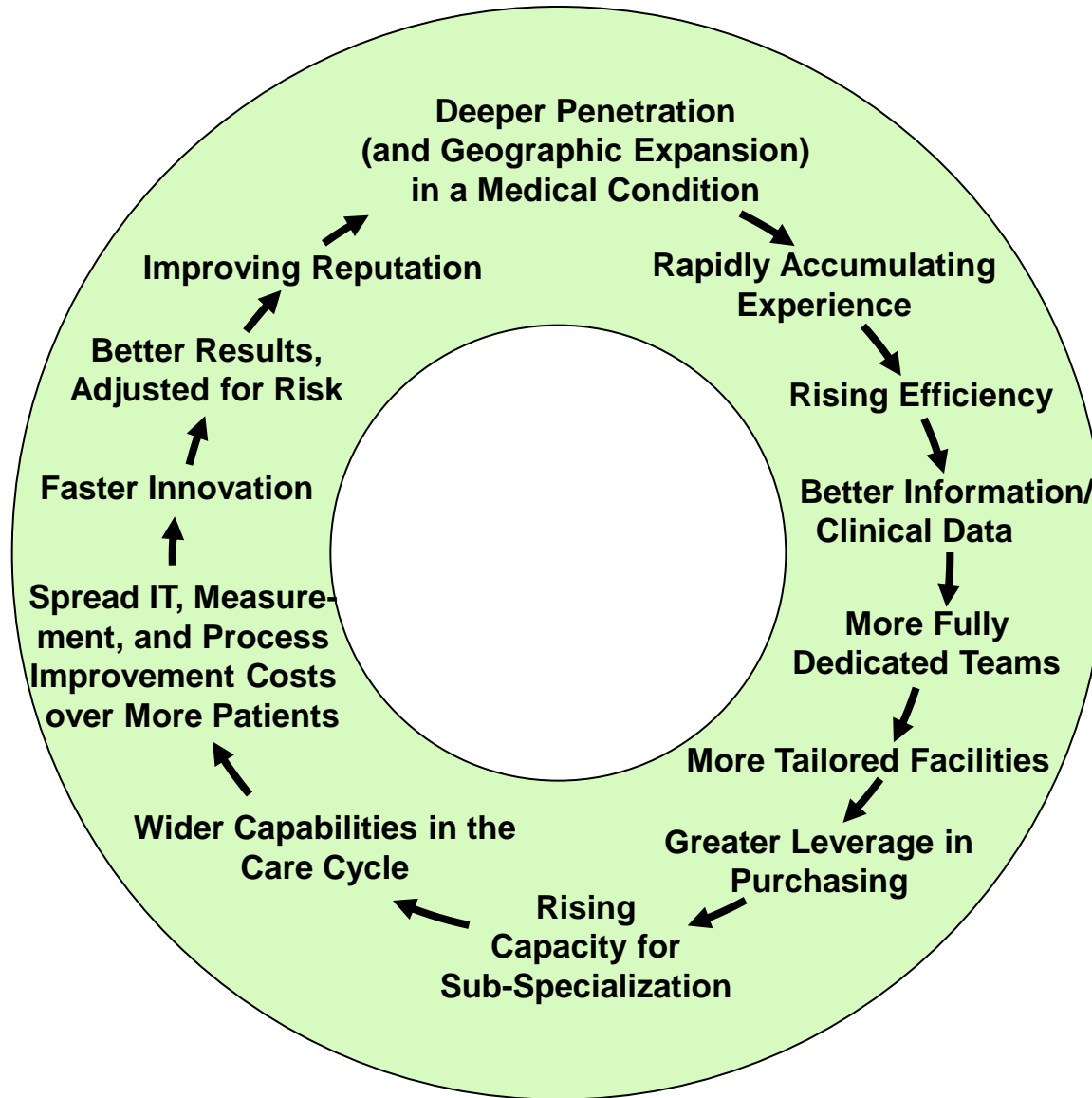
Principles of Positive Sum Competition

- The focus should be on **value for patients**, not just lowering costs.
- There must be **unrestricted competition** based on **results**.
- Competition should **center on medical conditions** over the **full cycle of care**.
- Quality and cost will often improve **simultaneously**.
- Value is driven by **provider experience**, **scale**, and **learning** at the medical condition level.
- Competition should be **regional** and **national**, not just local.
- Results and price **information** to support value-based competition must be widely available.
- **Innovations** that increase value must be strongly rewarded.

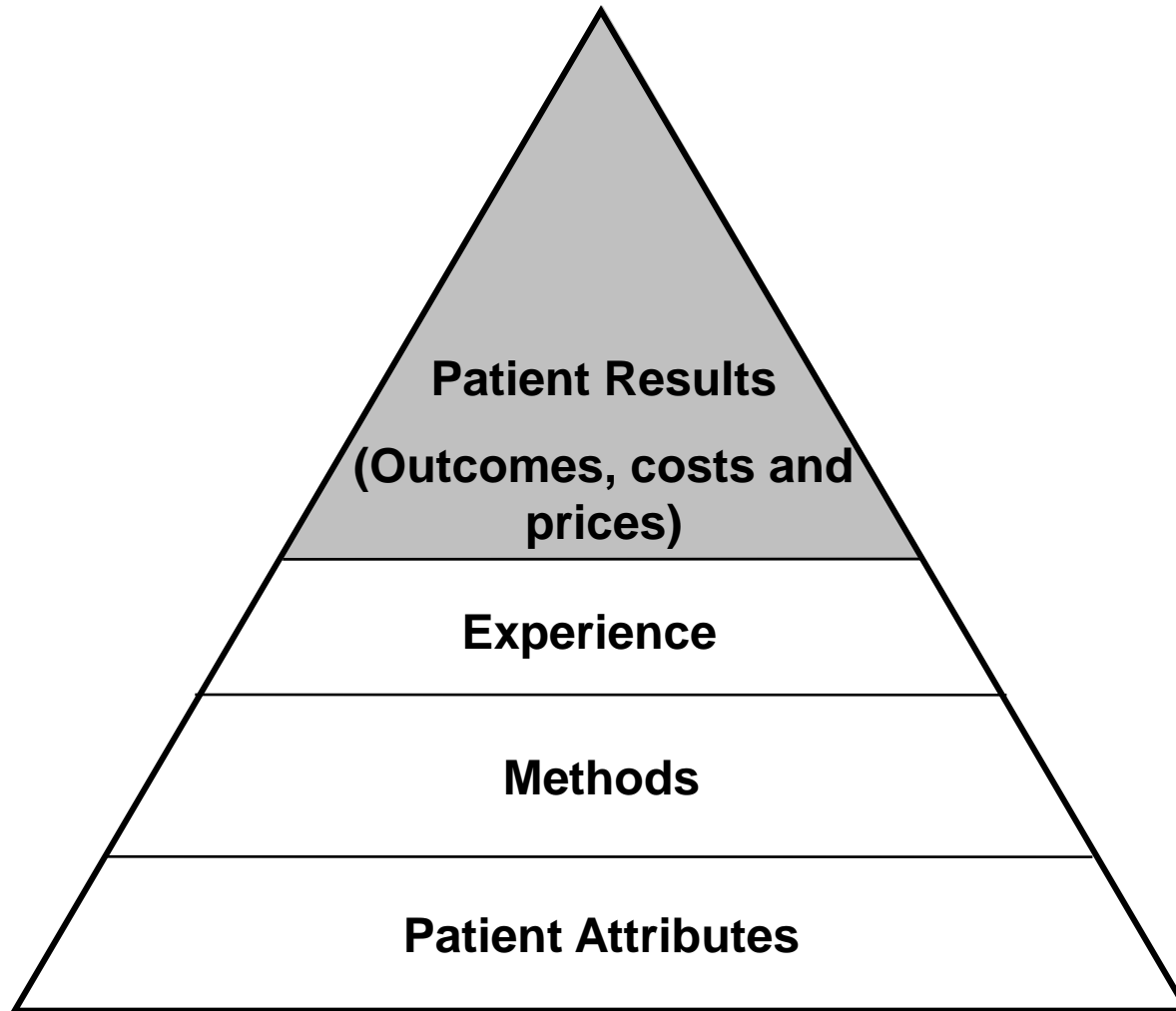
The Care Delivery Value Chain for a Medical Condition



The Virtuous Circle in Health Care Delivery



Information Hierarchy



Value-Based Competition: Issues for Providers

- Many providers see themselves in the wrong business
- Provider strategies, organizational structures, and management practices are not well aligned with delivering value for patients
- Providers lack the most important information needed to manage their practices, and are not held accountable

Moving to Value-Based Competition

Providers

1. Redefine the business around **medical conditions**
2. Choose the **range and types of services provided**
3. Organize around **medically integrated practice areas**
4. Create a **distinctive strategy** in each practice area
5. Measure **results, methods, and patient attributes** by practice area
6. Move to **single bills** and new approaches to **pricing**
7. **Market** services based on excellence, uniqueness, and results
8. Grow locally and geographically in **areas of strength**

What Businesses Are We In?

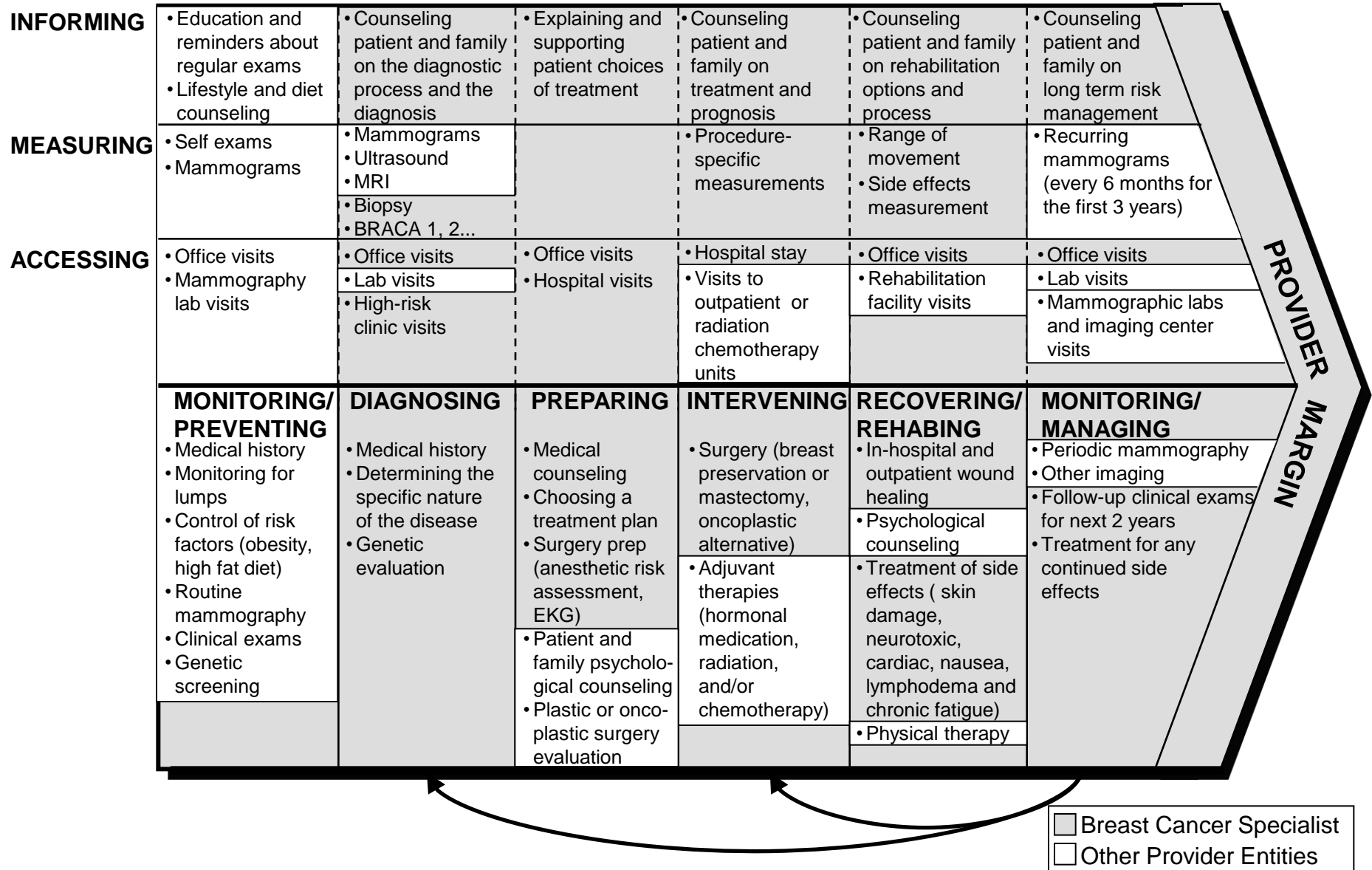
Nephrology practice



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

The Care Delivery Value Chain: Primary Activities*

Breast Cancer Care



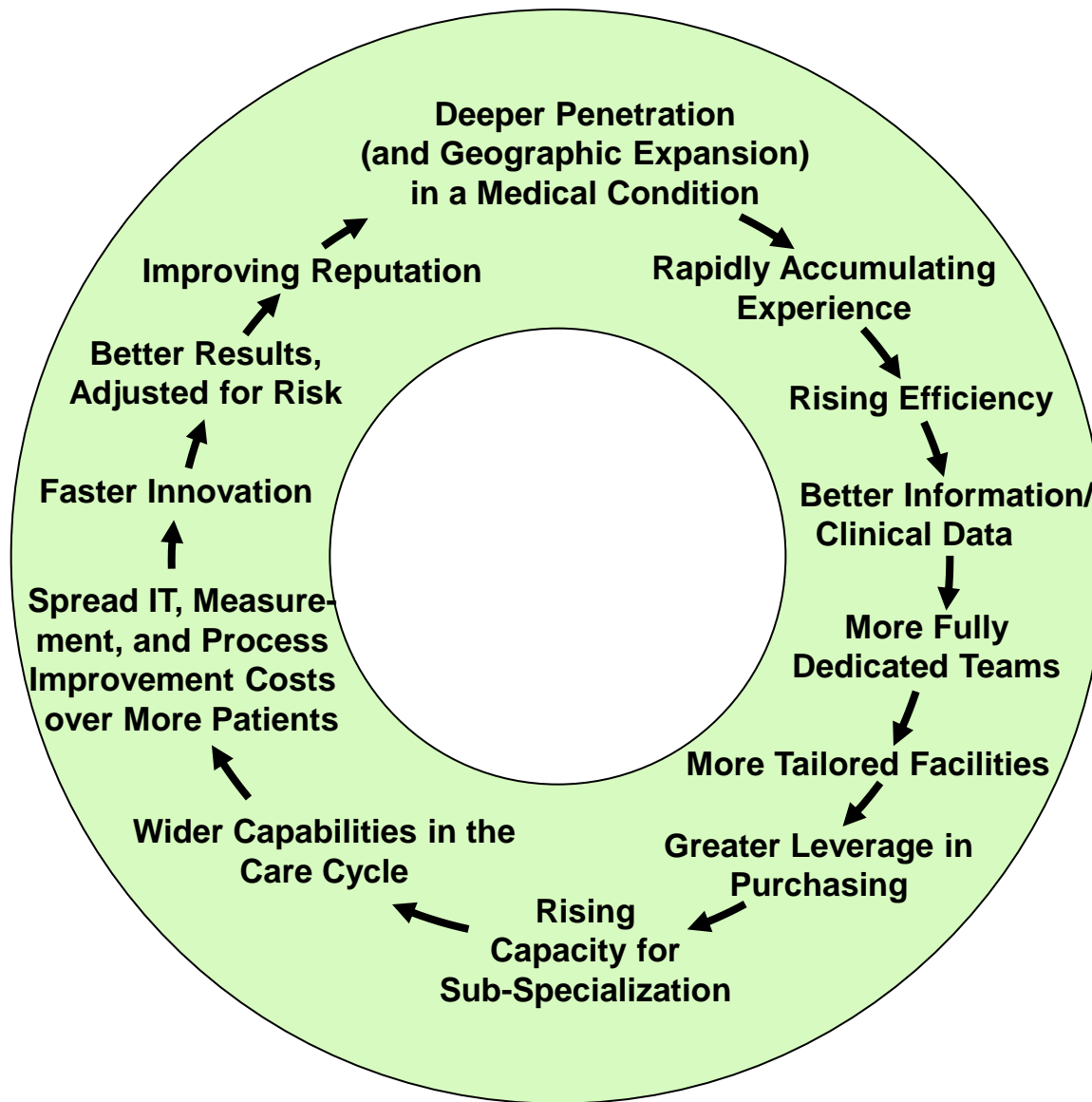
* Note that support activities are omitted for simplification. For a discussion of the support activities in the Value Chain see Chapter 5.

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The Virtuous Circle in Health Care Delivery



Overcoming Barriers to Value-Based Competition

Providers

External

- Health plan practices
- Medicare pricing
- Regulations
- Supplier mindsets
- Lack of relevant information

Internal

- Assumptions, mindsets, and attitudes
- Governance structures
- Management expertise
- Medical education
- The structure of physician practice
- Lack of relevant information



- Providers who have made progress towards value-based competition have often been ones **who face fewer barriers** and have avoided the dysfunctional aspects of the current system
 - e.g. Cleveland clinic (all physicians are salaried), Intermountain, the Veterans Administration Hospitals (integrated with a health plan).

Moving to Value-Based Competition

Suppliers

Offer **unique value** over the **full cycle of care**

- Compete through offering unique **value** in supporting health care delivery
- Focus on **cycles of care** rather than narrow product usage
- Sell not just products, but provider and patient **support**

Demonstrate value based on careful study of long term costs and results versus alternative therapies

- Use evidence on **long-term** clinical outcomes and cost to demonstrate value
- Conduct new types of long-term studies in **collaboration** with providers and patients

Ensure that the products are **used by the right patients**

- Increase the **success rate** instead of maximizing usage
- **Target** marketing and sales to minimize unnecessary or ineffective therapies

Ensure that drugs/devices are embedded in the **right care delivery processes**

- Help providers **utilize products better** and **minimize errors**

Build marketing campaigns based on **value**, **information**, and **customer support**

- Concentrate marketing efforts on **value**, not just volume and discounts

Offer support services that **contribute to value** rather than reinforce cost shifting

- Develop **expertise** around diseases and across the care cycle to identify opportunities to add value
- Support providers with **knowledge of best practices** and possible innovations in organization and delivery of care

Transforming the Roles of Health Plans

Old Role

- Restrict patient choice of providers and treatment
- Micromanage provider processes and choices
- Minimize the cost of each service or treatment
- Engage in complex paperwork and administrative transactions with providers and subscribers to control costs and settle bills
- Compete on minimizing premium increases



New Role

- Enable informed patient and physician **choice** and patient **management** of their health
- Measure and reward providers based on **results**
- Maximize the value of care over the **full care cycle**
- **Minimize** the need for administrative transactions and simplify billing
- Compete on subscriber **health results**

Moving to Value-Based Competition

Employers

Set the goal of increasing health value, not minimizing health benefit costs

Set new expectations for health plans, including self-insured plans

- Select or specify plans that help subscribers obtain and understand **results information** on specific conditions and ensure that patients are diagnosed and treated by **experienced** and **excellent** providers

Provide for health plan continuity for employees, rather than plan churning

- A **long-term relationship** between the plan and subscribers aligns everyone's interests

Enhance provider competition on results

- **Collaborate** with other employers in advancing these aims

Support employees in making health choices and managing their health

- Offer encouragement and support for employees in **managing their health**
- Provide **independent** information and advising services to employees to supplement other sources
- Offer health plan structures that provide **good value** and encourage saving for long-term health needs

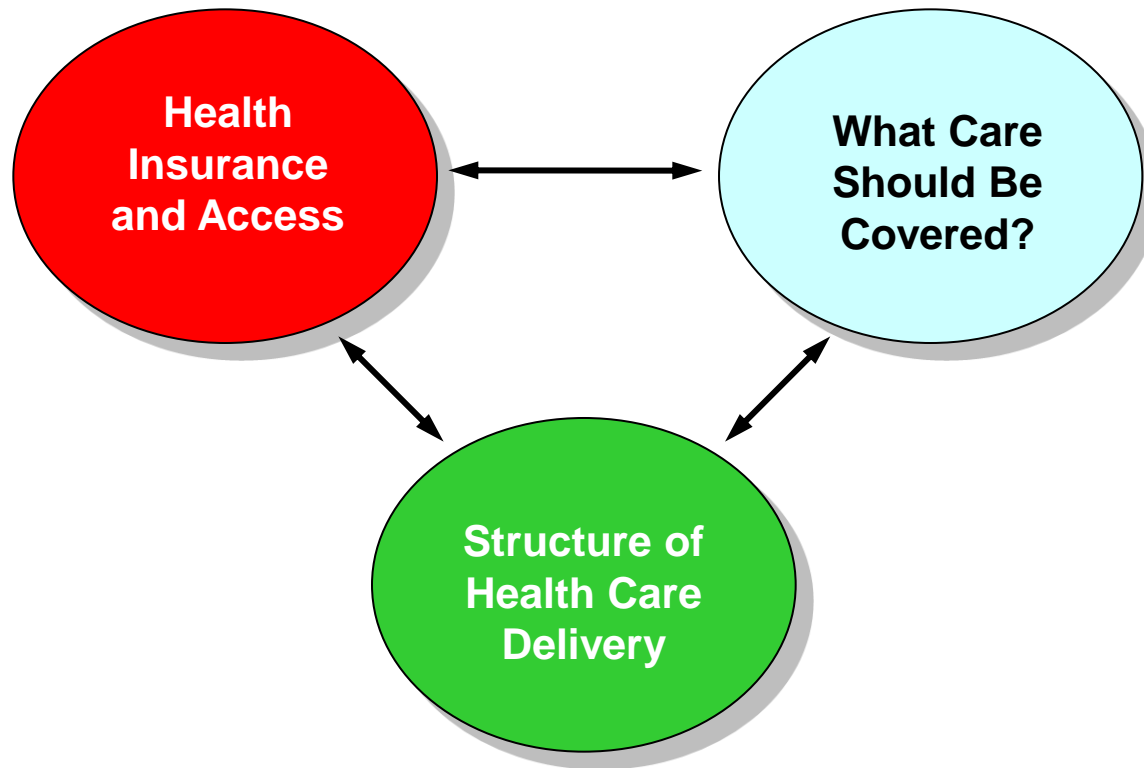
Find ways to expand insurance coverage and advocate reform of the insurance system

- Create collaborative vehicles with other employers to offer group insurance coverage to employees or affiliated individuals, not currently part of the employer's health plan
- Support insurance reform that **levels the playing field** among employers

Measure and hold benefits staff accountable for the company's health value received

- Health benefits must be a **senior management responsibility**, not delegated to the benefits staff

Issues in Health Care Reform



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.