

# Redefining Health Care: Creating Value-Based Competition on Results

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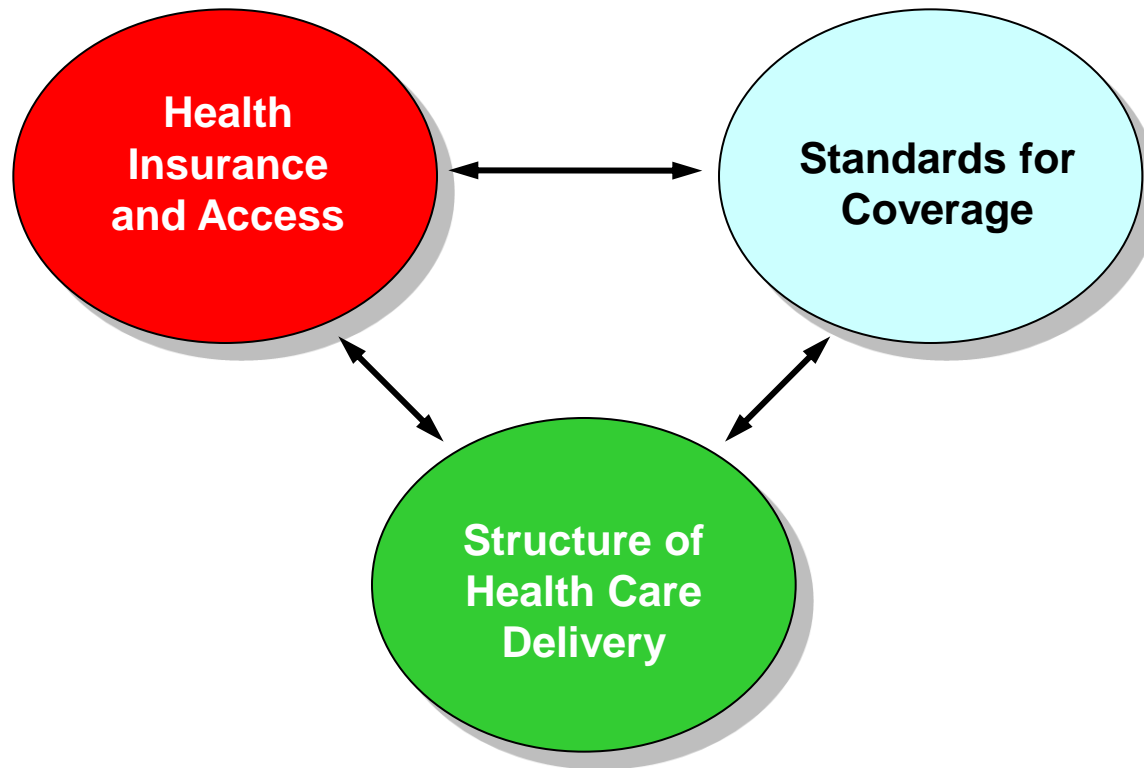
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This presentation draws on a forthcoming book with Elizabeth Olmsted Teisberg ([Redefining Health Care: Creating Value-Based Competition on Results](#), Harvard Business School Press). Earlier publications about the work include the *Harvard Business 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.

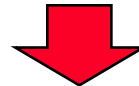
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# Issues in Health Care Reform



# 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**



- Competition is **not** working
- How is this state of affairs possible?

# 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**

# Root Causes

- Competition in the health care system takes place at the **wrong levels** on the **wrong things**

## Too Broad

- Between broad line hospitals, networks, and health plans

## Too Narrow

- Performing discrete services or interventions

## Too Local

- Focused on serving the local community

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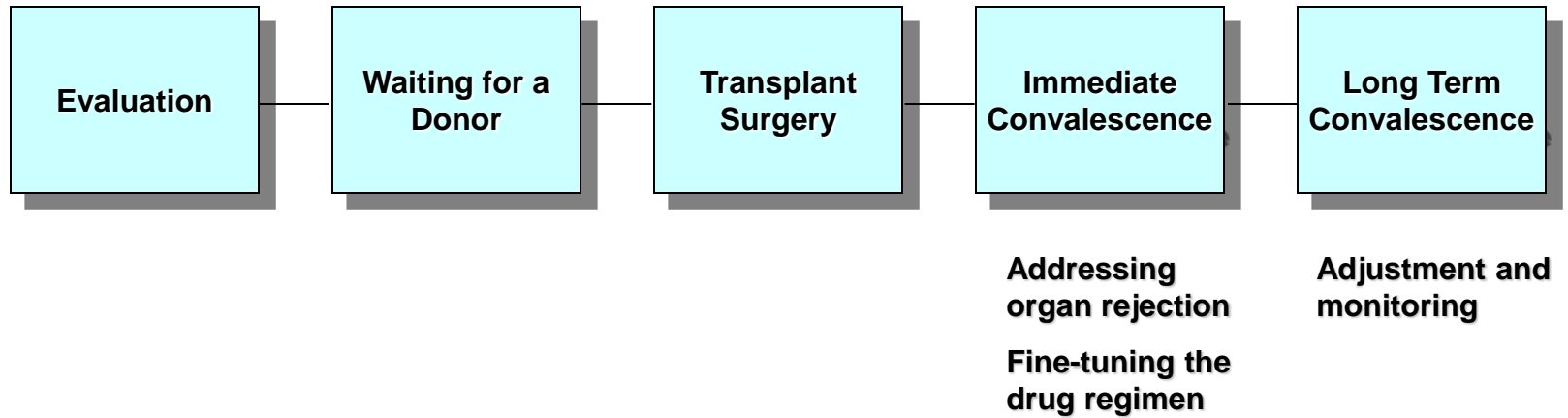
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3. Competition should center on **medical conditions** over the **full cycle of care**.



# Organ Transplant Care Cycle



# The Care Delivery Value Chain

**KNOWLEDGE  
MANAGEMENT**

**INFORMING**

**MEASURING**

**ACCESSING**

**MONITORING/  
PREVENTING**

**DIAGNOSING**

**PREPARING**

**INTERVENING**

**RECOVERING/  
REHABING**

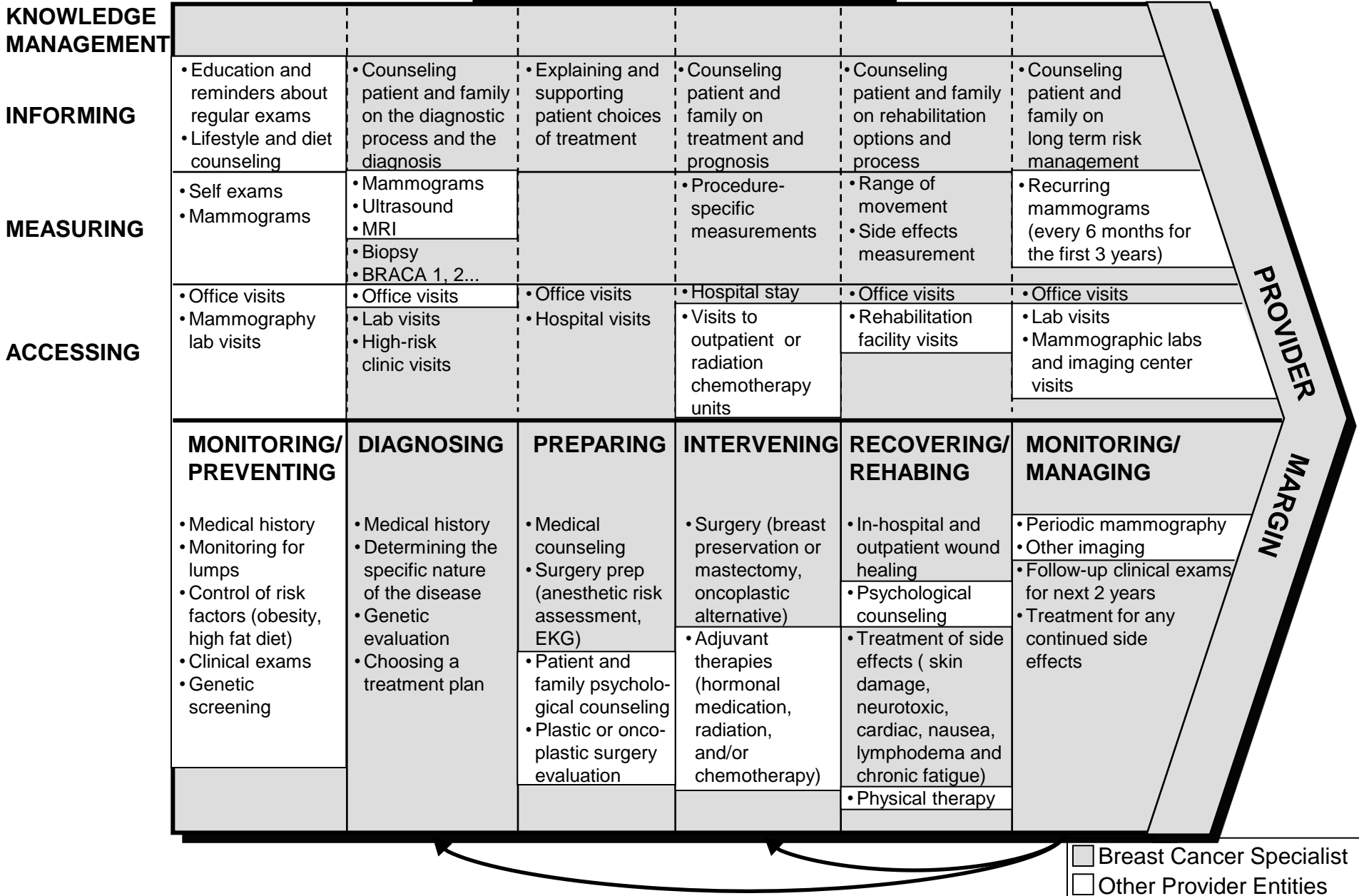
**MONITORING/  
MANAGING**

**PROVIDER**

**MARGIN**

# The Care Delivery Value Chain: Primary Activities

## Breast Cancer Care



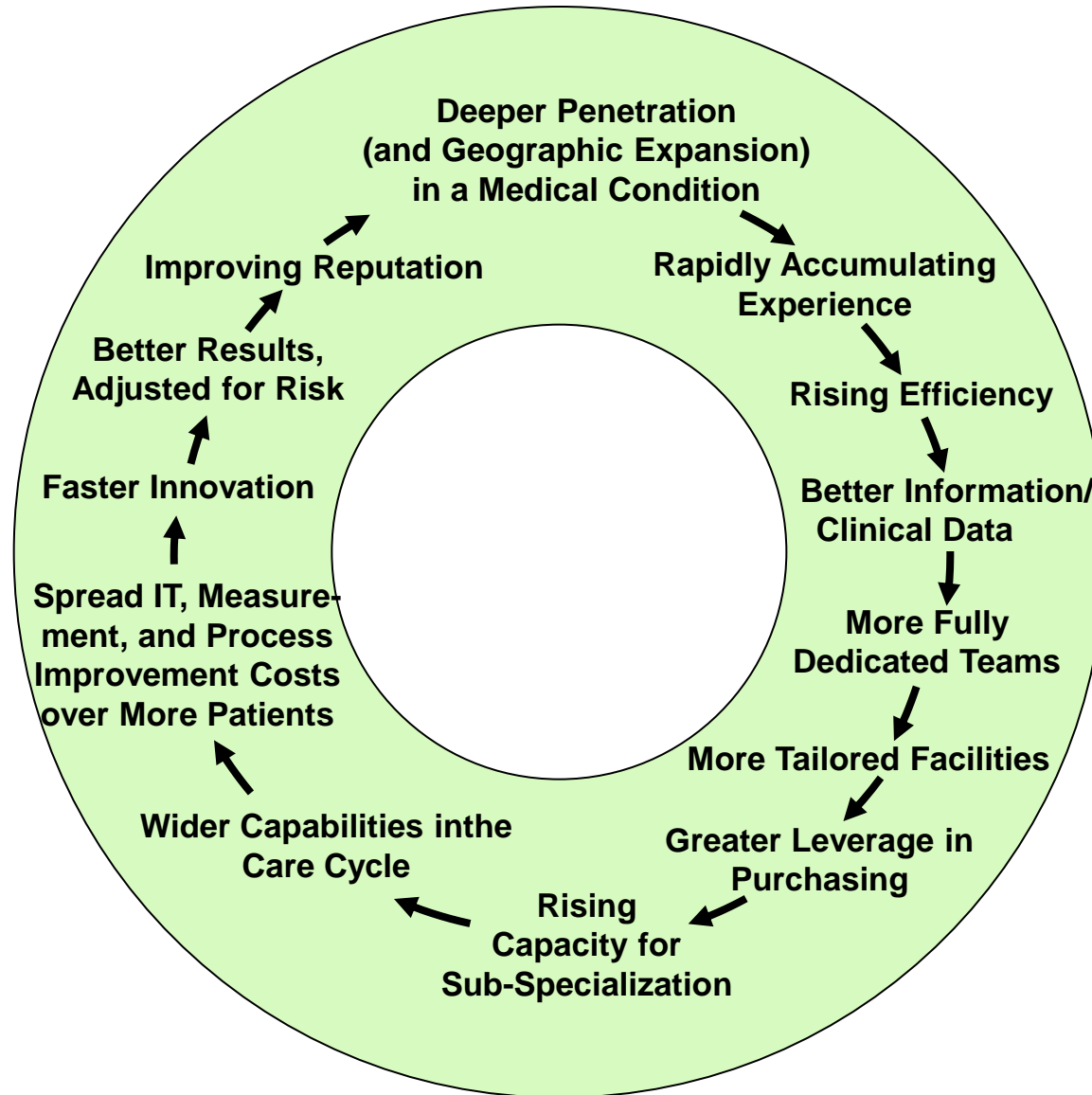
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# The Virtuous Circle in a Medical Condition



# Principles of Value-Based Competition

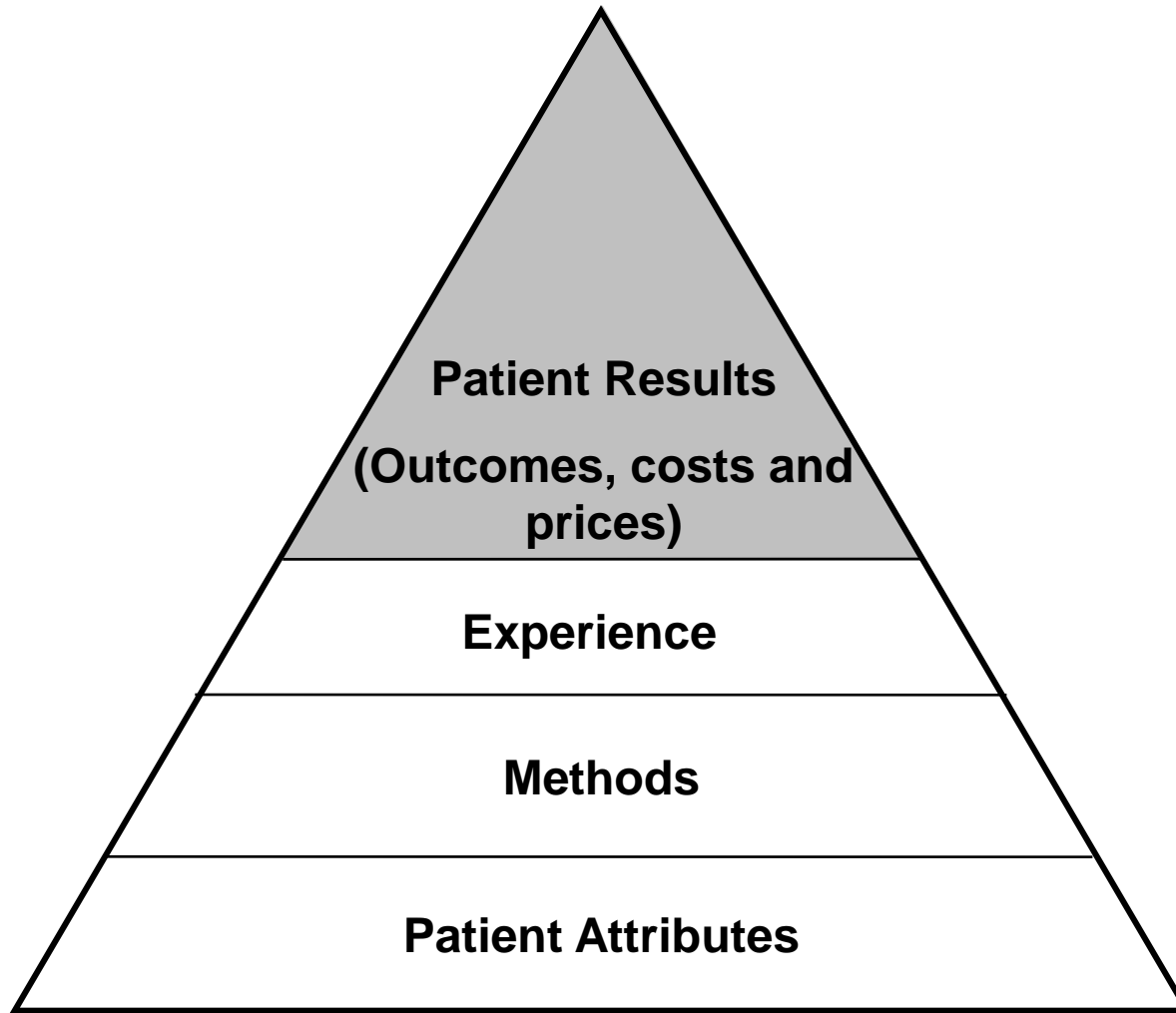
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7. **Information** on results and prices needed for value-based competition must be widely available.



# The Information Hierarchy



# Boston Spine Group

## Clinical and Outcome Information Collected and Analyzed

### OUTCOMES

#### 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

### METHODS

#### Surgery Process Metrics

Operative time

Blood loss

Devices or products used

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

# Moving to Value-Based Competition

## Providers

### Defining the Right Goals

- Superior **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 units**
- Create a **distinctive strategy** in each practice unit
- Measure **results, experience, methods, and patient attributes** by practice unit
- 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**

### Enabling Conditions

- Analyzing the **care delivery value chain**
- Harnessing the power of **Information Technology**
- Systematizing **knowledge development**

# What Businesses Are We In?

Nephrology practice



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

# Moving to Value-Based Competition

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### Enabling Conditions

- Analyzing the **care delivery value chain**
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# Analyzing the Care Delivery Value Chain

1. Is the **set and sequence** of activities in the CDVC aligned with value?
2. Is the appropriate **mix of skills** brought to bear on each activity and across activities, and do individuals work as a **team**?
3. Is there **appropriate coordination** across the discrete activities in the care cycle, and are handoffs seamless?
4. Is care structured to **harness linkages** across different parts of the care cycle?
5. Is the **right information** collected, integrated, and utilized across the care cycle?
6. Are the activities in the CDVC performed in **appropriate facilities and locations**?
7. What provider departments, units and groups are involved in the care cycle? Is the provider's **organizational structure** aligned with value?
8. What are the independent entities involved in the care cycle, and what are the relationships among them? Should a provider's **scope of services** in the care cycle be expanded or contracted?

# Transforming the Roles of Health Plans

## Old Role: culture of denial

- 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 value-based competition on results

- 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

## Suppliers

- Compete on delivering **unique value** over the **full care cycle**
- **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

## Employers

- Set the goal of increasing **health value**, not minimizing health benefit costs
- Set new expectations for health plans, including **self-insured** plans
- Provide for health plan **continuity** for employees, rather than plan churning
- Enhance provider competition on **results**
- Support and motivate employees to **make good health care choices** and **manage their own health**
- Find ways to **expand insurance coverage** and advocate reform of the insurance system
- Measure and hold employee benefit staff accountable for the company's **health value received**

# 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.

# What Government Can Do: Policies to Improve Health Insurance, Access, and Coverage

## Insurance and Access

- Enact **mandatory health coverage**
- Provide **subsidies** or vouchers for **low-income** individuals and families
- Create **risk pools** for high-risk individuals
- Enable **affordable insurance plans**
- Eliminate **unproductive** insurance rules and billing practices
  - **Ban** re-underwriting
  - **Clarify legal responsibility** for medical bills
  - Eliminate **balance billing**

## Coverage

- Establish a **national standard** for required coverage
- The Federal Employees Health Benefit Plan (FEHBP) as a **starting point**

# What Government Can Do: Policies to Improve the Structure of Health Care Delivery

- Enable universal results information
  - Establish a process of **defining outcome measures**
  - Enact **mandatory results reporting**
  - Establish information **collection** and **dissemination** infrastructure
- Improve **pricing** practices
  - Establish episode and **care cycle** pricing
  - Set limits on **price discrimination**
- Open up **competition** at the right level
  - Reduce **artificial barriers** to practice area integration
    - Modify Stark laws
    - Phase-out **corporate practice of medicine** laws
  - Require a value justification for captive referrals or treatment involving an economic interest
  - Eliminate artificial restrictions on **new entry**
  - Institute results-based **license renewal**
  - Strictly enforce **antitrust** policies
  - Curtail anticompetitive **buying group practices**
  - Eliminate barriers to competition **across geography**
    - Establish reciprocity in state-level licensing
    - Modify tax treatment of medical travel

# What Government Can Do: Policies to Improve the Structure of Health Care Delivery (continued)

- Establish standards and rules that enable information technology and information sharing
  - Develop standards for interoperability of hardware and software
  - Develop standards for medical data
  - Enhance identification and security procedures
  - Provide incentives for IT adoption
- **Reform** the malpractice system
- **Redesign** Medicare policies and practices
  - Make Medicare a **health plan**, not a payer or a regulator
- Modify counterproductive **pricing practices**
- Improve Medicare **Pay-for-Performance**
- **Align** Medicaid with Medicare
- Invest in medical and clinical **research**