Value-Based Competition in Health Care

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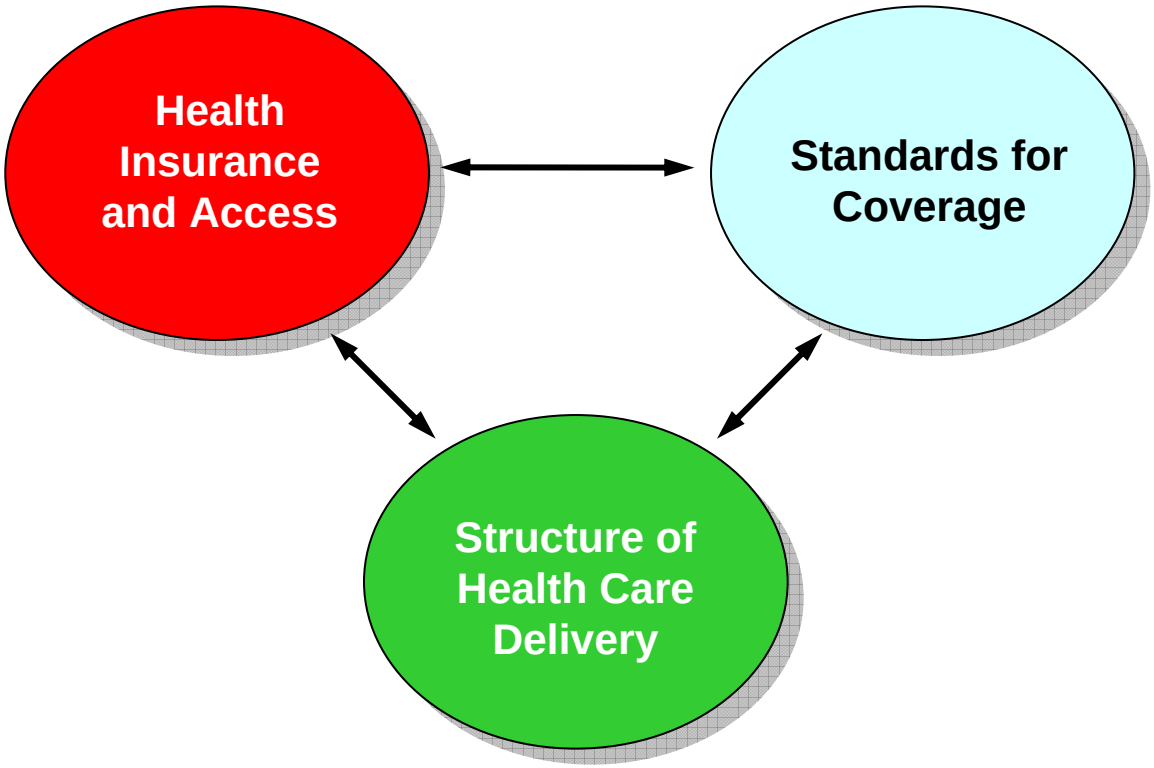
This presentation draws on Michael E. Porter and Elizabeth Olmsted Teisberg: Redefining Health Care: Creating Value-Based Competition on Results, Harvard Business School Press, May 2006. Earlier publications about health care include the *Harvard Business Review* article "Redefining Competition in Health Care" (June 2004).

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 often 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

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2. There must be **unrestricted competition** based on **results**.
   - Results vs. supply control or process compliance
   - Get patients to excellent providers vs. “lift all boats”

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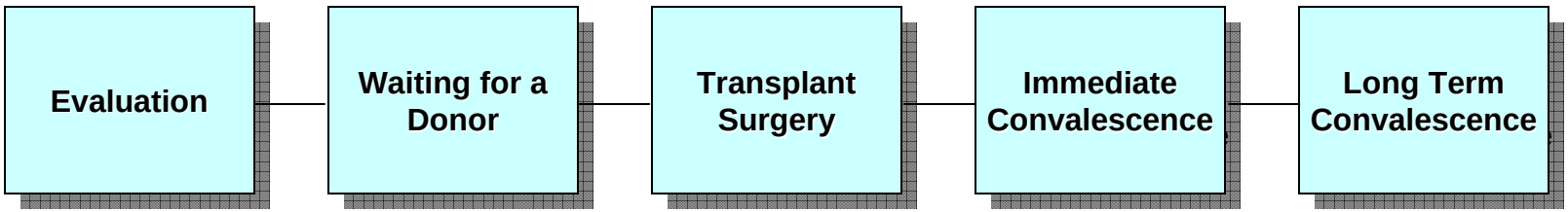
3. Competition should center on **medical conditions** over the **full cycle of care**.

What is a Medical Condition?

- A medical condition is **an interrelated set of patient medical circumstances best addressed in an integrated way**
  - From the patient's perspective
- **Includes** most common co-occurrences

Organ Transplant Care Cycle

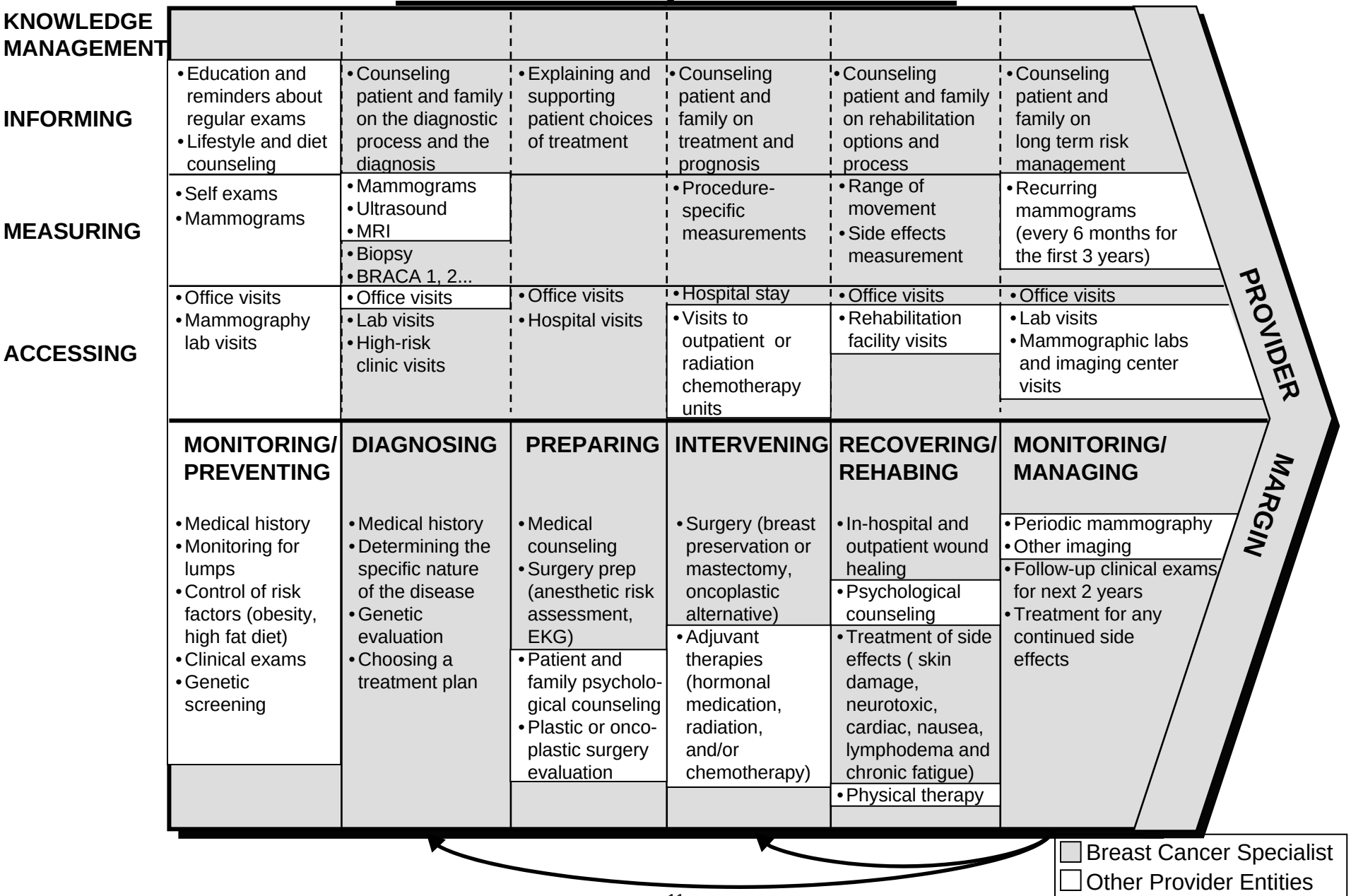


Addressing organ rejection

Fine-tuning the drug regimen

Adjustment and monitoring

Breast Cancer Care
Care Delivery Value Chain



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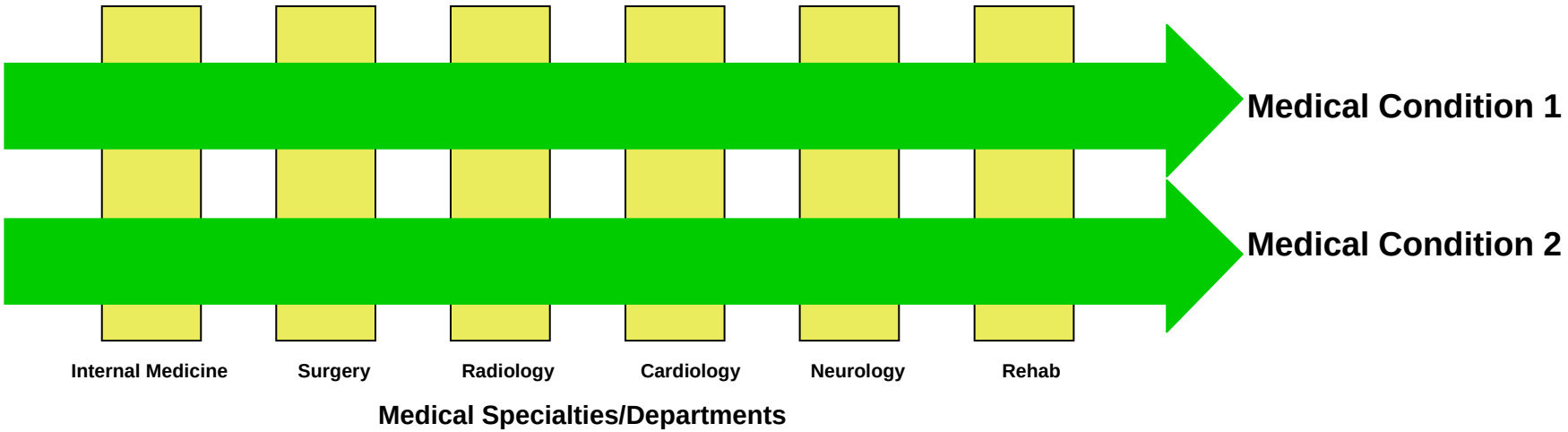
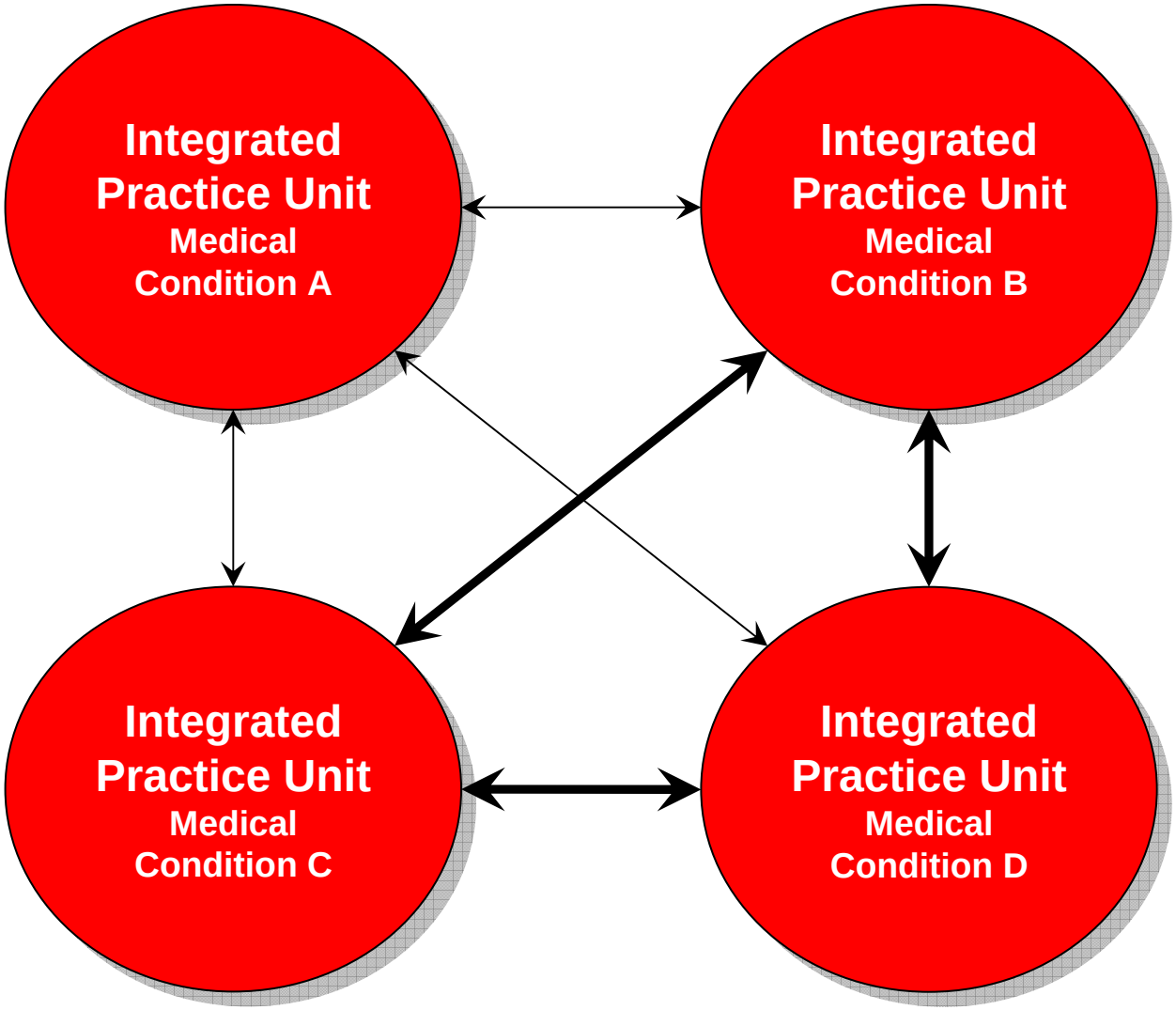
  - Patient's perspective
- **Includes** most common co-occurrences
- Served through **Integrated Practice Units** (IPUs)



- Providers can and should define the boundaries of a given medical condition **differently** based on patient populations
- Most providers will serve **multiple medical conditions** through **multiple IPUs**

Levels of Medical Integration

Within Medical Condition versus Across Medical Condition



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4. High quality care should be **less** costly.

- Prevention
- Early detection
- Right diagnosis
- Early treatment
- Right treatment to the right patients
- Treatment earlier in the causal chain

- Fewer mistakes and repeats in treatment
- Fewer delays in care delivery
- Less invasive treatment methods
- Faster recovery
- Less disability
- Slower disease progression
- Less need for long term care

- Better health is **inherently less expensive** than worse health

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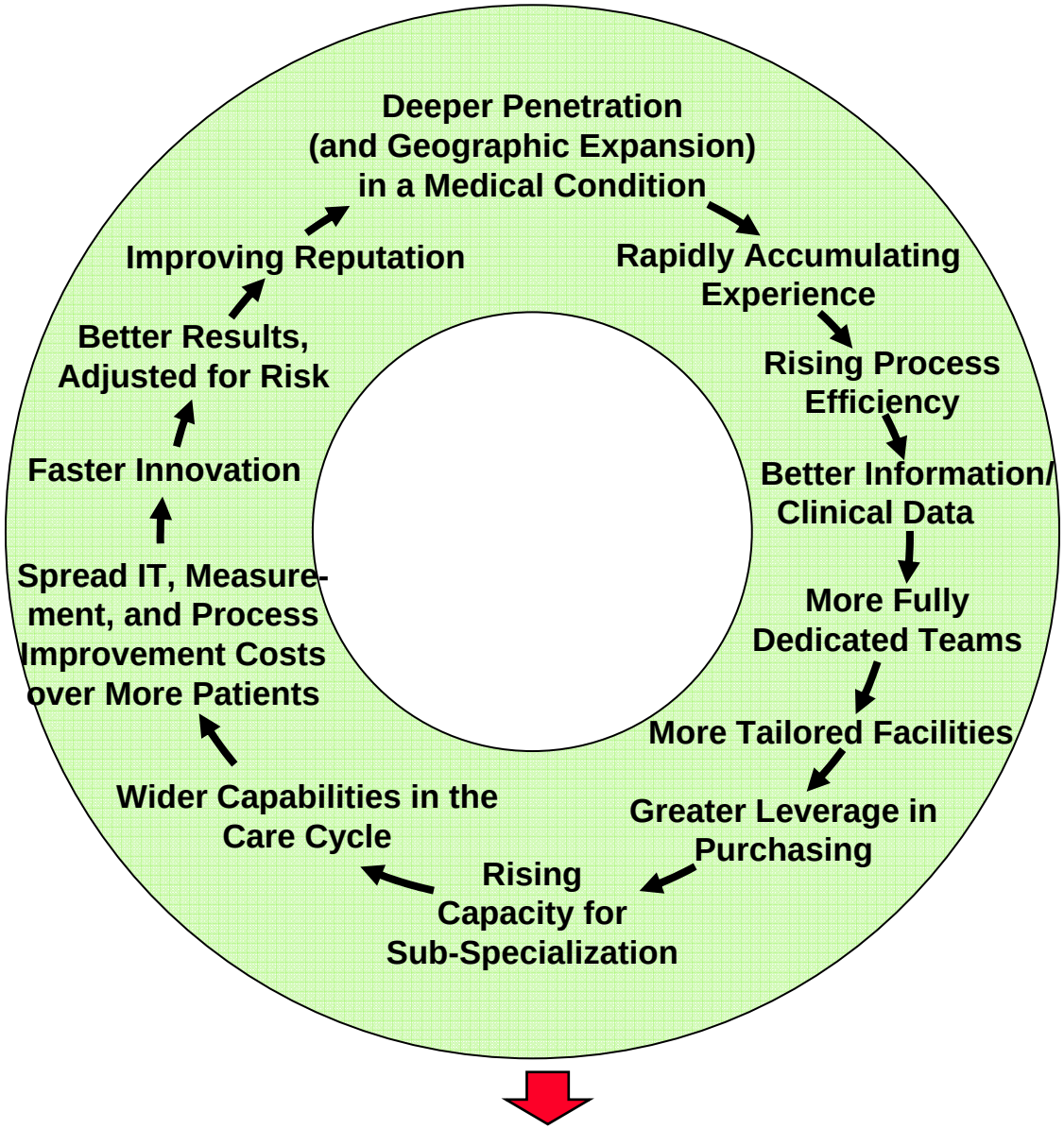
The Virtuous Circle in a Medical Condition



- Feed virtuous circles vs. fragmentation of care

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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

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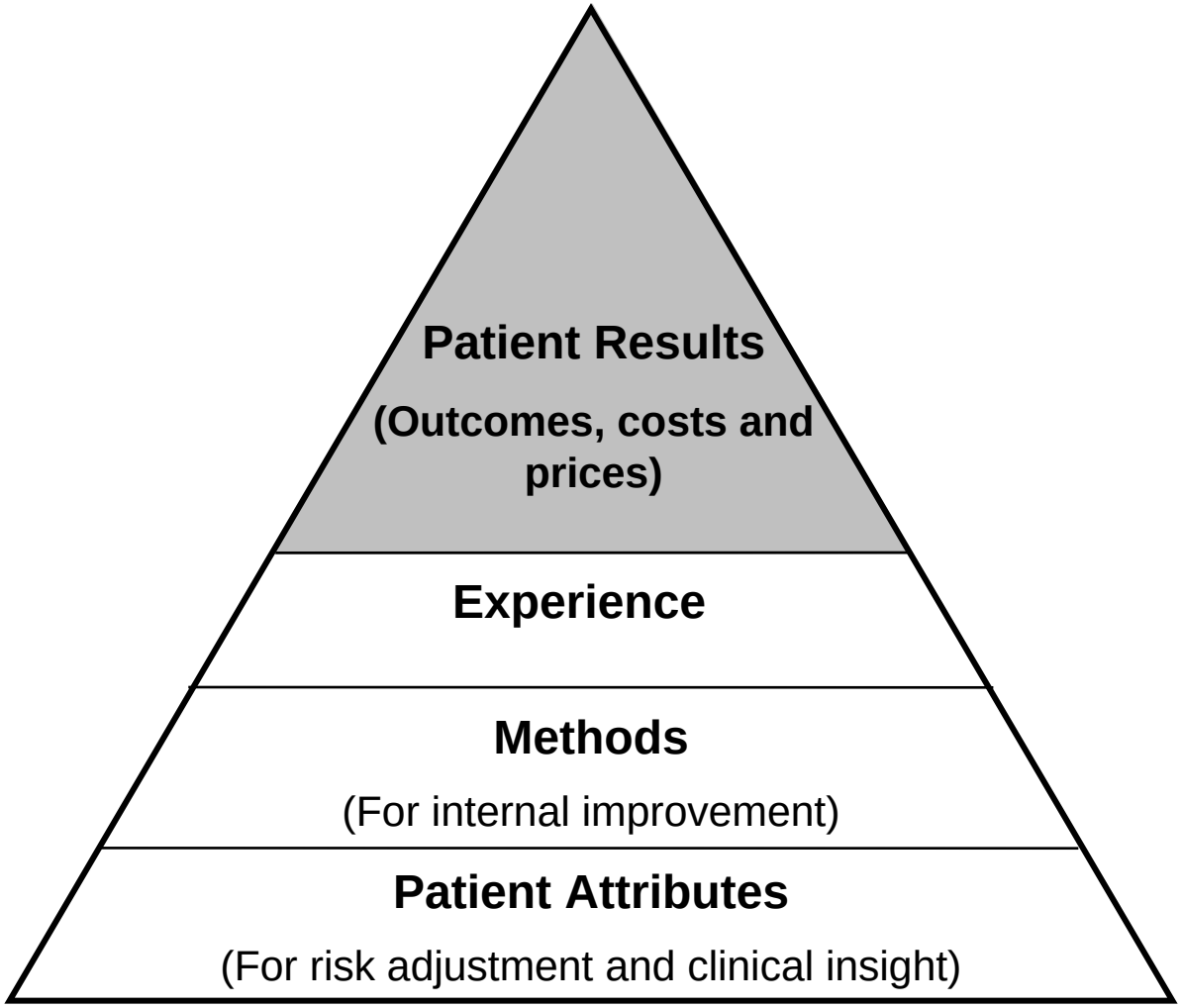
7. **Information** on results, costs, and prices needed for value-based competition must be widely available.

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

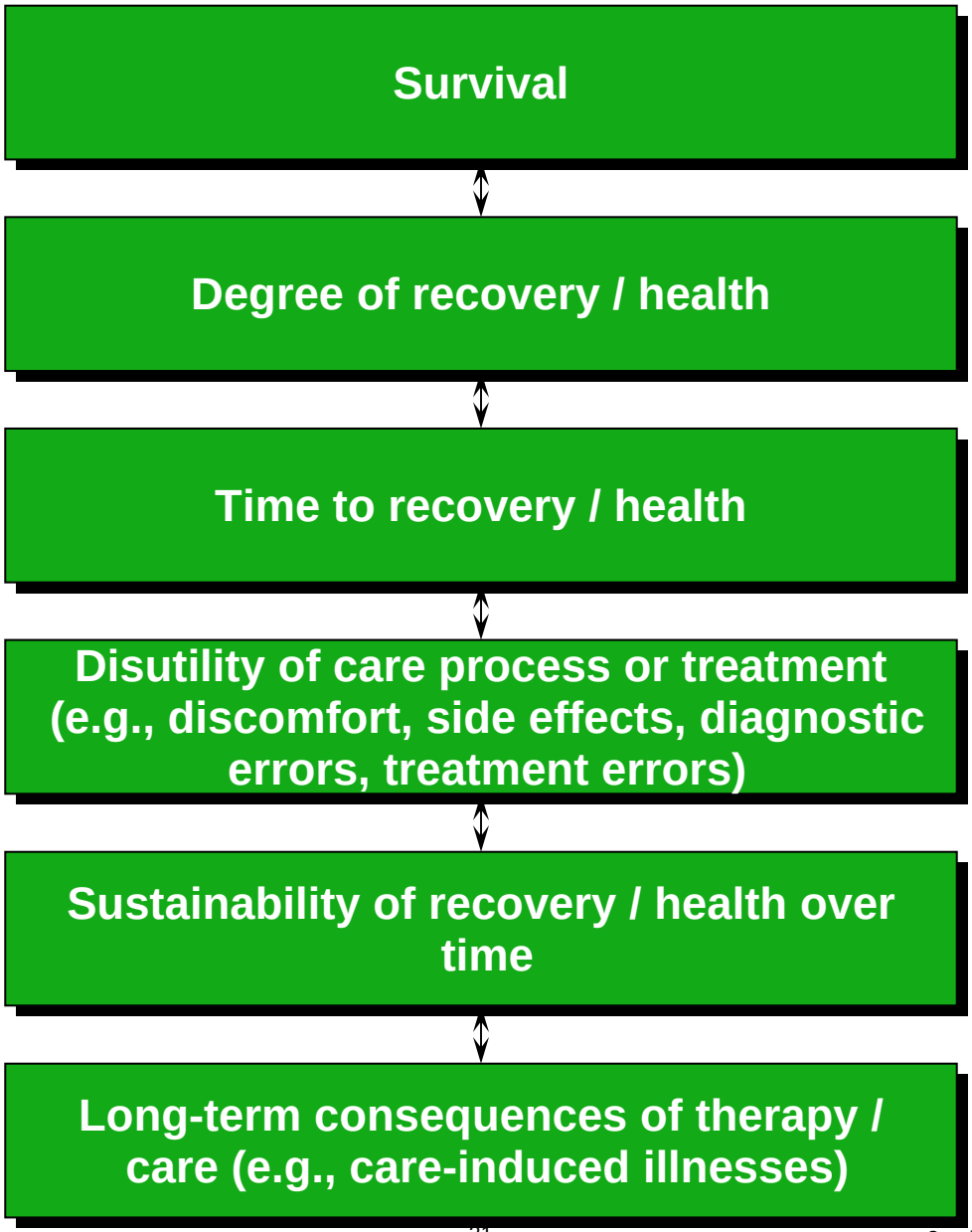
Operative time

Blood loss

Devices or products used

Measuring Value

The Outcome Measures Hierarchy



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8. **Innovations** that increase value must be strongly rewarded.
   - Measure value
   - Care cycle reimbursement

Is Competition Desirable in Health Care?

Good Competition

- Measuring and disseminating outcomes in medical conditions
- Competing to gain market share in medical conditions based outcomes and costs
- Integrating services over the care cycle
- Shifting care to outpatient facilities to improve patient value
- Organizing all care in a hospital system into an integrated organization for each medical condition
- Expanding excellent IPUs across geography

Bad Competition

- Exercising power to shift costs to patients or other actors
- Restricting patients' choice of providers
- Ownership of physician practices to capture referrals
- Shifting care to outpatient facilities to capture more revenue
- Hospital mergers with no reallocation and integration of services

- The essential question is whether competition is **aligned** with patient value

Moving to Value-Based Competition

Providers

Defining the Right Goals

- Superior **patient value**

Strategic and Organizational Imperatives

- Redefine the practice 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 across geography in **areas of strength**

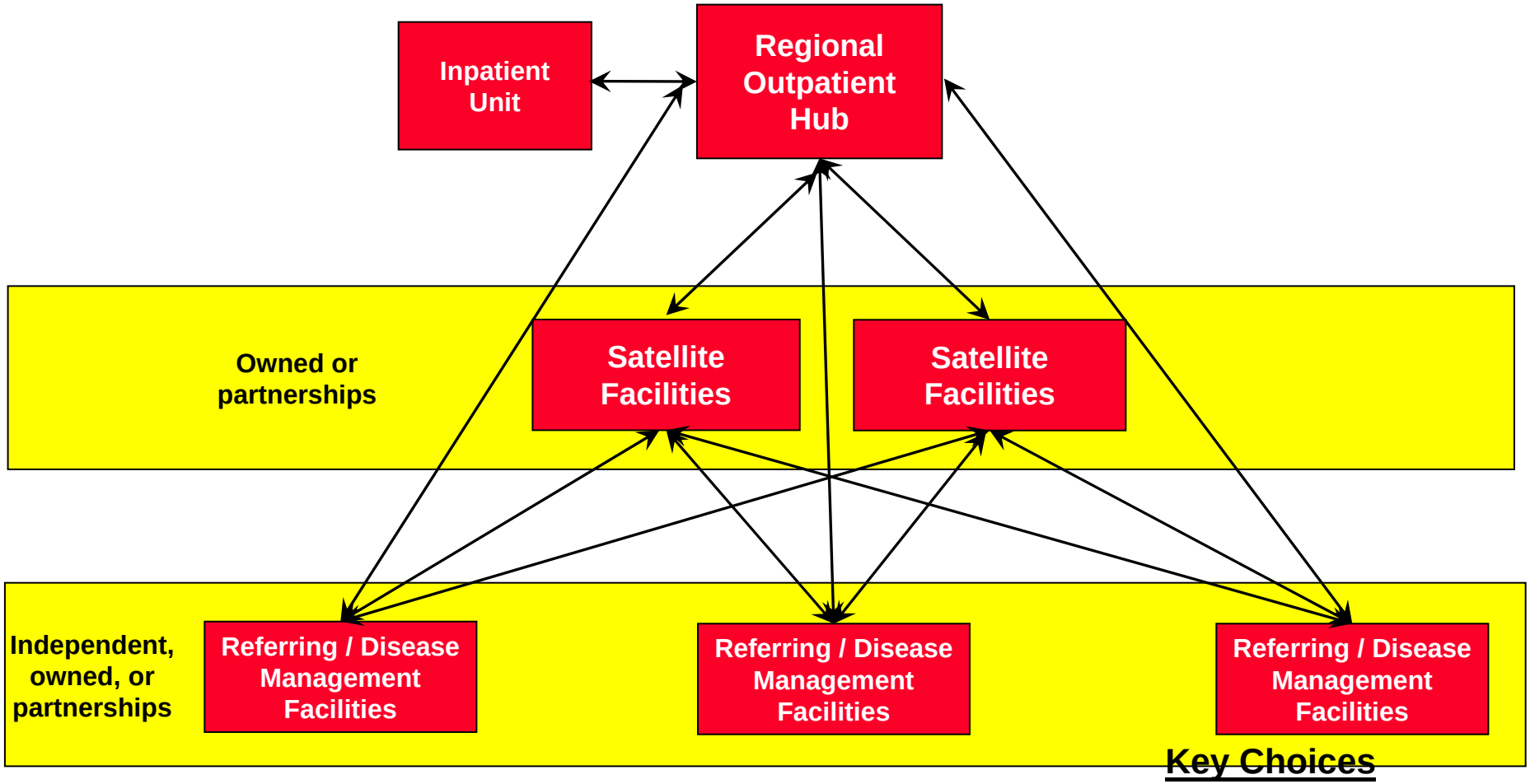
- Employ **partnerships** and **alliances** to achieve these aims

What Businesses Are We In?

Nephrology practice

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

Configuring a Regional Integrated Practice Unit for a Medical Condition



Key Choices

- Subspecialization of facilities / locations
- Extent of ownership of the care cycle vs. partnering
- Decentralization of imaging / testing

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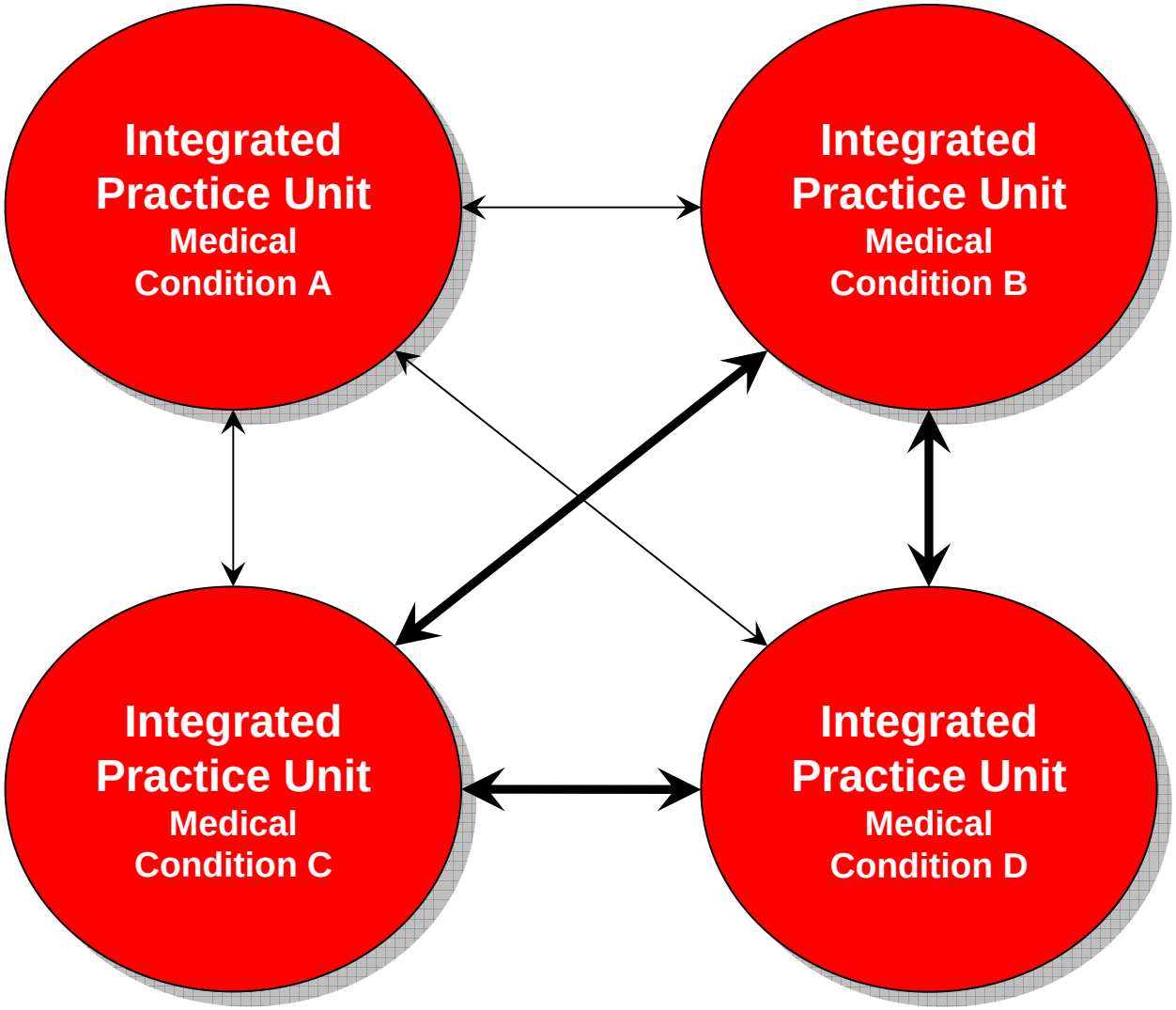
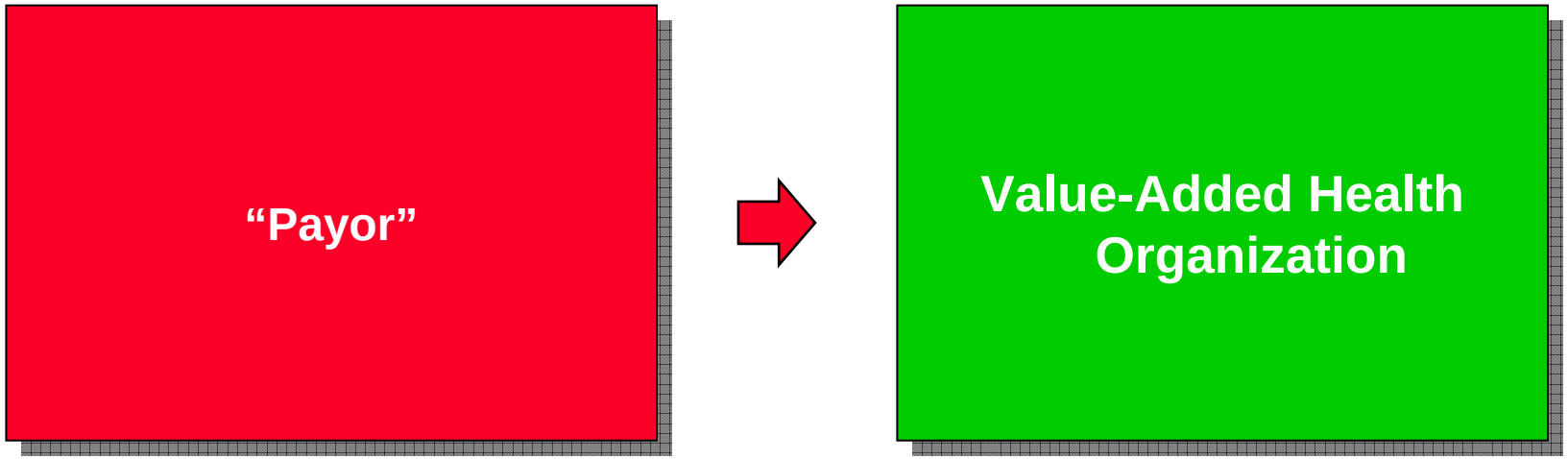


Moving to Value-Based Competition

Health Plans



Moving to Value-Based Competition
Roles of 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**

- Medicare can be a driver

Malpractice Reform

How Outcome Measures Can Help

- The current malpractice system is dysfunctional and expensive
  - High direct and higher indirect costs
- Ineffective means of ensuring quality
- Outcome information will allow knowledge of actual risks

How Value-Based Care Delivery Will Change Medicine

- Physicians will become part of care cycles, and choose better partners
- Patient engagement will rise
- Physicians and hospitals will make better service line choices
- Health plans and government payors will become more supportive
- Reimbursement will be transformed
- Malpractice suits will be less common

The Critics

- Practicality
  - "Utopian vision"
  - These ideas "might occur to anyone possessed of a modicum of common sense but not too familiar with the real world of health care."

    - Uwe Reinhardt

- Medical Conditions / Provider Strategy
  - "Patients have a nasty habit of having more than one thing wrong with them."

    - Gail Wilensky
  - "If each provider focuses on only one medical condition, they will not be able to treat the patient's real problem…"

    - Various commentators

- Integrated Health Systems
  - "Integrated delivery systems can organize and arrange comprehensive health services for members."

    - Alain Enthoven

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

- **Providers** can and should take the lead