

Value-Based Competition in Health Care

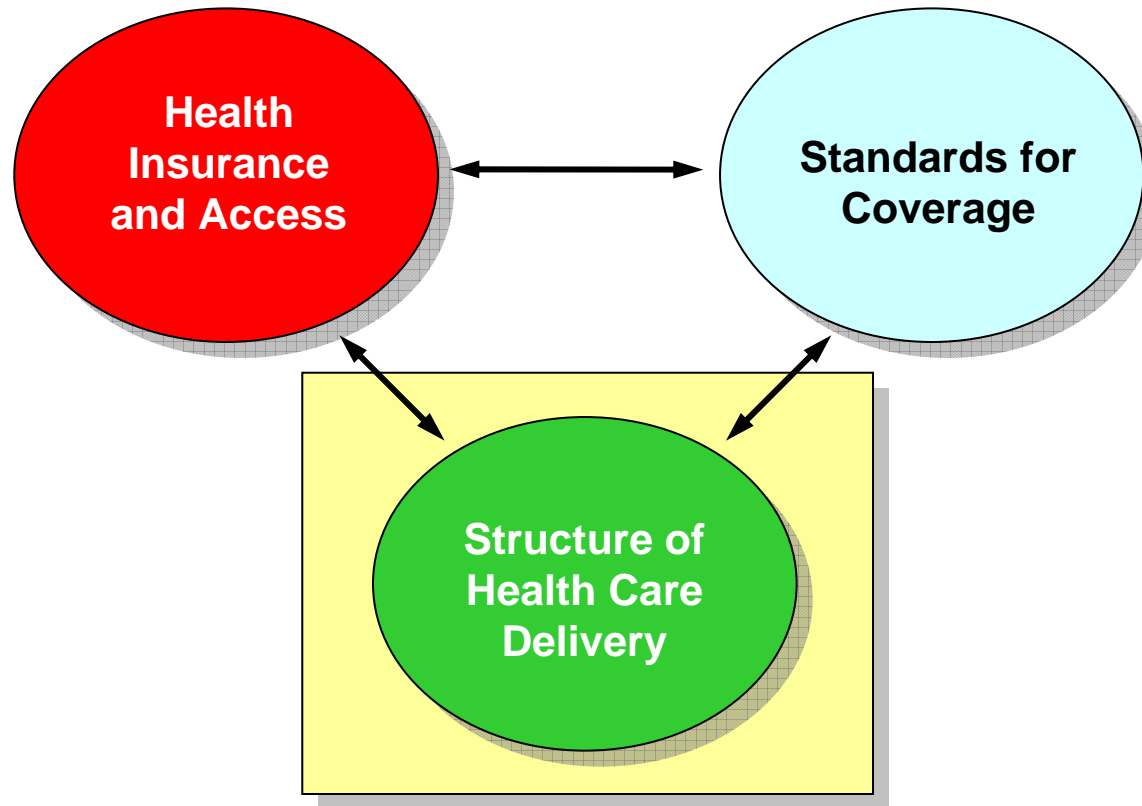
Professor Michael E. Porter
Harvard Business School

*Healthcare Leadership Council
Washington, DC*

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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). 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.

Issues in Health Care Reform



Competition in Health Care

Bad Competition

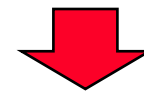
- Competition to **shift costs**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to **restrict services** in order to reduce costs



- Zero or Negative Sum

Good Competition

- Competition to **increase value for patients**



- Positive Sum

Principles of Value-Based Competition

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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”

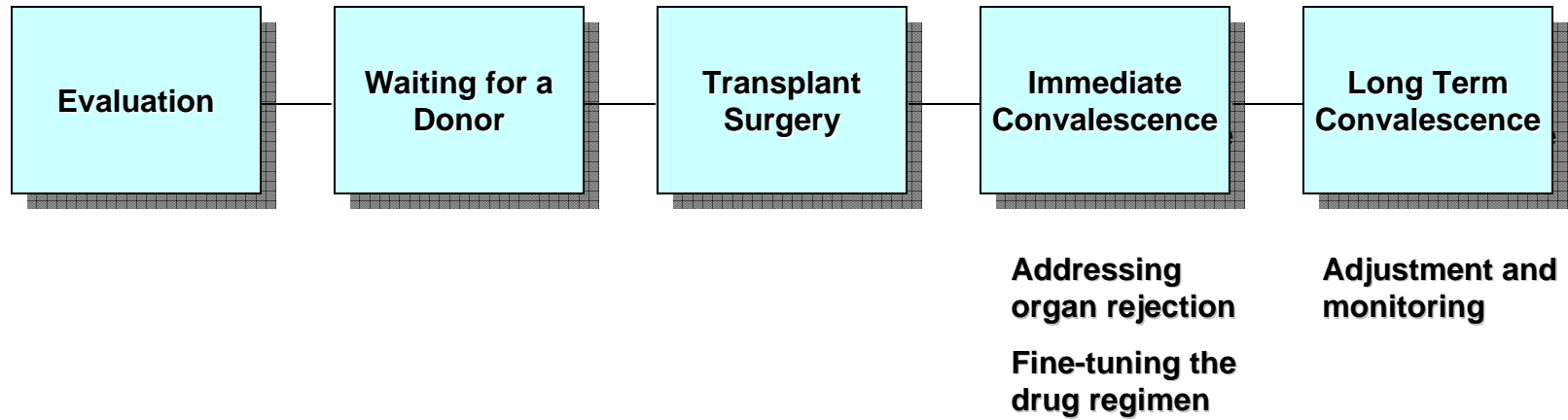
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3. Competition should center on **medical conditions** over the **full cycle of care**.

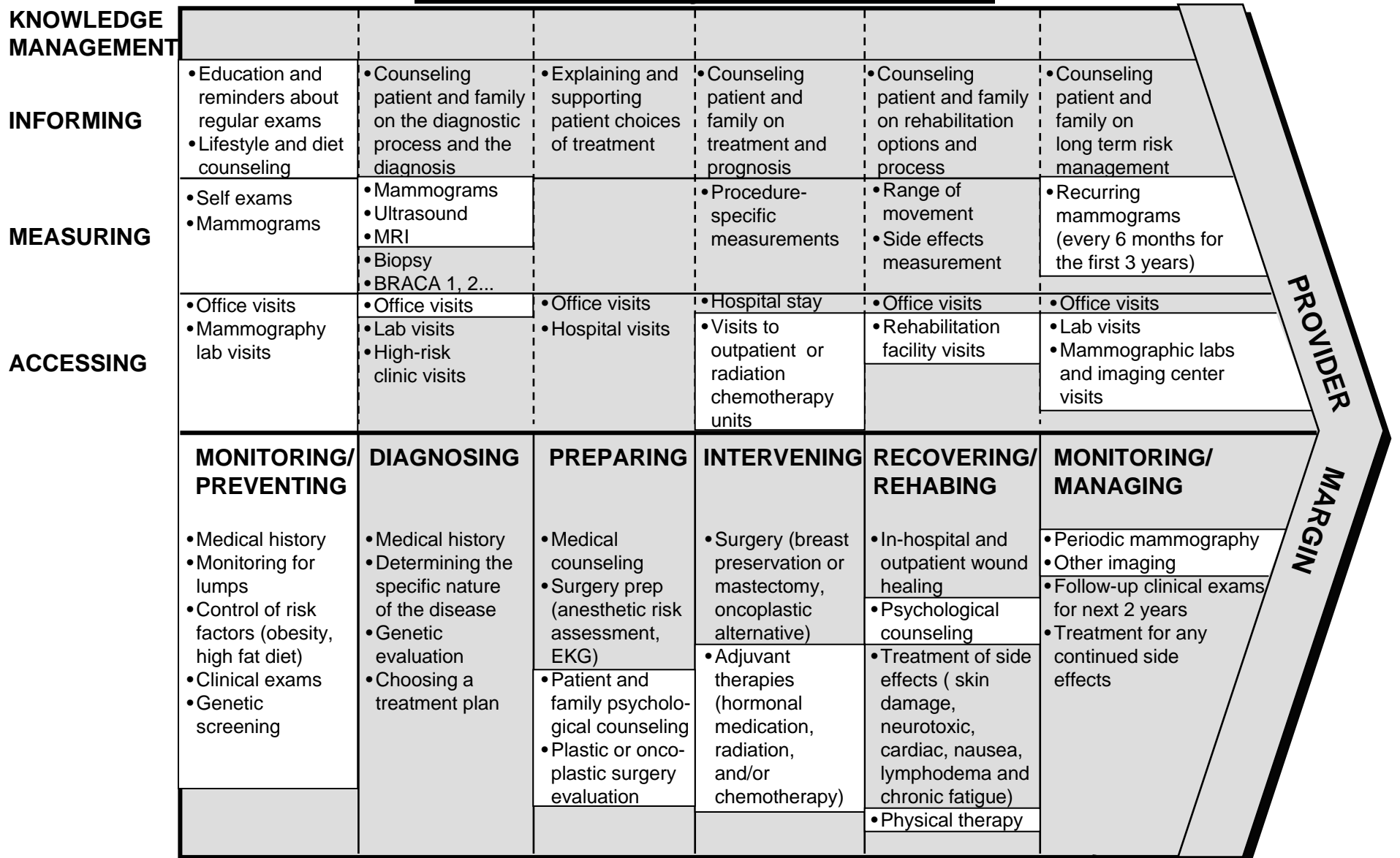
What is a Medical Condition?

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

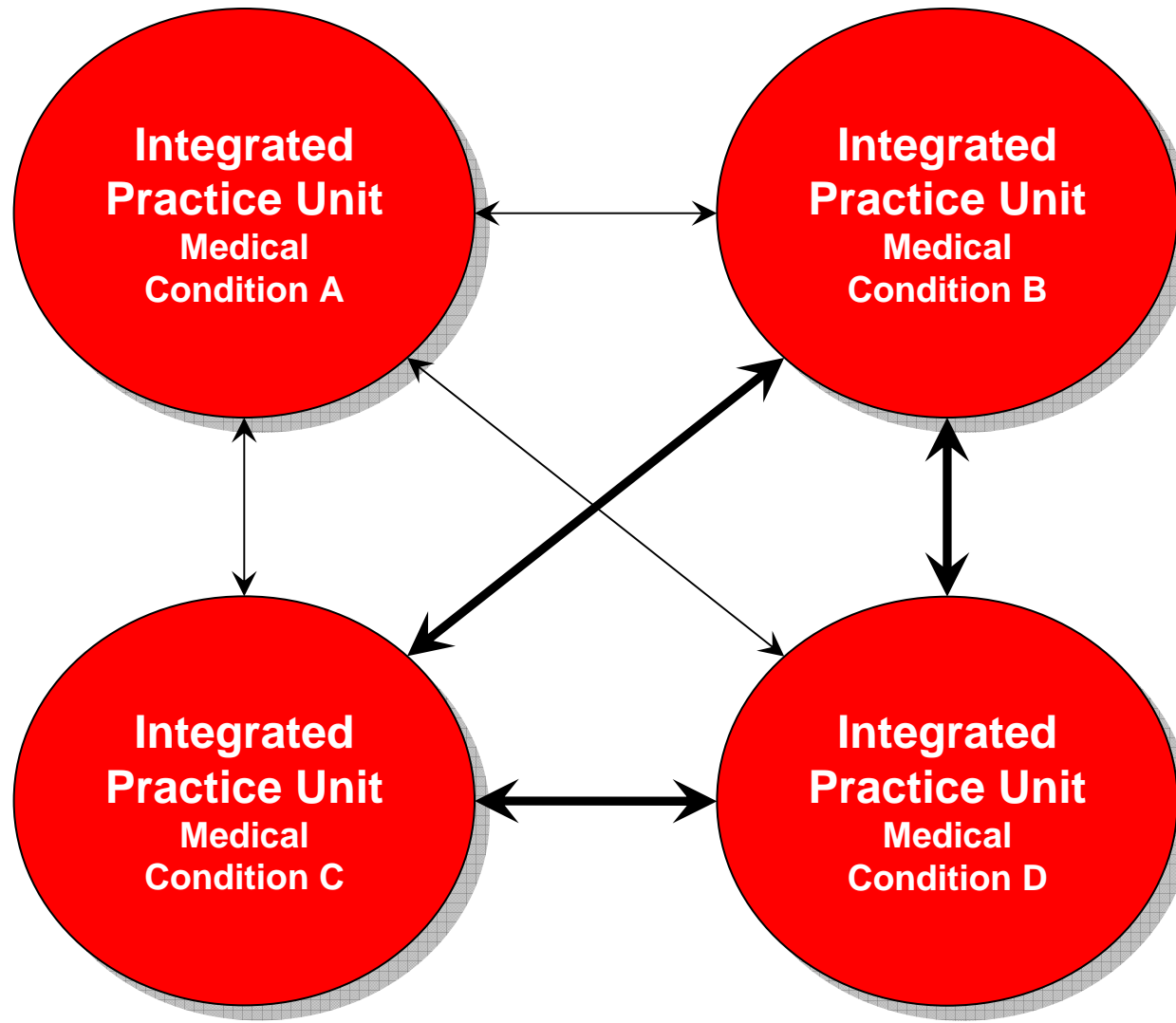


PROVIDER MARGIN

Breast Cancer Specialist
 Other Provider Entities

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

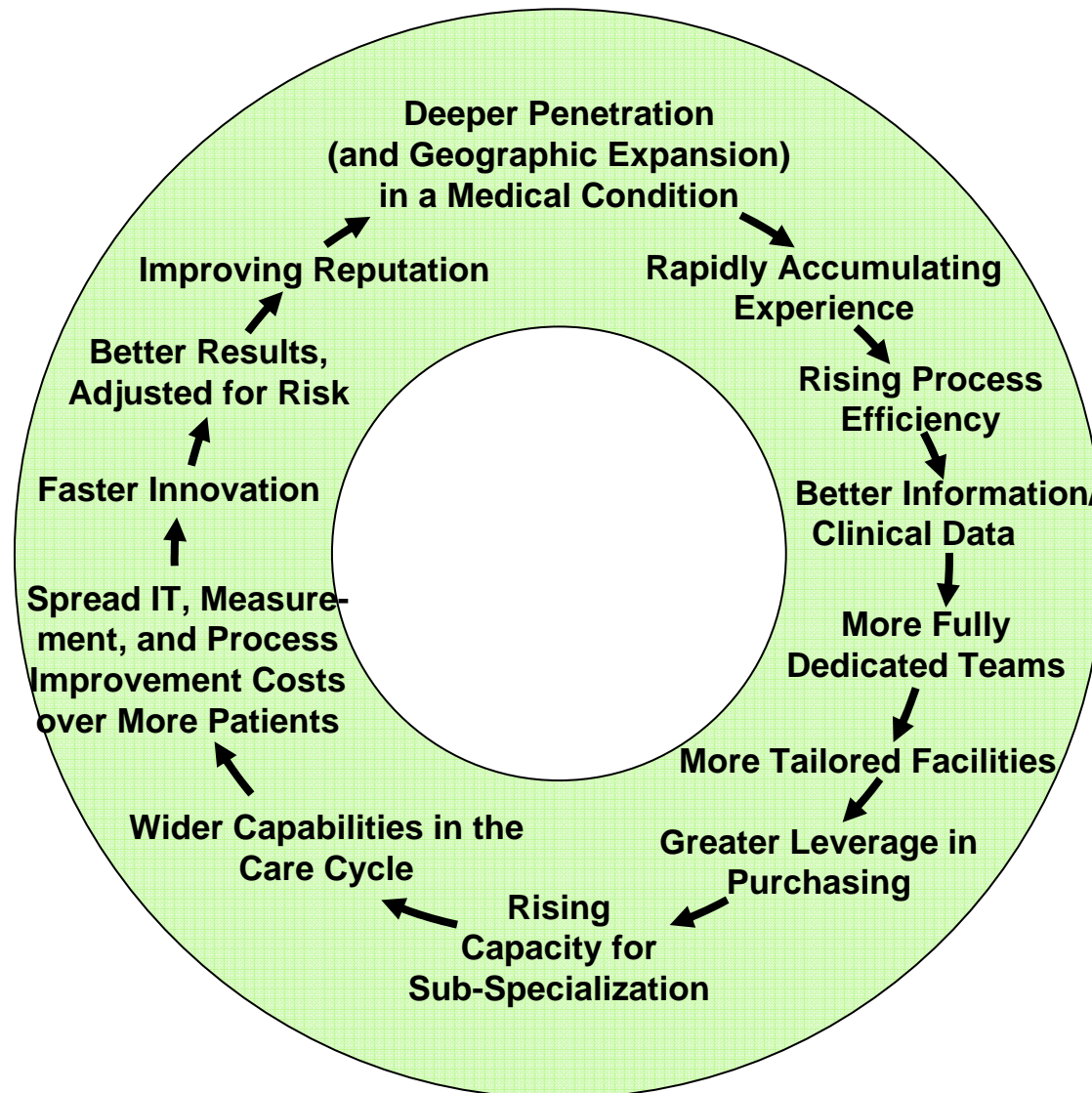


- Better health is **inherently less expensive** than worse health

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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

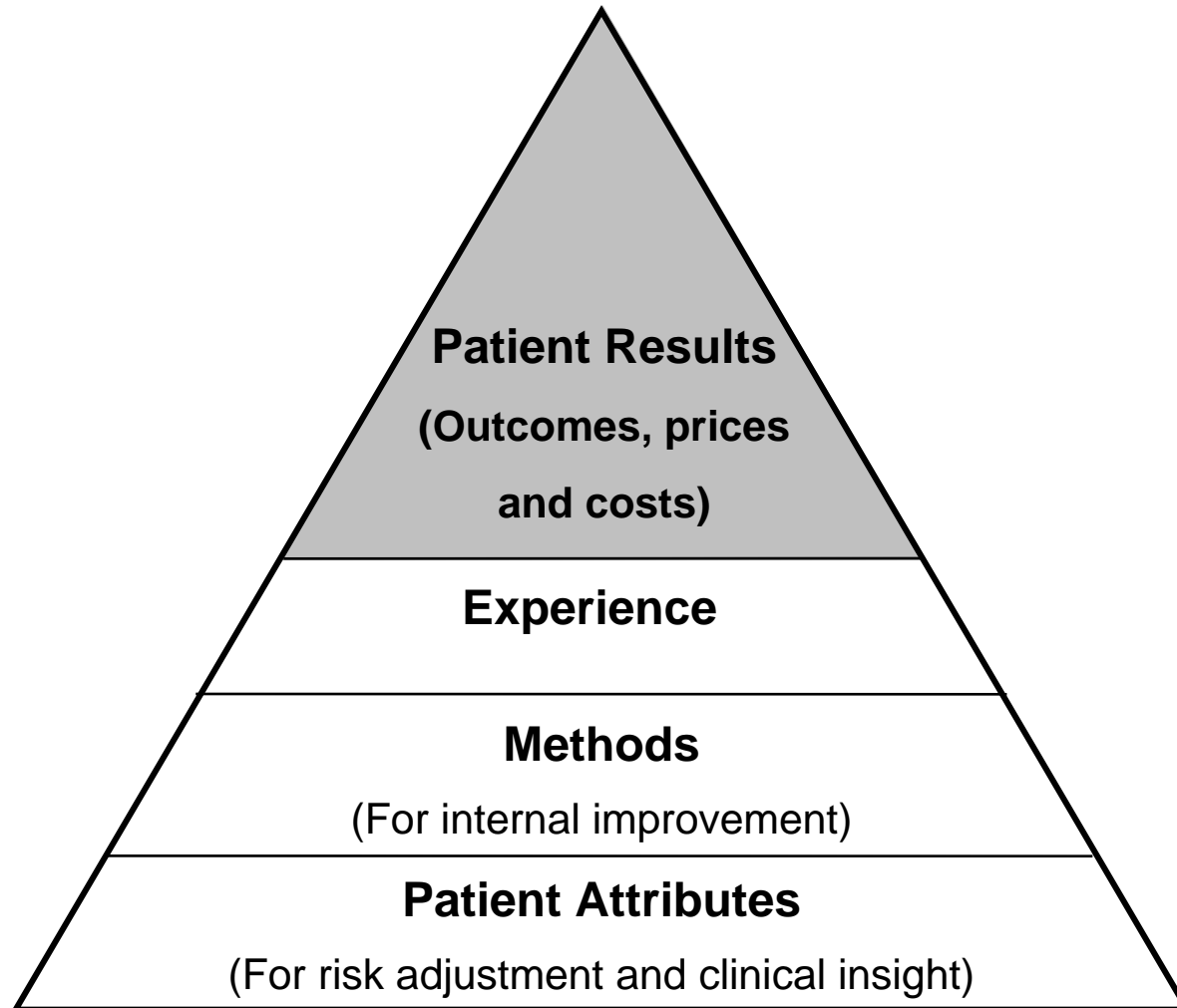
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6. Competition should be **regional** and **national**, not just local.
 - Management of care cycles across geography
 - Partnerships and inter-organizational integration

Principles of Value-Based Competition

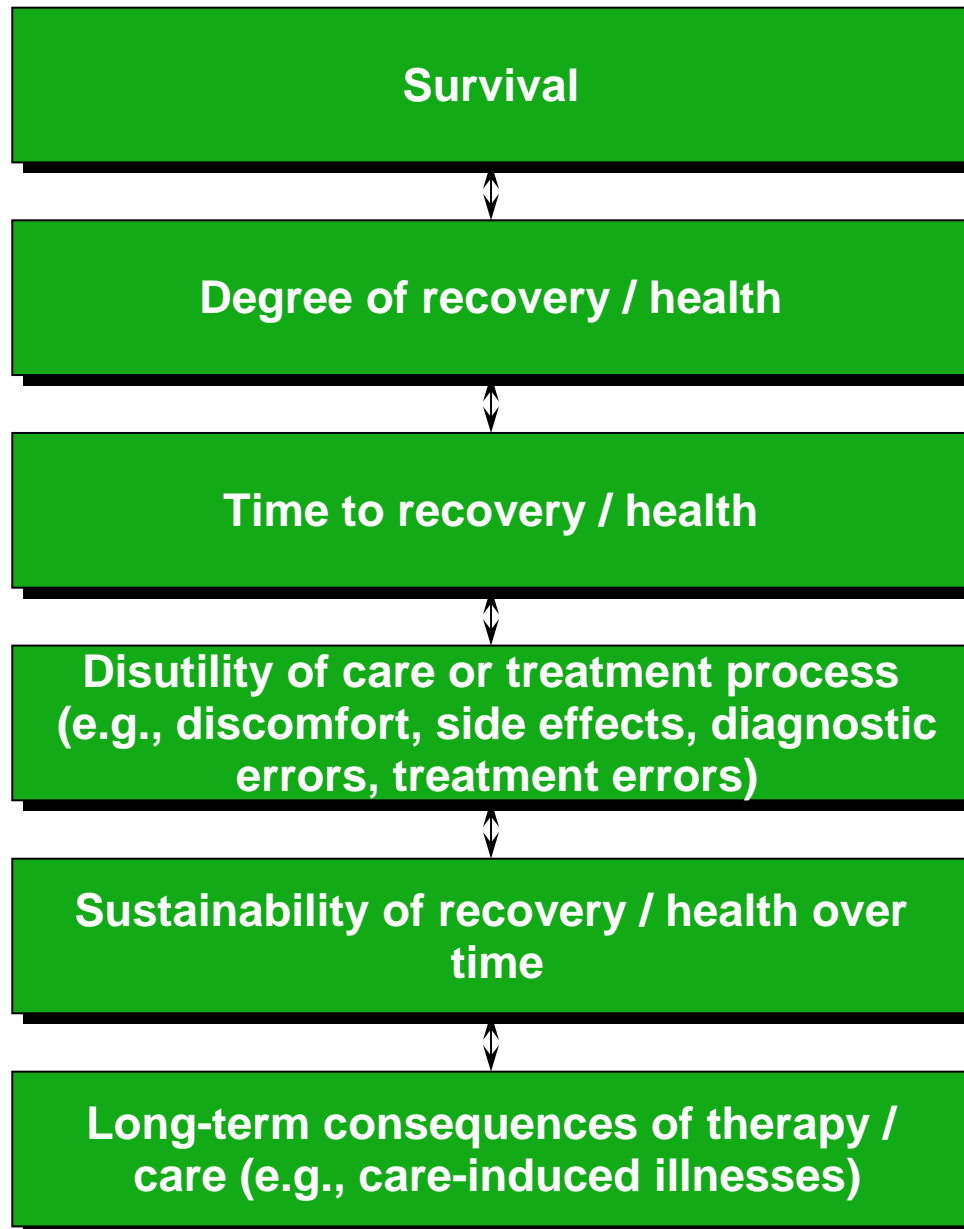
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7. Results **Information** must be widely available.

The Information Hierarchy



Measuring Results

The Outcome Measures Hierarchy



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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

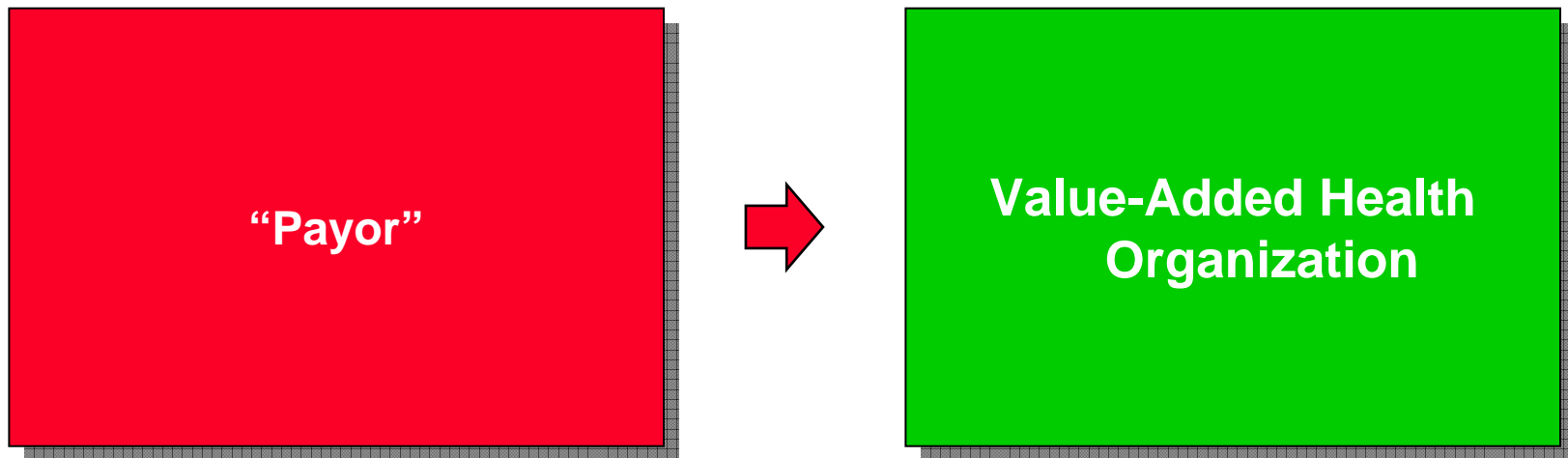
Moving to Value-Based Competition

Providers

- Redefine the practice around **care cycles for medical conditions**, not specialties
- 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



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

Employers

Shift System Structure

Internal Health Care and Promotion

- Set goal of increasing **health value**, not minimizing health benefit costs

- Set new expectations for health plans, including **self-insured** plans
- Enhance provider competition on **results**
- Find ways to **expand insurance coverage** and advocate reform of the insurance system

- Provide for health plan **continuity** for employees, rather than plan churning
- Support and motivate employees to **make good health care choices** and **manage their own health**
- Measure and hold employee benefit staff accountable for the company's **health value received**

Moving to Value-Based Competition

Government

- Mandate the universal measurement, collection, and reporting of **outcomes** and eventually **results** information by medical condition
- Create **common data definitions** and **IT standards** to enable the collection and exchange of medical information
- Enable the **restructuring of health care delivery** around the integrated care cycle for **medical conditions**
- Shift reimbursement to **bundled prices for care cycles** 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
- Make Medicare a **health plan**
- Create **neutrality** (e.g. tax, risk pooling, purchasing groups) between employer-provided and individually-purchased health insurance
- Move to an **individual mandate** to purchase health insurance

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