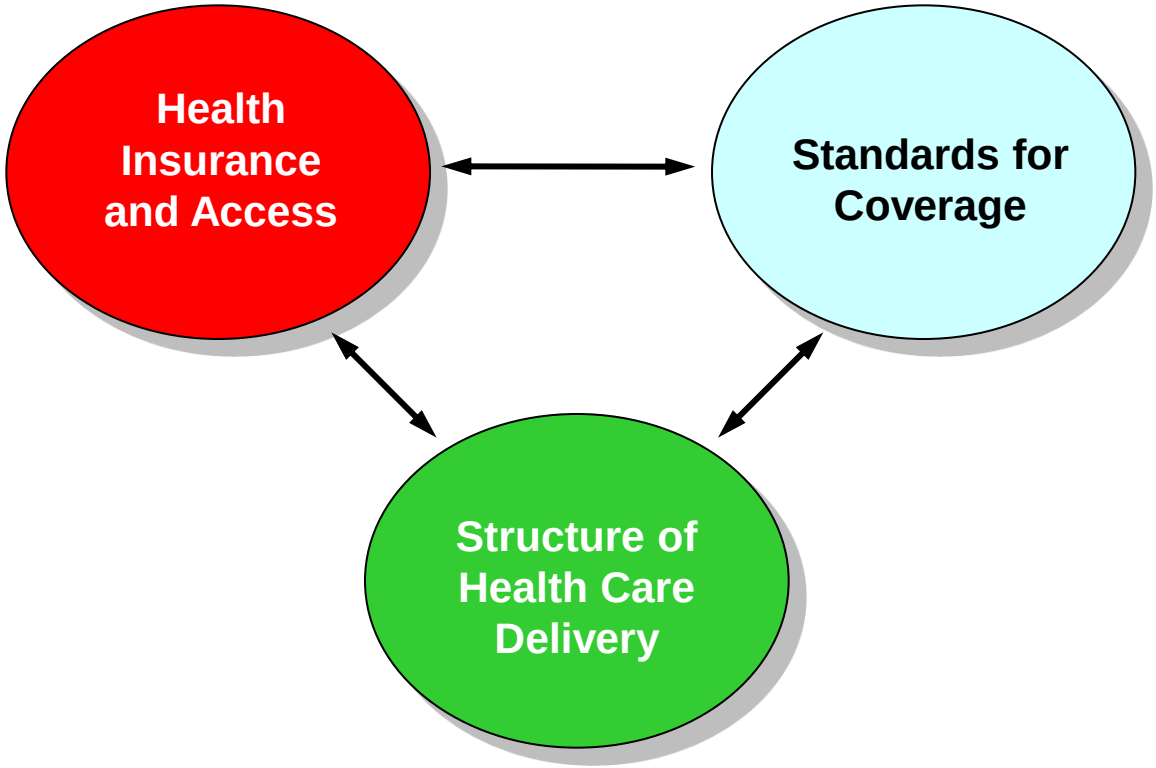
Value-Based Competition in Health Care

Professor Michael E. Porter

Healthways
Nashville, Tennessee
October 25, 2006

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".

Issues in Health Care Reform



The Paradox of U.S. Health Care

The United States has a **private system** with **intense competition**

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**

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

Competition on the Wrong Things
Zero-Sum Competition in U.S. 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**

Competition at the Wrong Levels

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

- Market definition is **misaligned with patient value**

Principles of Value-Based Competition

1. The focus should be on **value for patients**, not just lowering costs.

Principles of Value-Based Competition

1. The focus should be on **value for patients**, not just lowering costs.
2. There must be **unrestricted competition** based on **results**.
   - Results vs. supply control
   - Results vs. process compliance
   - Reward results with patients vs. “lift all boats”

Principles of Value-Based Competition

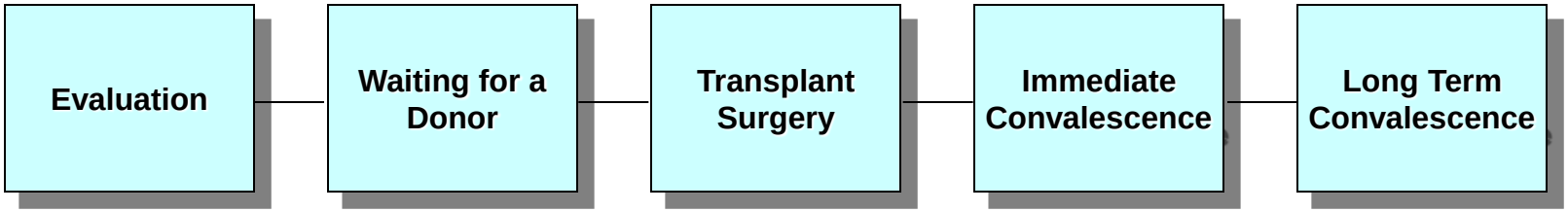
1. The focus should be on **value for patients**, not just lowering costs.
2. There must be **unrestricted competition** based on **results**.
3. Competition should center on **medical conditions** over the **full cycle of care**.

What Businesses Are We In?

Nephrology practice

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

Organ Transplant Care Cycle



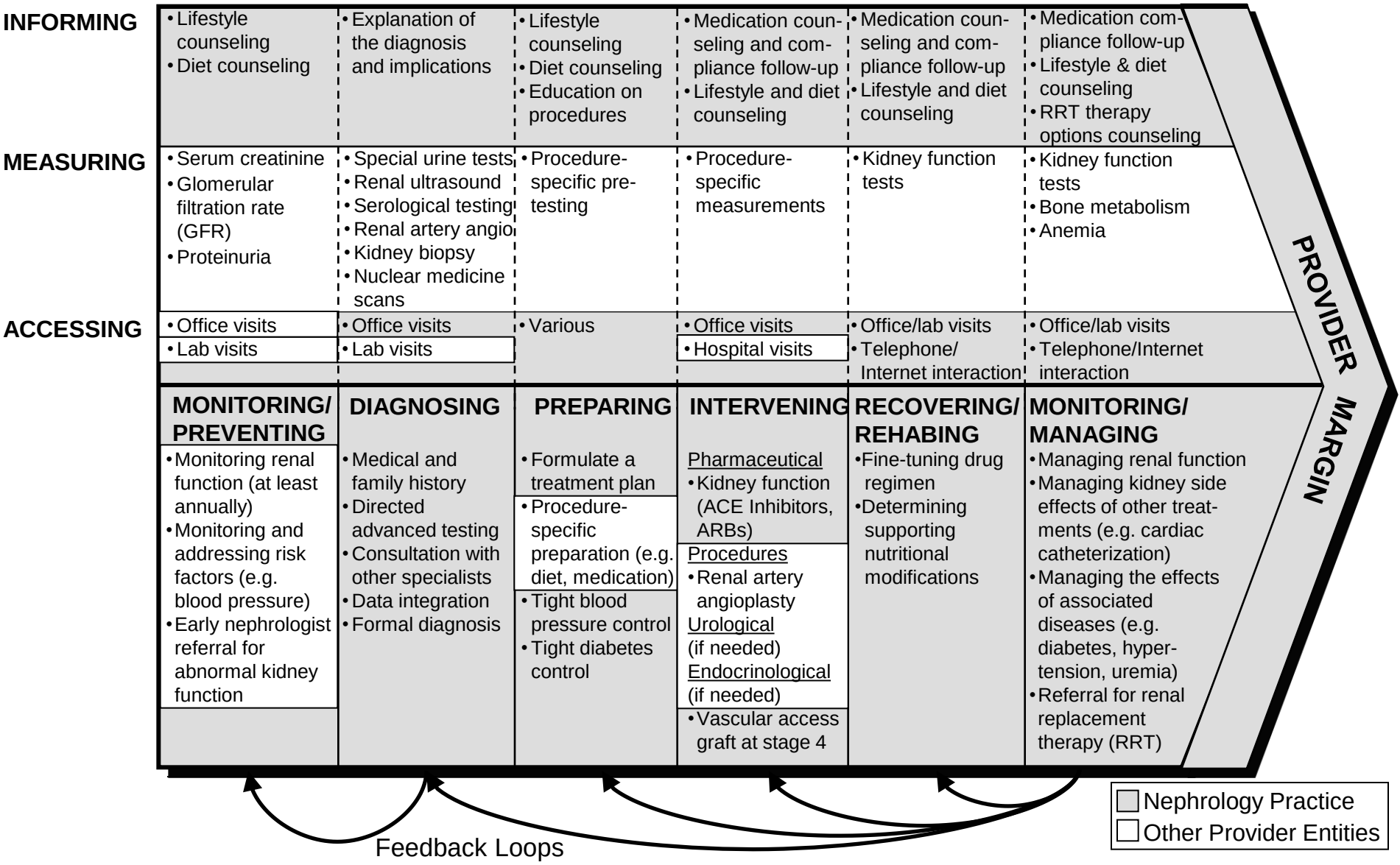
Addressing organ rejection

Fine-tuning the drug regimen

Adjustment and monitoring

The Care Delivery Value Chain

Chronic Kidney Disease



Principles of Value-Based Competition

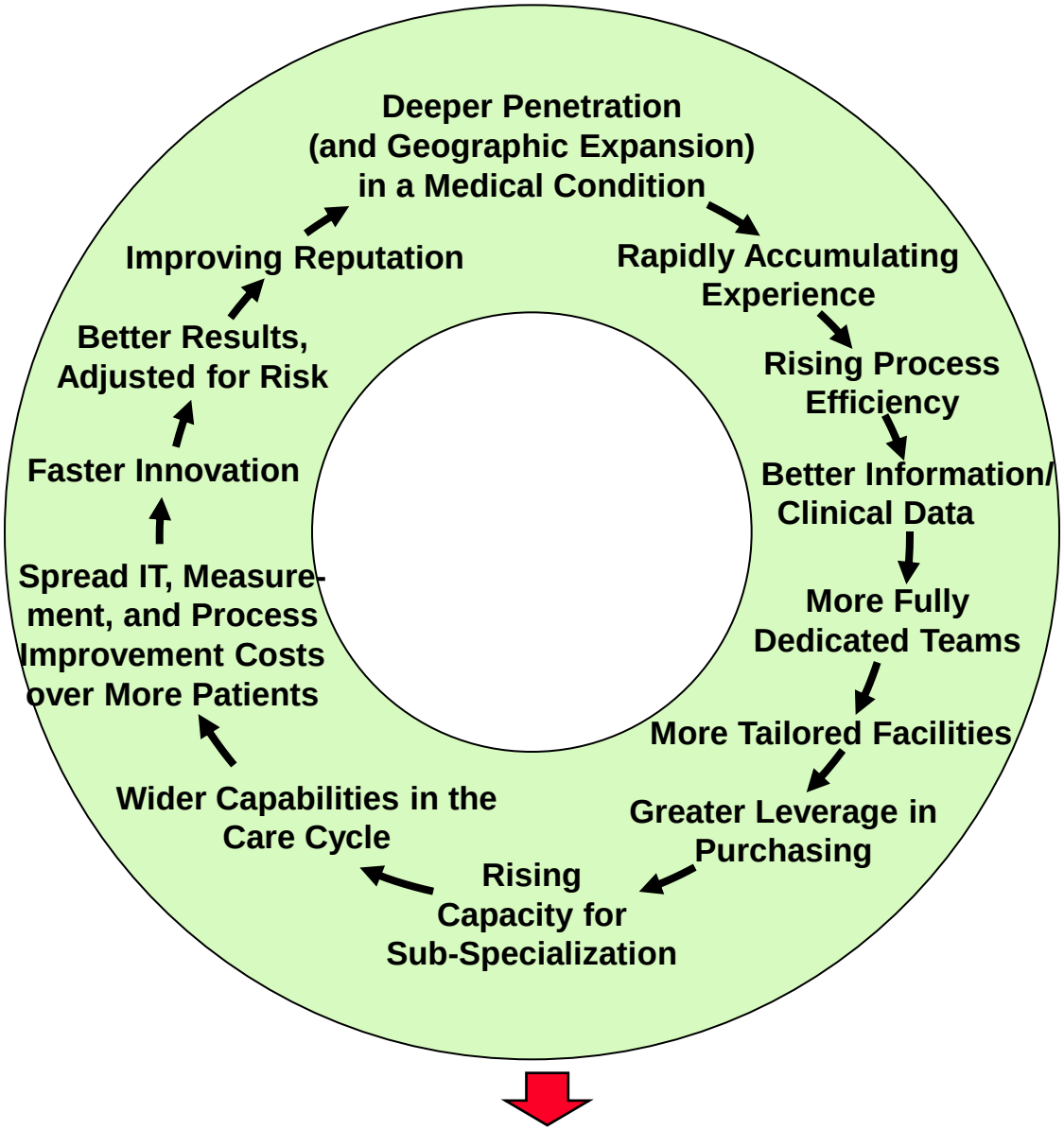
1. The focus should be on **value for patients**, not just lowering costs.
2. There must be **unrestricted competition** based on **results**.
3. Competition should **center on medical conditions** over the **full cycle of care**.
4. High quality care should be **less** costly.
   - Prevention
   - Early detection
   - Right diagnosis
   - Treatment earlier in causal chain
   - Right treatment to the right patients
   - Fewer mistakes and repeats in treatment
   - Less delay in care delivery
   - Less invasive treatment methods
   - Less disability
   - Faster recovery
   - Slower disease progression
   - Less long term care

- Better health is inherently less expensive than worse health

Principles of Value-Based Competition

1. The focus should be on **value for patients**, not just lowering costs.
2. There must be **unrestricted competition** based on **results**.
3. Competition should **center on medical conditions** over the **full cycle of care**.
4. High quality care should be **less** costly.
5. Value is driven by provider **experience**, **scale**, and **learning** at the **medical condition level.**

The Virtuous Circle in a Medical Condition



- Feed virtuous circles vs. fragmentation of care

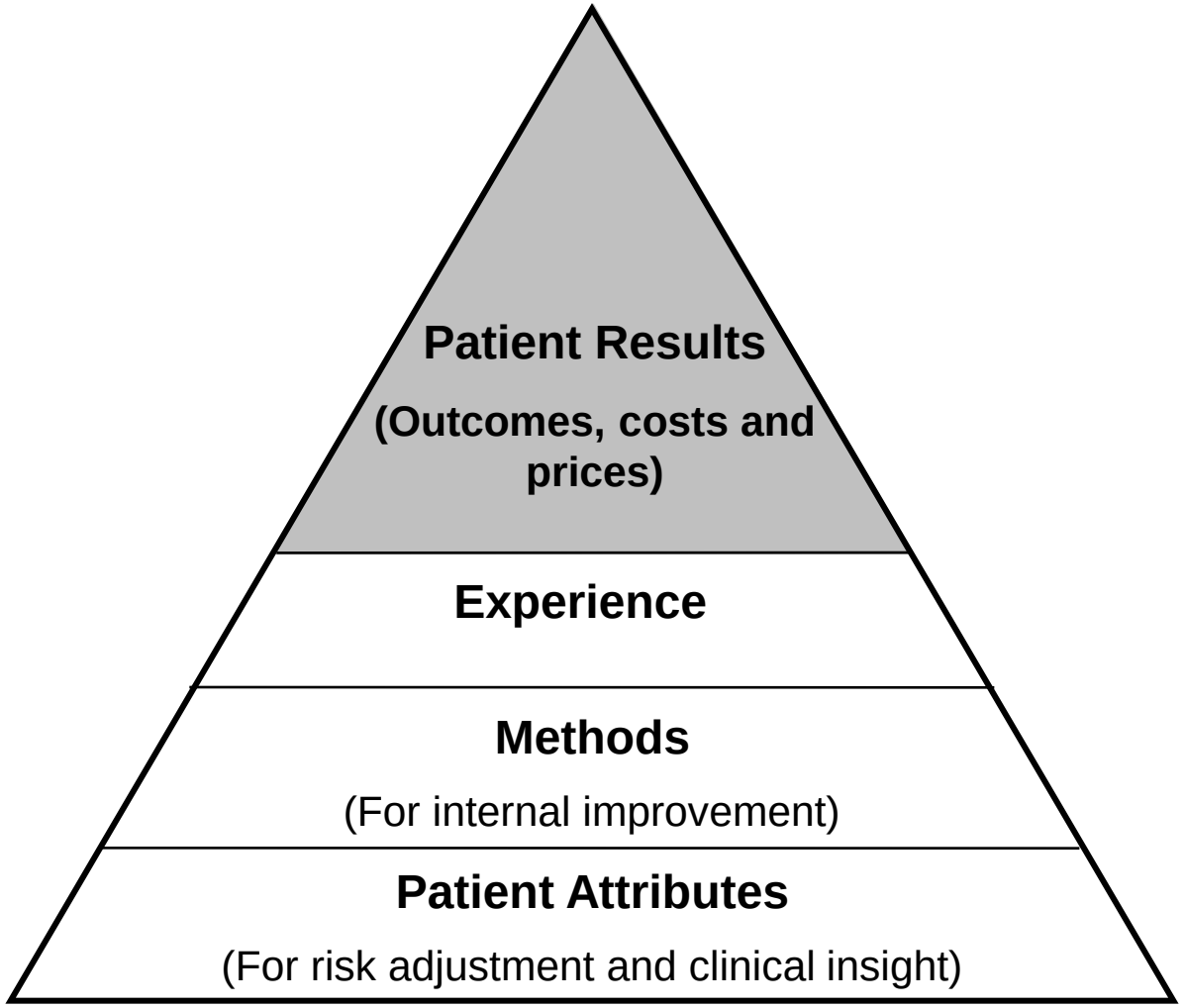
Principles of Value-Based Competition

1. The focus should be on **value for patients**, not just lowering costs.
2. There must be **unrestricted competition** based on **results**.
3. Competition should **center on medical conditions** over the **full cycle of care**.
4. High quality care should be **less** costly.
5. Value is driven by **provider experience**, **scale**, and **learning** at the medical condition level.
6. Competition should be **regional** and **national**, not just local.
   - Virtuous circles extend across geography
   - Management of care cycles across geography
   - Partnerships and inter-organizational integration

Principles of Value-Based Competition

1. The focus should be on **value for patients**, not just lowering costs.
2. There must be **unrestricted competition** based on **results**.
3. Competition should **center on medical conditions** over the **full cycle of care**.
4. High quality care should be **less** costly.
5. Value is driven by **provider experience**, **scale**, and **learning** at the medical condition level.
6. Competition should be **regional** and **national**, not just local.
7. **Information** on results, costs, 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

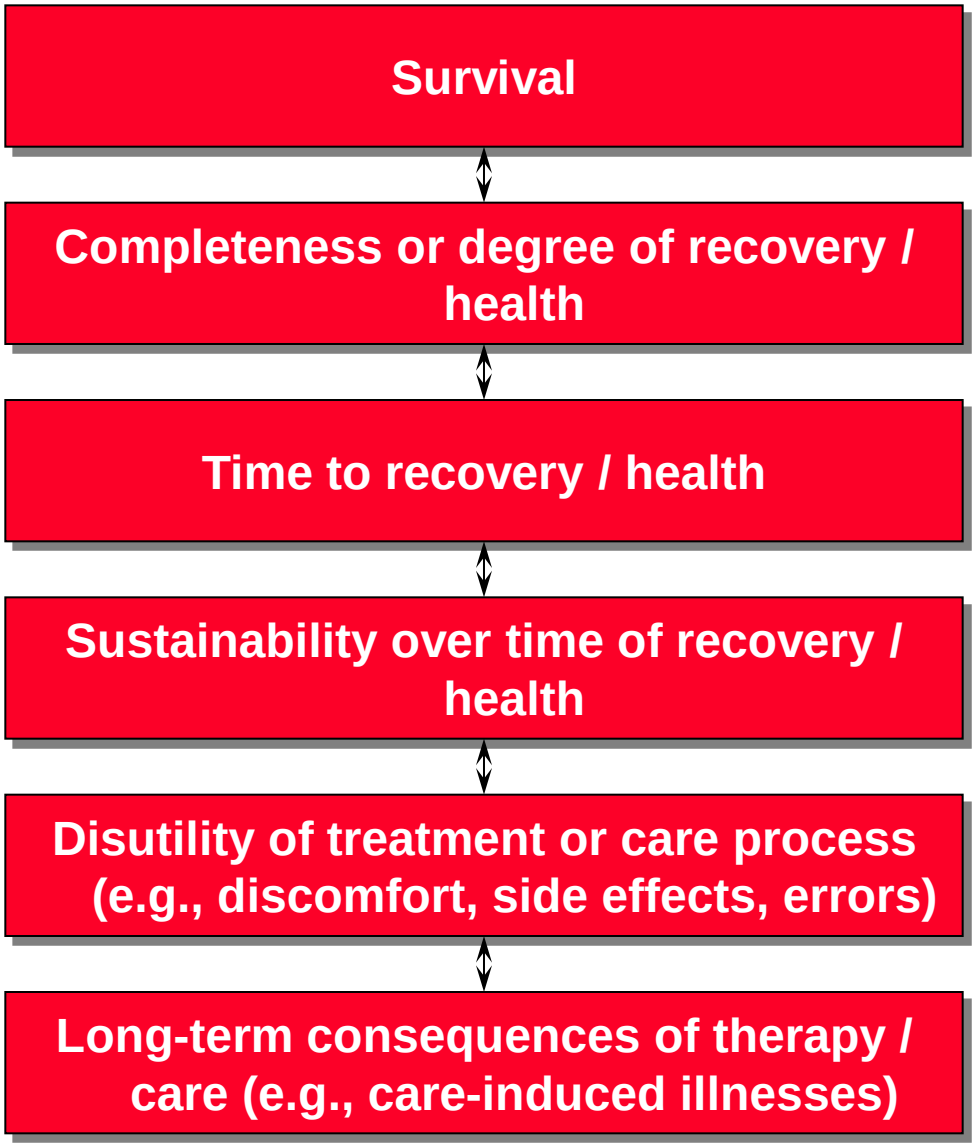
Operative time

Blood loss

Devices or products used

Measuring Value

The Outcome Measures Hierarchy



Principles of Value-Based Competition

1. The focus should be on **value for patients**, not just lowering costs.
2. There must be **unrestricted competition** based on **results**.
3. Competition should **center on medical conditions** over the **full cycle of care**.
4. High quality care should be **less** costly.
5. Value is driven by **provider experience**, **scale**, and **learning** at the medical condition level.
6. Competition should be **regional** and **national**, not just local.
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

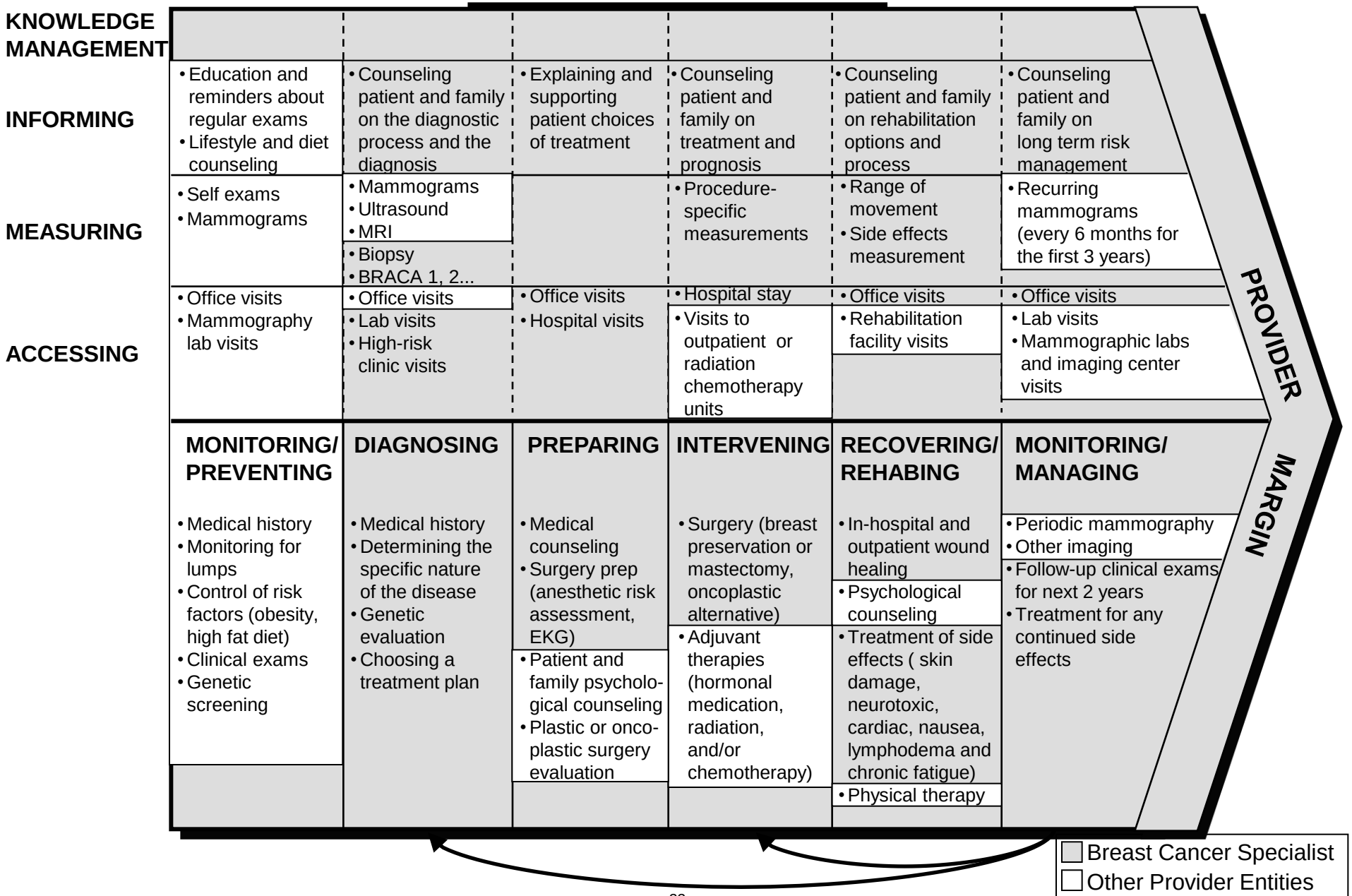
- Superior **patient value**

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**

- Employ **partnerships** and **alliances** to achieve these aims

The Care Delivery Value Chain
Breast Cancer Care

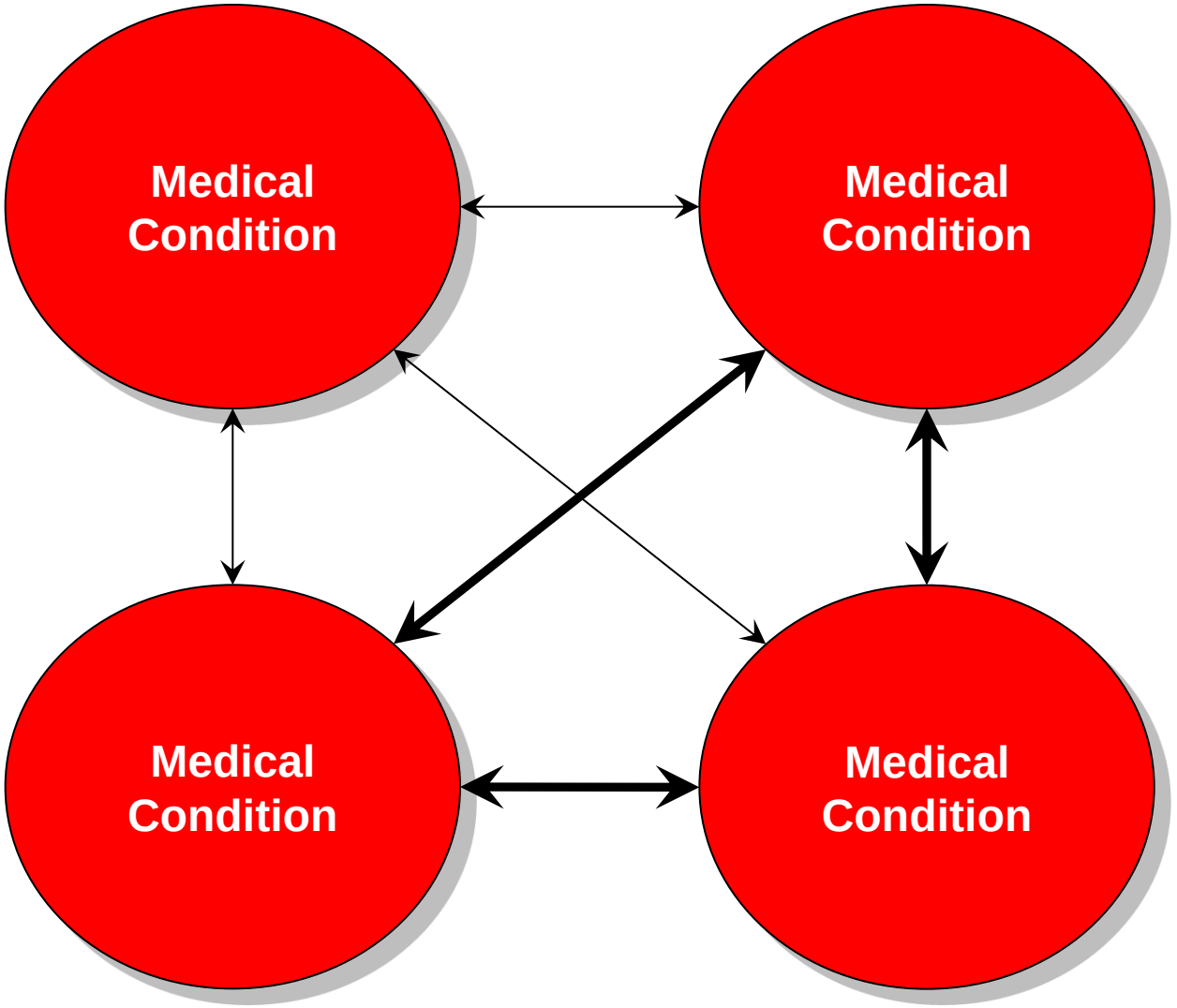


Analyzing the Care Delivery Value Chain

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?

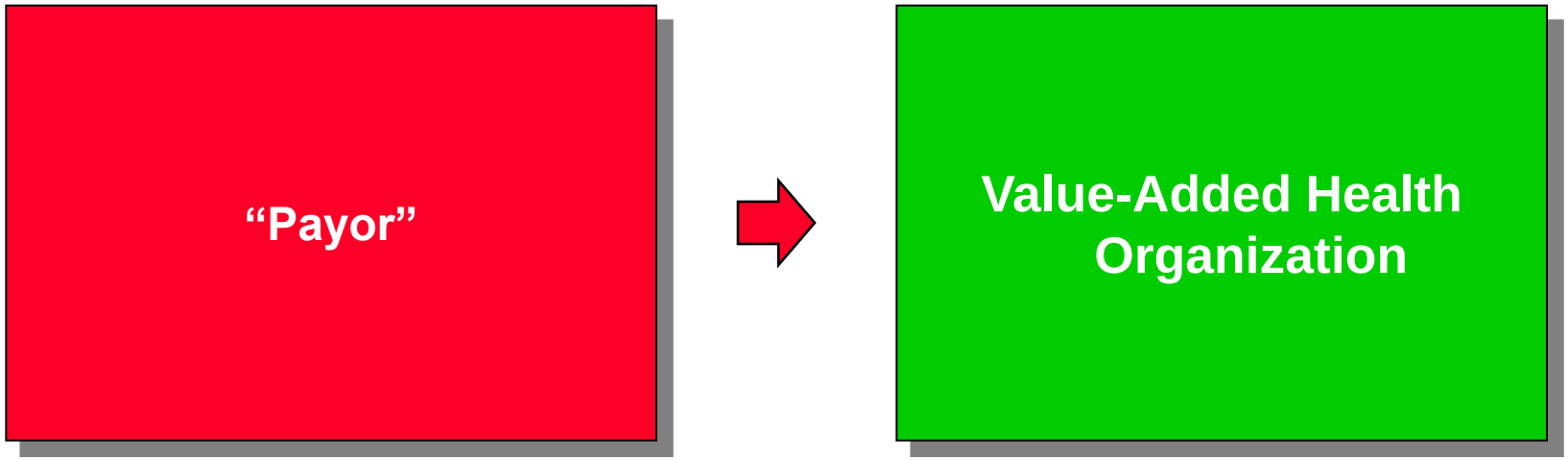
Levels of Medical Integration

Within Medical Conditions versus Across Medical Conditions



Moving to Value-Based Competition

Health Plans



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
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**

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**

- Consumers cannot (and should not) be the **only** drivers

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
- Enable bundled prices and 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?

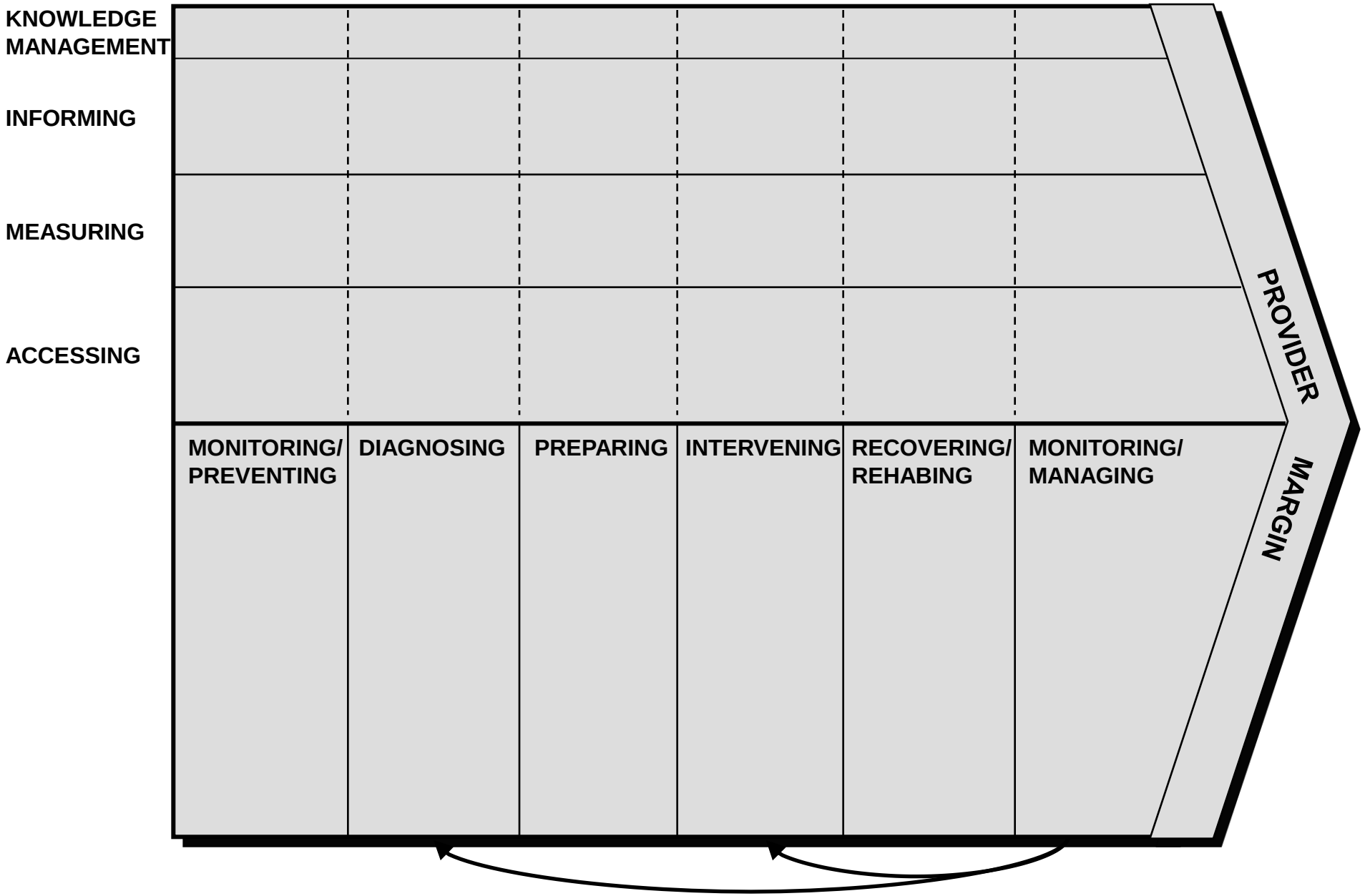
- It is **already happening**!
- Each **system** participant can take **voluntary** steps in these directions, and will **benefit** irrespective of other changes.
- The changes are **mutually reinforcing**.
- Once competition begins working, value improvement will **no longer be discretionary** or **optional**
- Those organizations that **move early** will gain major benefits.

Backup

Moving to Value-Based Competition
Suppliers

- Compete on delivering **unique value** measured over the **full care cycle**
- **Demonstrate value** based on careful study of long term costs and results versus alternative approaches and 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

The Care Delivery Value Chain

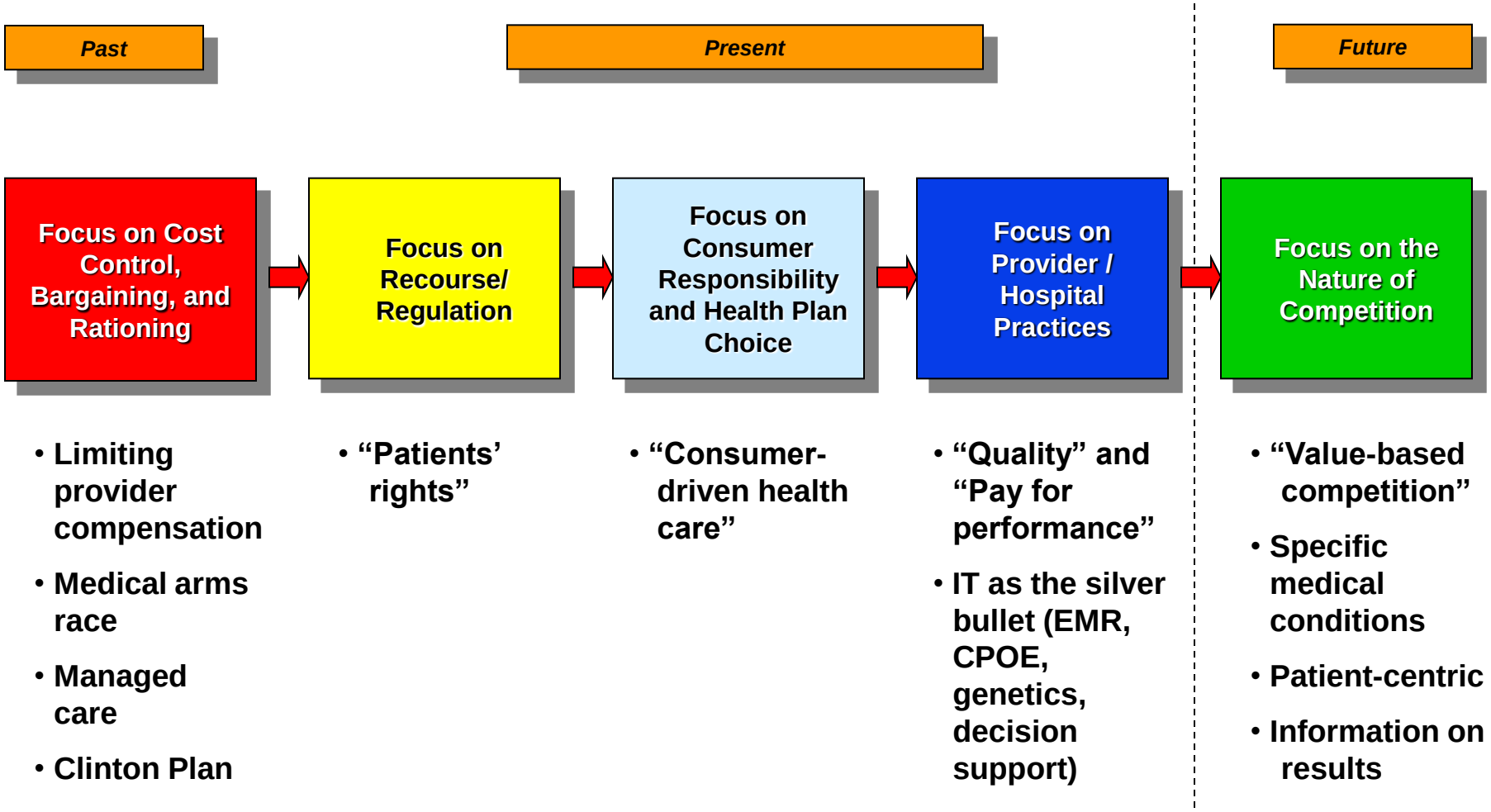


Why Competition Went Wrong?

- **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 prices and results
- **Wrong patient attitudes and incentives**: little responsibility
- **Wrong health plan strategies and incentives**: the culture of denial
- **Wrong incentives for providers**: get big, pay to treat, reward invasive care

- **Employers went along**: discount, minimize annual costs, and push costs to employees

The Evolution of Reform Models



Transforming the Roles of Health Plans

Old Role: culture of denial	New Role: enable value-based competition on results
• Restrict patient choice of providers and treatment	• Enable informed patient and physician **choice** and patient **management** of their health
• Micromanage provider processes and choices	• Measure and reward providers based on **results**
• Minimize the cost of each service or treatment	• Maximize the value of care over the **full care cycle**
• Engage in complex paperwork and administrative transactions with providers and subscribers to control costs and settle bills	• **Minimize** the need for administrative transactions and simplify billing
• Compete on minimizing premium increases	• Compete on subscriber **health results**

Overcoming Barriers to Health Plan Transformation

Health Plans

External

- Medicare practices
- Provider resistance
- Lack of information on results and costs

Internal

- Information technology
- Medical expertise
- Trust
- Mindsets
- Culture and values

- Health plans that are **integrated** with a provider network have had advantages in moving in these directions in the current system, but **independent** health plans offer greater potential to support value-based competition

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
  - 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**
- Develop **information technology standards and rules** to enable interoperability and information sharing
- Invest in medical and **clinical research**

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 (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**

Health Care for Low Income Americans

- Mandatory, universal health coverage is essential, with subsidies for those who need – for reasons of **economics** as well as **equity**.
- Two class care works **against** the fundamental dynamic of using quality improvement to reduce costs
- Competition does **not** mean substandard care for low income Americans.
- Results reporting makes substandard care for any patient reflect poorly on the provider of that care, so **quality and value will improve for all**.
  - Results reporting will **unmask disparities in care**, making them intolerable.
- The **price of a service should not depend on who is paying** (as it does today), but on the care needed and on the provider.

Moving to Value-Based Competition
Drug Stores

Strategic Questions
- How can drug stores add value?
- Can drug stores move beyond providing discrete services?

Role of Drug Stores
- Drug stores bring **numerous assets** to value-creation in health care
  - Convenient and accessible to the patients
  - Low-cost and well-managed setting for providing health care
  - Reasonably trusted by both patients and physicians
  - Not intimidating
- Drug stores are a **part of care cycles** for medical conditions
  - Where do they fit in?
  - Where could they fit in?
    - Routine health maintenance in the care cycles
    - Preventative care
    - More complex/chronic disease management
- Potential roles for drug stores include providing:
  - Products used in care cycles
  - Information about drug and product usage
  - Information about the patient's personal role in their care
  - Help monitor compliance with therapy
  - Health coaching beyond the pharmacist
  - Measurement, screening and monitoring
  - Selective rehabilitation, physical therapy, quasi health clubs

Enablers
  - To play these roles, drug stores need to establish IT linkages with care cycles providers
  - Relationship with providers
  - Relationships with the health plans
  - Play as part of a team