

Redefining Health Care: Creating Value-Based Competition on Results

Professor Michael E. Porter
Harvard Business School

Health Care in the Netherlands
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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.

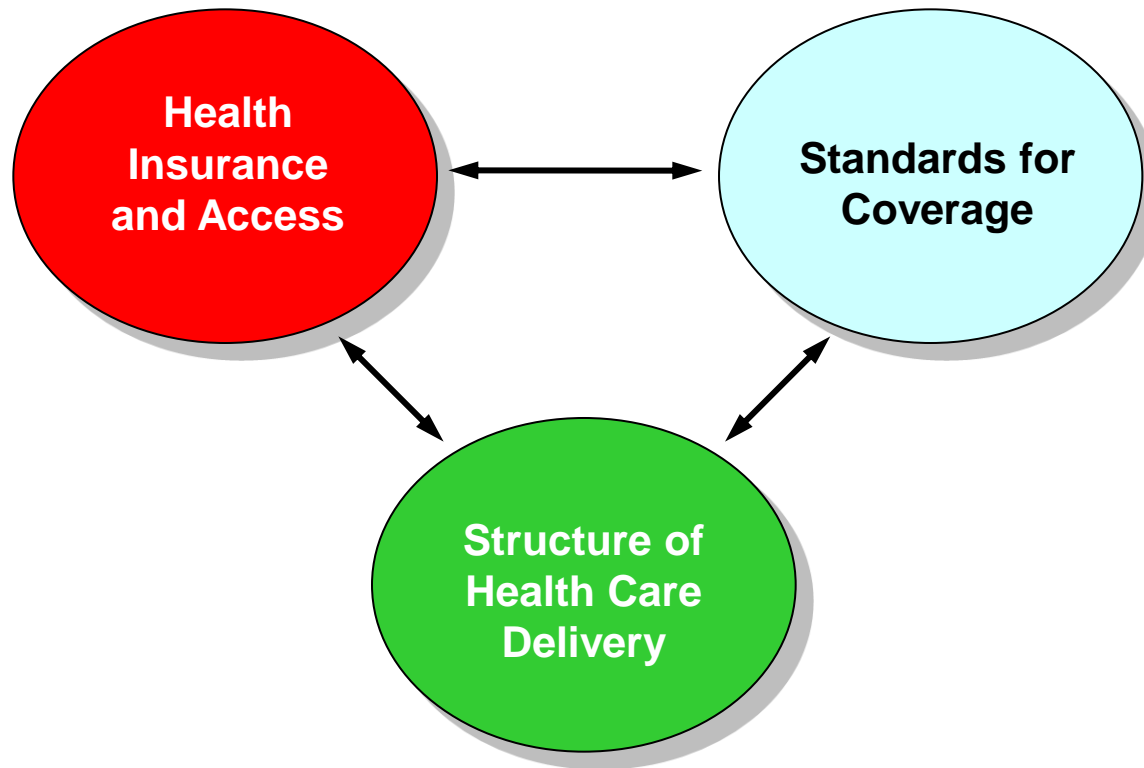
The Paradox of Health Care

- 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 **restrict services** in order to reduce costs

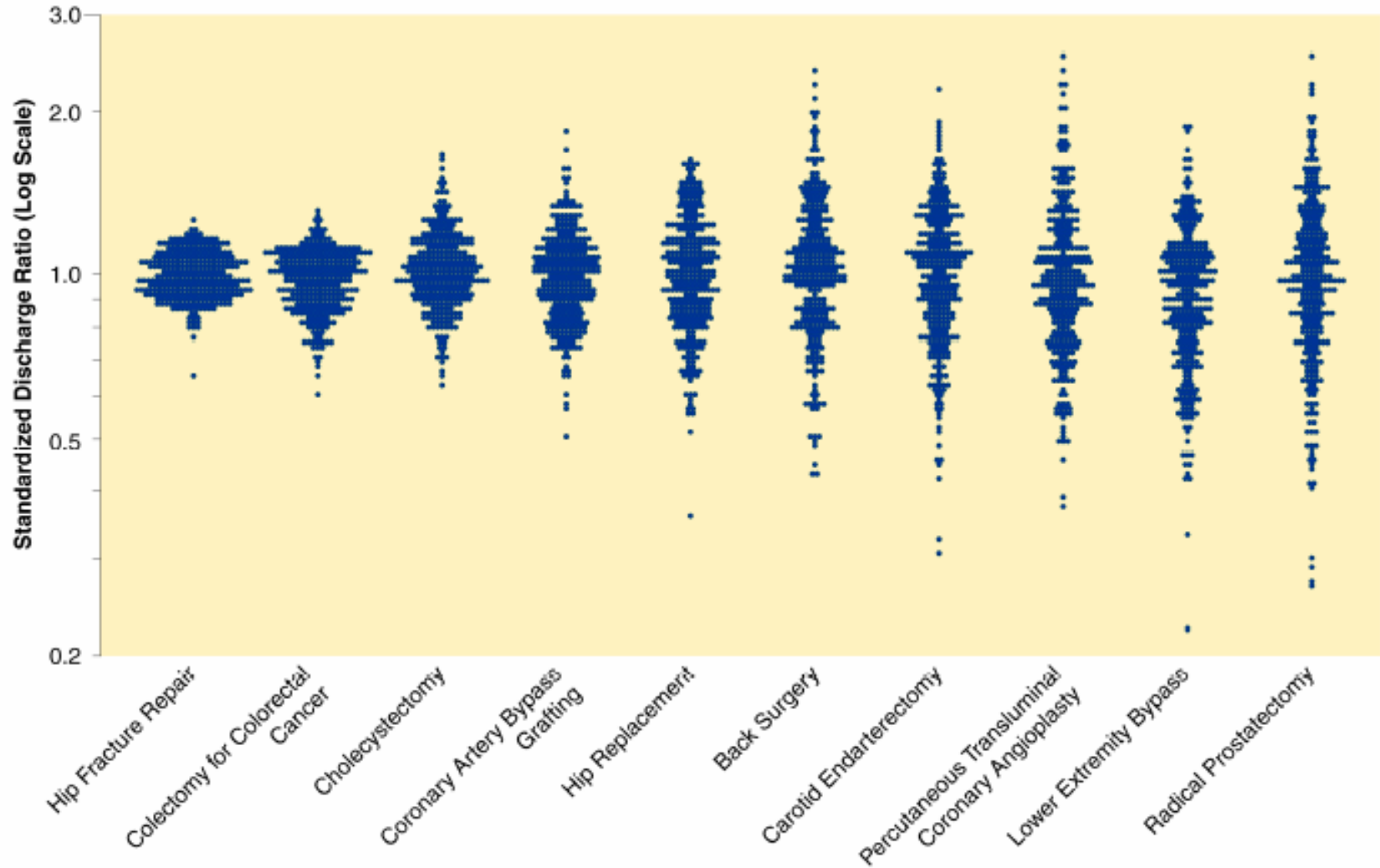


- None of these forms of competition **increases value for patients**

Principles of Value-Based Competition

- The focus should be on **value for patients**, not just lowering costs.
- There must be **unrestricted competition** based on **results**.

Outcome Variation, Selected Surgical Procedures



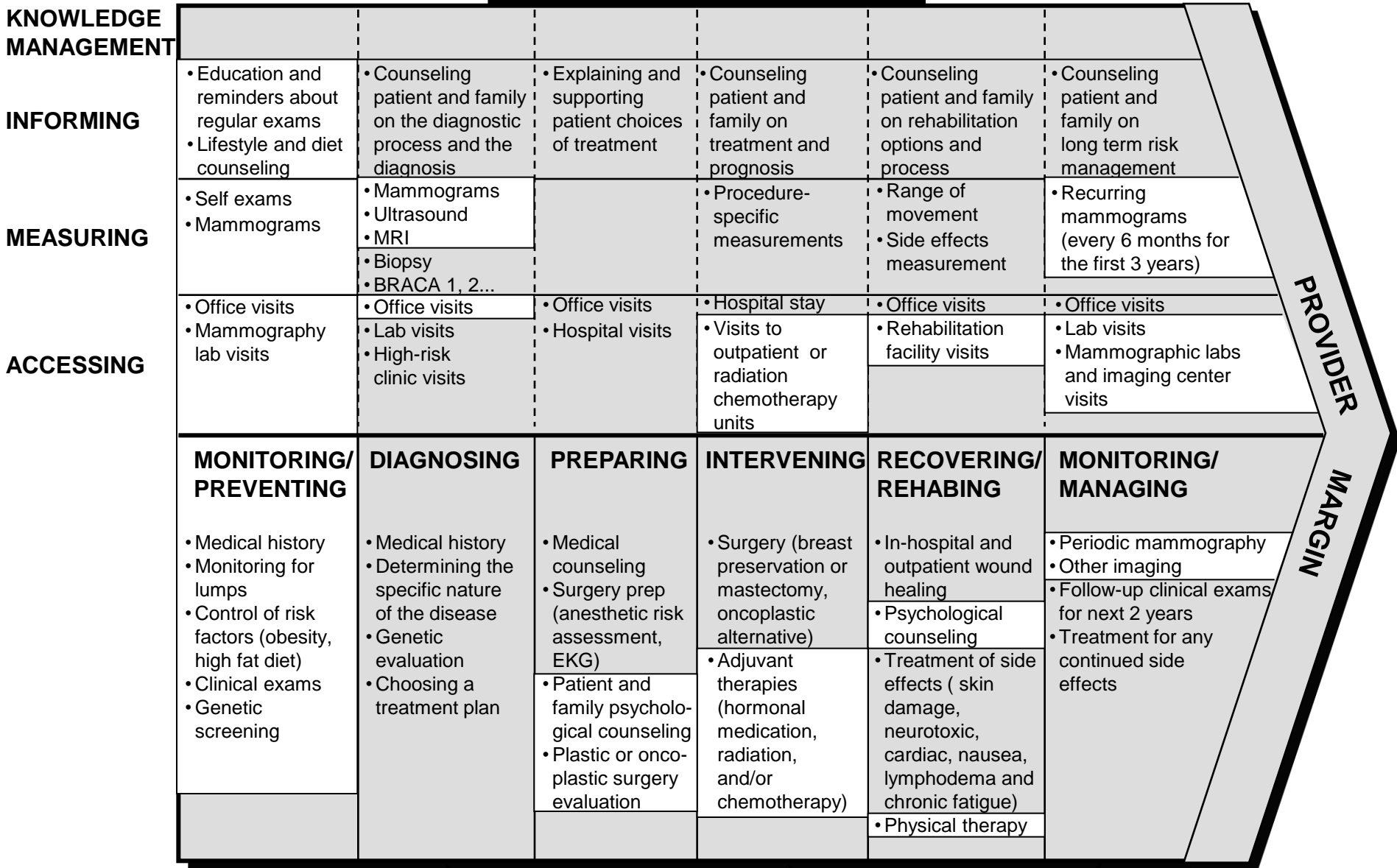
Source: Dartmouth Atlas of Health Care 1999, Figure 5.1. Profiles of Surgical Variation for Ten Common Surgical Procedures (1995-1996)

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

The Care Delivery Value Chain: Primary Activities

Breast Cancer Care

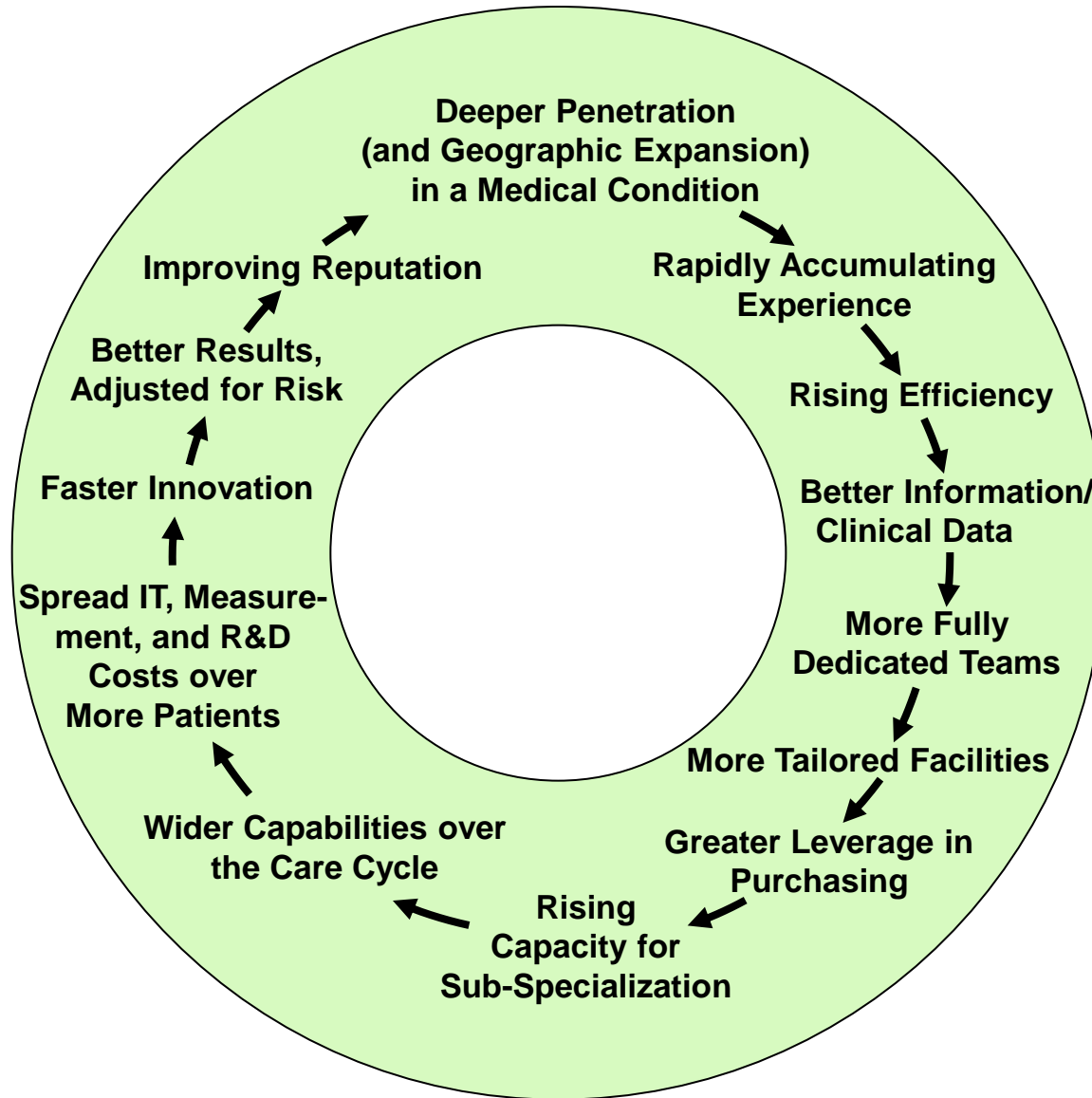


Breast Cancer Specialist
 Other Provider Entities

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- Quality and cost will often improve **simultaneously**.
- Value is driven by **provider experience**, **scale**, and **learning** at the medical condition level.

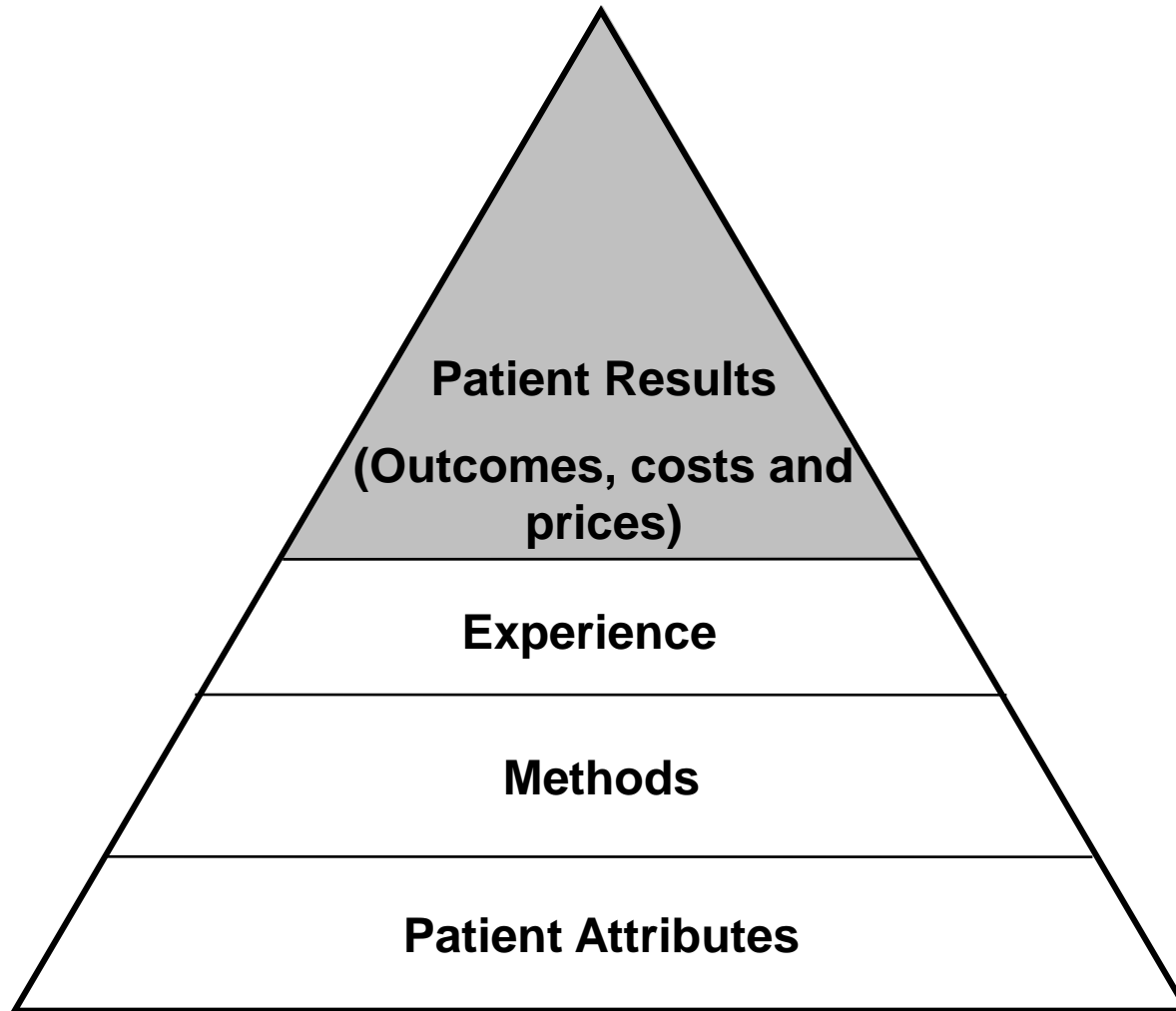
The Virtuous Circle in Health Care Delivery



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- Value is driven by **provider experience**, **scale**, and **learning** at the medical condition level.
- Competition should be **regional** and **national**, not just local.
- **Information** on results and prices needed for value-based competition must be widely available.

The Information Hierarchy



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- **Information** on results and prices needed for value-based competition must be widely available.
- **Innovations** that increase value must be strongly rewarded.

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

Health Plans

Provide Health Information and Support to Patients and Physicians

1. Organize around **medical conditions**, not geography or administrative functions
2. Develop measures and assemble results **information** on providers and treatments
3. Actively **support provider** and **treatment choice** with information and unbiased counseling
4. Organize information and patient support around the **full cycle of care**
5. Provide comprehensive **disease management** and **prevention** services to all members, even healthy ones

Restructure the Health Plan-Provider Relationship

6. Shift the nature of **information sharing** with providers
7. Reward provider **excellence** and value-enhancing **innovation** for patients
8. Move to **single bills** for episodes and cycles of care, and **single prices**
9. Simplify, standardize, and eliminate **paperwork** and **transactions**

Redefine the Health Plan-Subscriber Relationship

10. Move to **multi-year subscriber contracts** and shift the nature of plan contracting
11. **End cost shifting practices**, such as re-underwriting, that erode trust in health plans and breed cynicism
12. Assist in managing **members' medical records**

Moving to Value-Based Competition

Providers

Defining the Right Goals

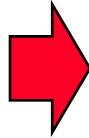
- **Patient value**

Strategic and Organizational Imperatives

- Redefine the business around **medical conditions**
- Choose the **range and types of services provided**
- Organize around **medically integrated practice areas**
- Create a **distinctive strategy** in each practice area
- Measure **results, experience, methods, and patient attributes** by practice area
- Move to **single bills** and new approaches to **pricing**
- **Market** services based on excellence, uniqueness, and results
- 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

Moving to Value-Based Competition

Providers

Defining the Right Goals

- **Patient value**

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Enabling Conditions

- Explicit **care delivery value chains**
- **Integrated** IT Infrastructure
- Systematic **processes for knowledge development**

Moving to Value-Based Competition

Suppliers

- Compete on delivering **unique value** over the **full cycle of care**
- **Demonstrate value** based on careful study of long term costs and results versus alternative therapies
- Ensure that the products are **used by the right patients**
- Ensure that drugs/devices are embedded in the **right care delivery processes**
- Market based on **value, information, and customer support**
- Offer support services that **contribute to value** rather than reinforce cost shifting

Moving to Value-Based Competition

Consumers

- Participate actively in **managing personal health**
- Expect **relevant information** and seek advice
- Make treatment and provider **choices** based on **excellent results** and **personal values**, not convenience or amenities
- Choose a health plan based on **value added**
- Build a **long-term relationship** with an excellent health plan
- Act **responsibly**

Roles of Government in Value-Based Competition

- Require the collection and dissemination of the **risk-adjusted outcome information**
- Open up **value-based competition** at the right level
- Provide for price **transparency**
- Limit or eliminate **price discrimination**
- Develop information technology standards and rules to enable **interoperability** and **information sharing**
- Invest in medical and clinical **research**

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.