

Winning Competitive Strategies in Today's Shifting Global Marketplace

Professor Michael E. Porter
Harvard Business School

*Nyenrode Business Universiteit
Amsterdam, The Netherlands*

January 25, 2007

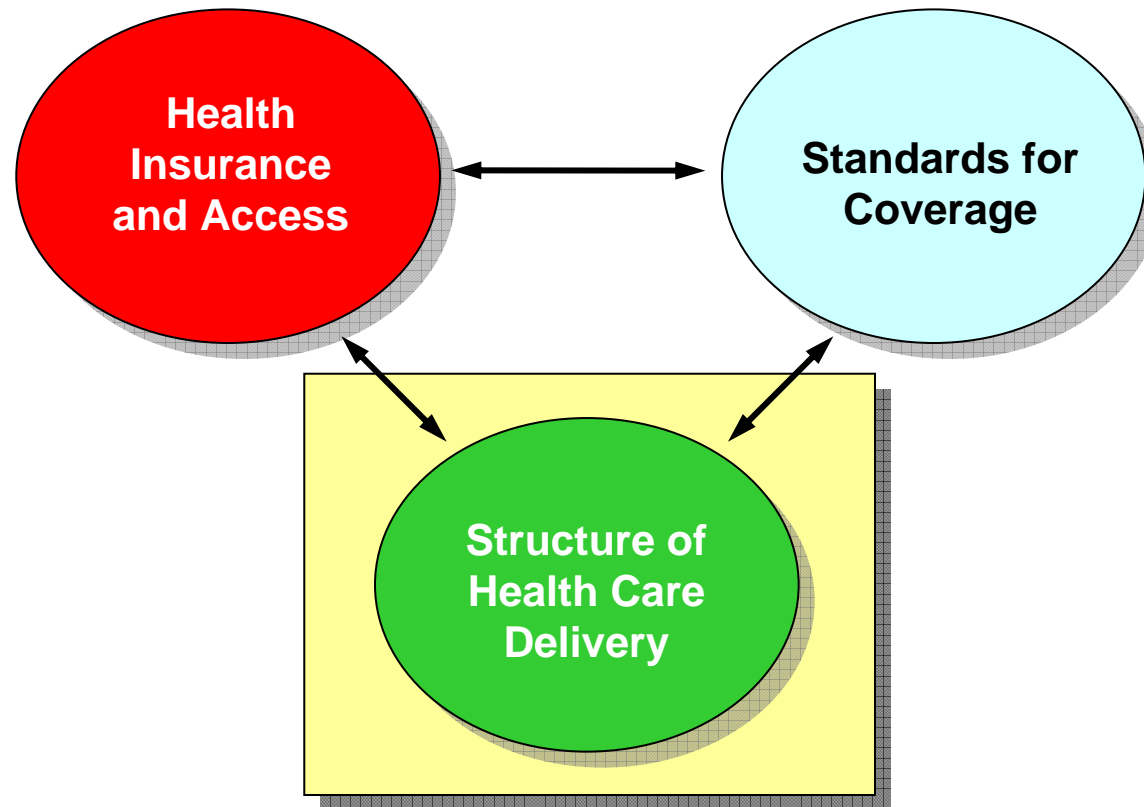
The following portion of this presentation draws on Michael E. Porter and Elizabeth Olmsted Teisberg: *Redefining Health Care: Creating Value-Based Competition on Results*, Harvard Business School Press, May 2006. Earlier publications about health care include the *Harvard Business Review* article "Redefining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

Agenda

- The Economic Foundations of Competition
- Principles of Strategy
- Creating, Growing, and Implementing a Strategy
- Integrating Strategy and Corporate Social Responsibility

- **Strategy in Health Care: How to Solve the Health Care Problem**

Issues in Health Care Reform



Competition in Health Care

Bad Competition

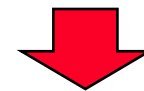
- Competition to **shift costs**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to **restrict services** in order to reduce costs



- Zero or Negative Sum

Good Competition

- Competition to **increase value for patients**



- Positive Sum

Principles of Value-Based Competition

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

Principles of Value-Based Competition

1. The goal should be **value for patients**, not just lowering costs.
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”

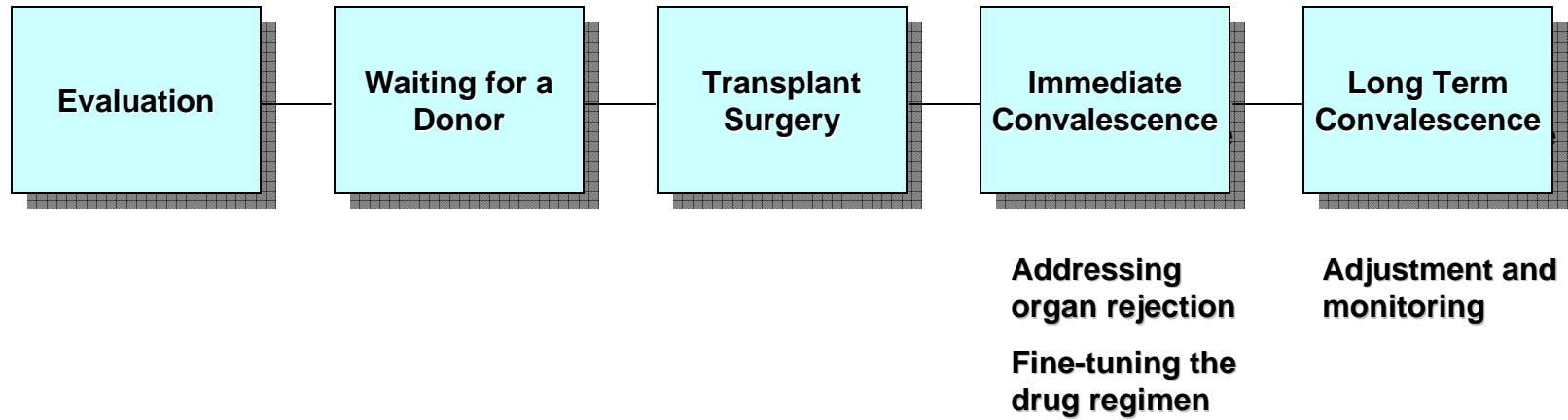
Principles of Value-Based Competition

1. The goal should be **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**.

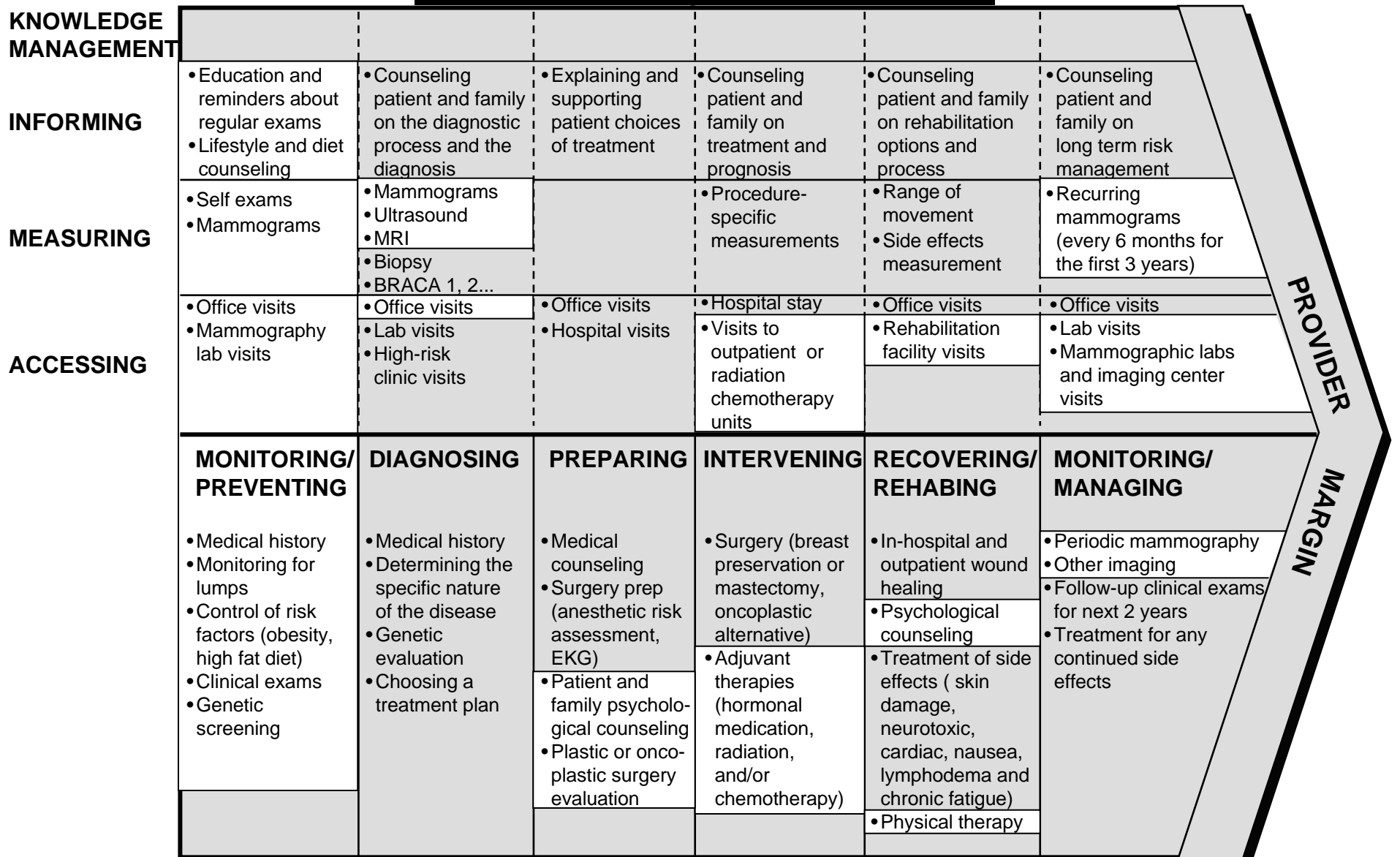
What is a Medical Condition?

- A medical condition is **an interrelated set of patient medical circumstances best addressed in an integrated way**
 - From the patient's perspective
- **Includes** the most common co-occurrences
- Examples
 - Breast Cancer
 - Diabetes (including vascular disease, hypertension)

What is the Cycle of Care? Organ Transplantation



Breast Cancer Care Care Delivery Value Chain



PROVIDER MARGIN

Breast Cancer Specialist
 Other Provider Entities

Principles of Value-Based Competition

1. The goal should be **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
 - 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

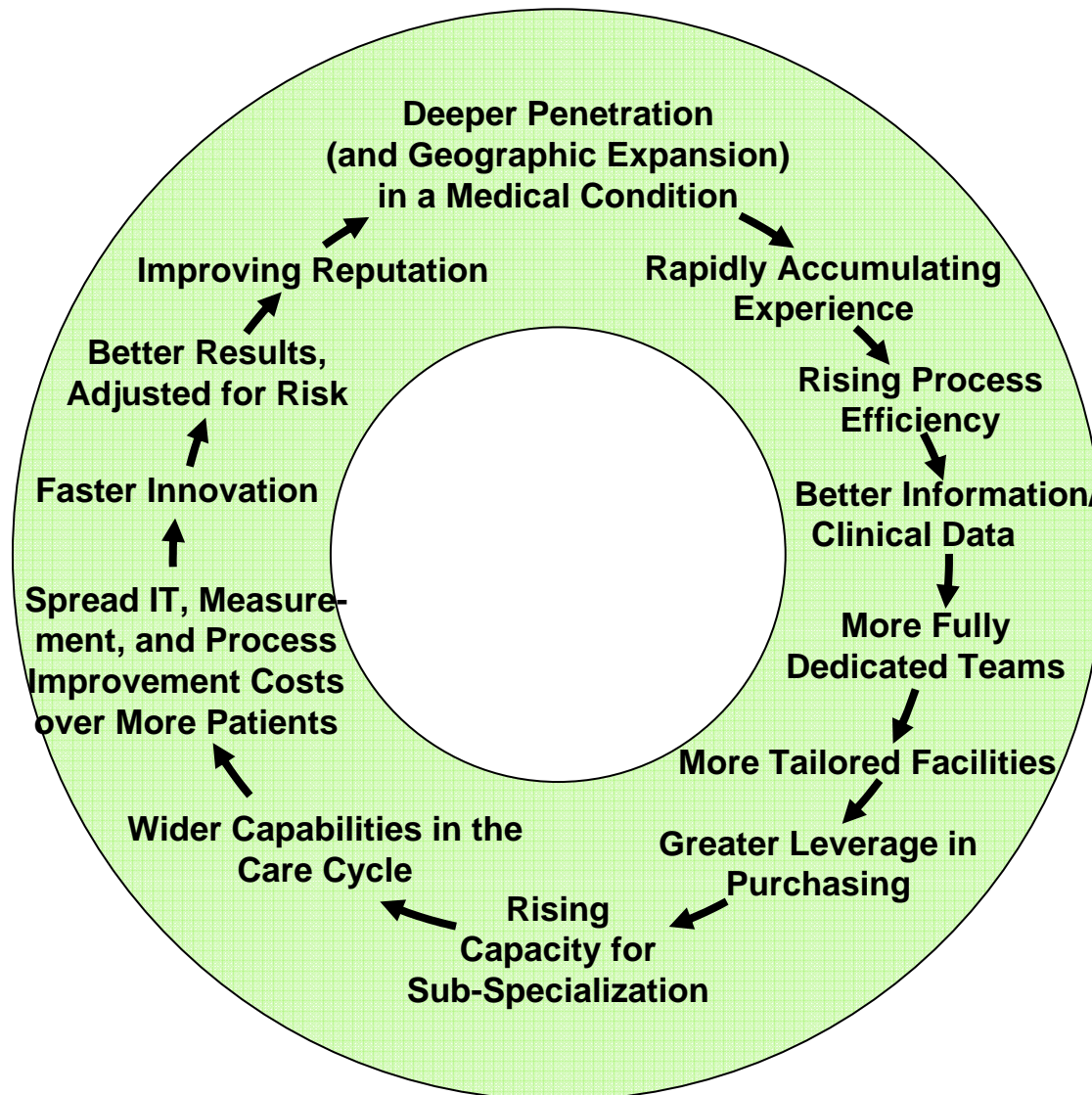


- Better health is **inherently less expensive** than worse health

Principles of Value-Based Competition

1. The goal should be **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

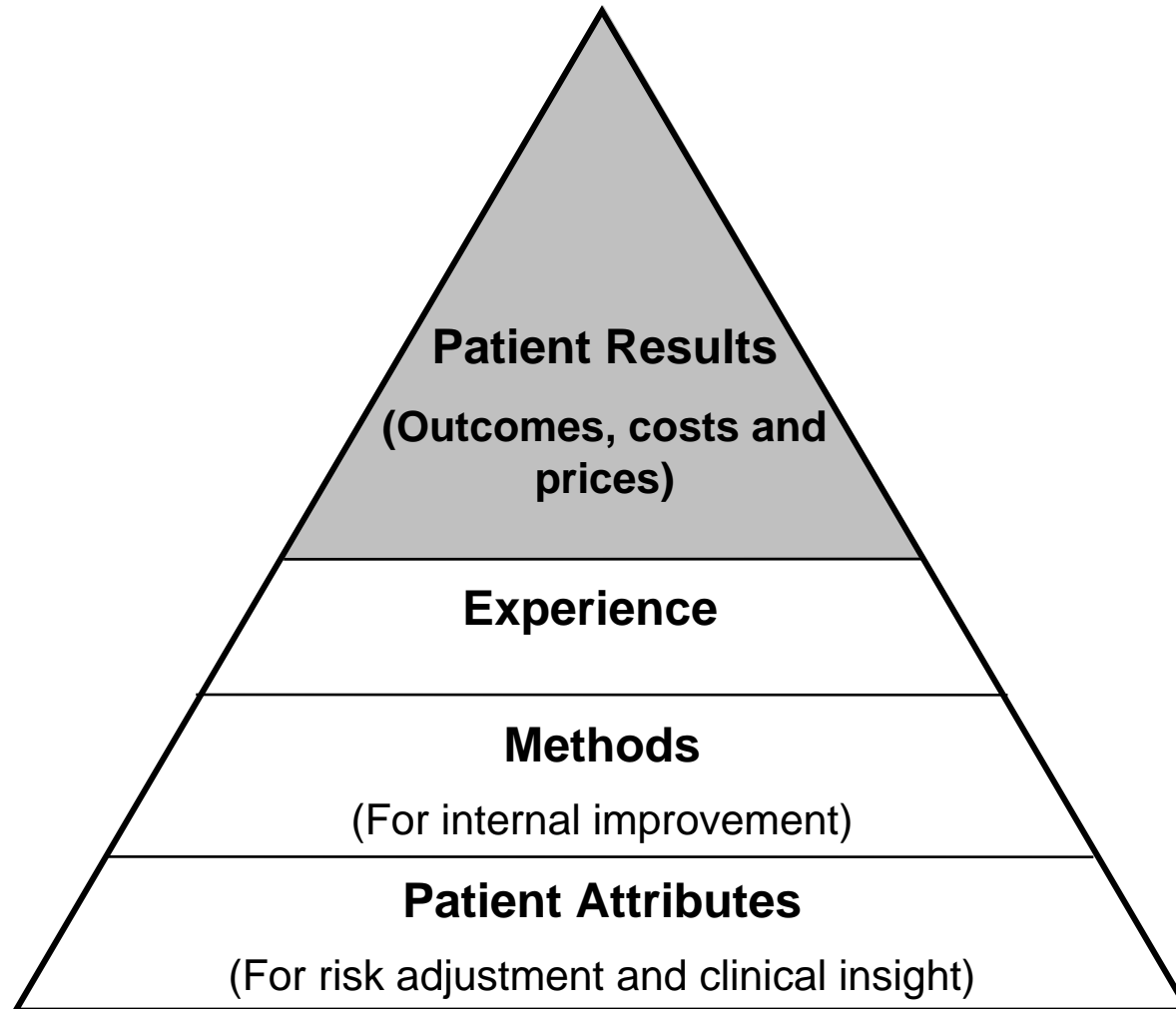
Principles of Value-Based Competition

1. The goal should be **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.
 - Management of care cycles across geography
 - Partnerships and inter-organizational integration

Principles of Value-Based Competition

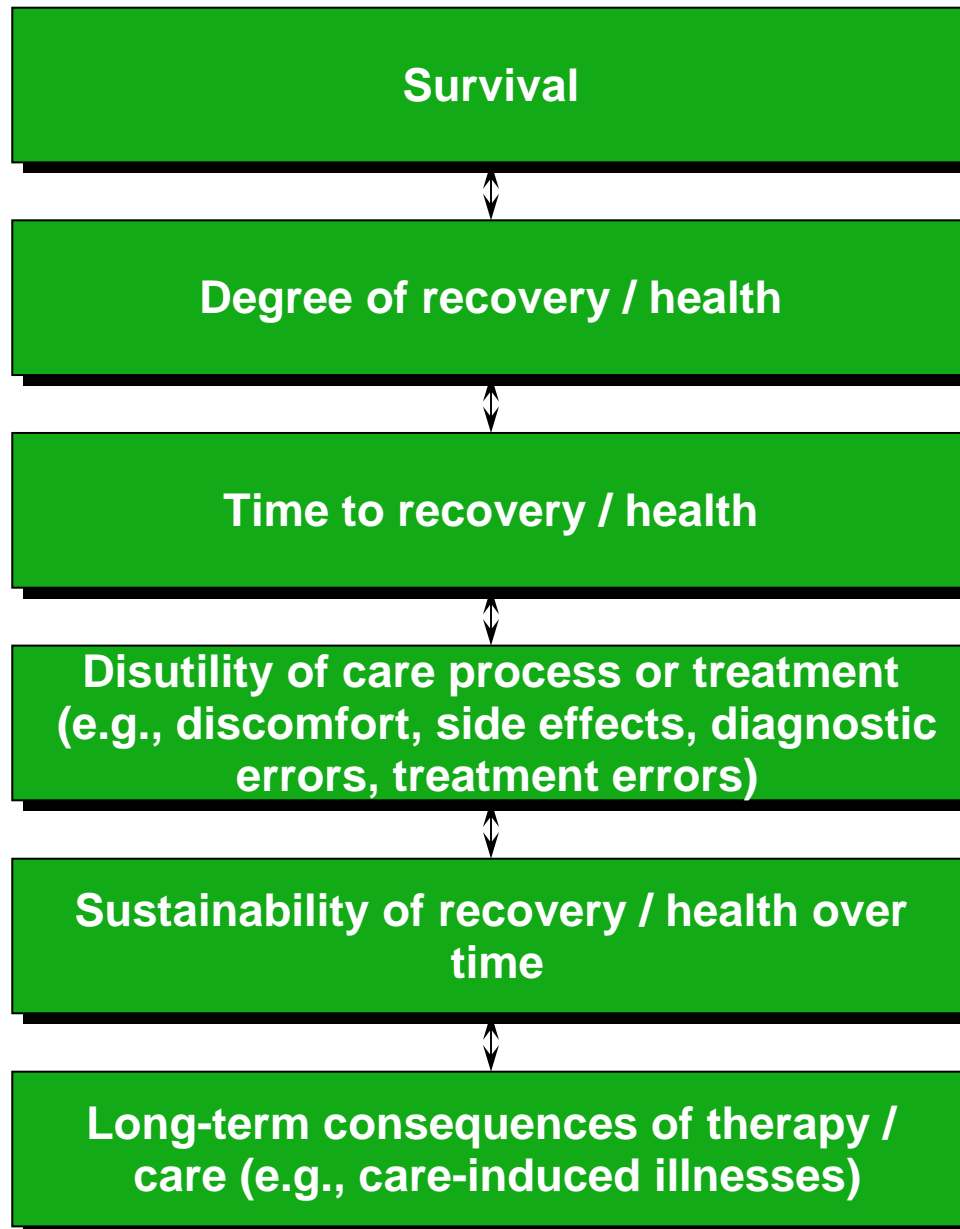
1. The goal should be **value for patients**, not just lowering costs.
2. There must be **unrestricted competition** based on **results**.
3. Competition should **center on medical conditions** over the **full cycle of care**.
4. High quality care should be **less** costly.
5. Value is driven by **provider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

The Information Hierarchy



Measuring Results

The Outcome Measures Hierarchy



Principles of Value-Based Competition

1. The goal should be **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.
 - Reimbursement for care cycles, not discrete treatments or services

Is Competition Desirable in Health Care?

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

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



- The essential challenge is to **align** competition with patient value

Moving to Value-Based Competition

Providers

- Redefine the practice around **medical conditions**
- Organize around **medically integrated practice units (IPU)**
- Integrate services in each medical condition **across geographic locations**
- Measure **results, methods, and patient attributes** by IPU
- Move to **single bills** and pricing for **care cycles**
- Choose the **scope of services** based on excellence
- Grow service lines across geography in **areas of strength**
- Employ **partnerships** and **alliances** to achieve these aims
- **Market** services based on excellence, uniqueness, and results

Moving to Value-Based Competition

Health Plans

- Measure **provider results** by medical condition
- Advise patients (and referring physicians) in selecting **excellent** providers
- Reward **excellent** providers with more patients
- Coordinate patient care across the **full care cycle**
- Shift reimbursement to bundled prices for care cycles
- Assemble **members' total medical records**
- Provide comprehensive **prevention** and **disease management** services to all members, even healthy ones
- Move to **multi-year subscriber contracts**
- Organize around **medical conditions**, not geography or administrative functions

Moving to Value-Based Competition

Government

- Mandate the universal measurement, collection, and reporting of outcome and eventually results information
- Create common data definitions and IT standards to enable the collection and exchange of medical information
- Enable the restructuring of health care delivery around integrated care across the full care cycle of **medical conditions**
- Shift reimbursement to bundled prices for cycles of care and away from payments for discrete treatments or services
- End provider price discrimination across patients
- **Remove artificial restraints to competition** among providers and across geography
- Create **neutrality** (e.g. tax, risk pooling) between employer-provided and individually-purchased health insurance
- Move to an **individual mandate** to purchase health insurance