

Value-Based Competition in Health Care

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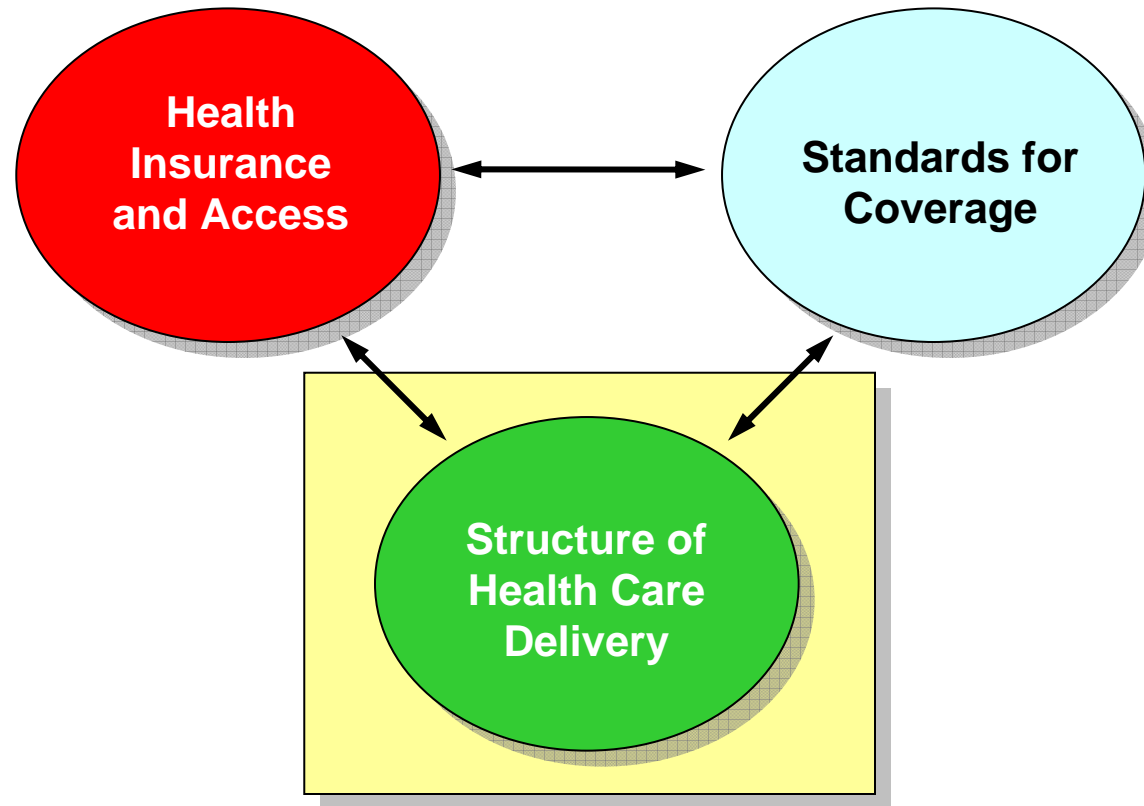
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This presentation draws on Michael E. Porter and Elizabeth Olmsted Teisberg: [Redefining Health Care: Creating Value-Based Competition on Results](#), Harvard Business School Press, May 2006. Earlier publications about health care include the *Harvard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

Proposed Solutions

- Single Payer System
- Consumer-Driven Health Care
- Pay for Performance
- Integrated Payer-Provider Systems
- Electronic Medical Records

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 in Health Care

Bad Competition

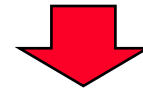
- Competition to **shift costs** or **capture a bigger share of revenue**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to **restrict services** in order to reduce costs



- 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.

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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”

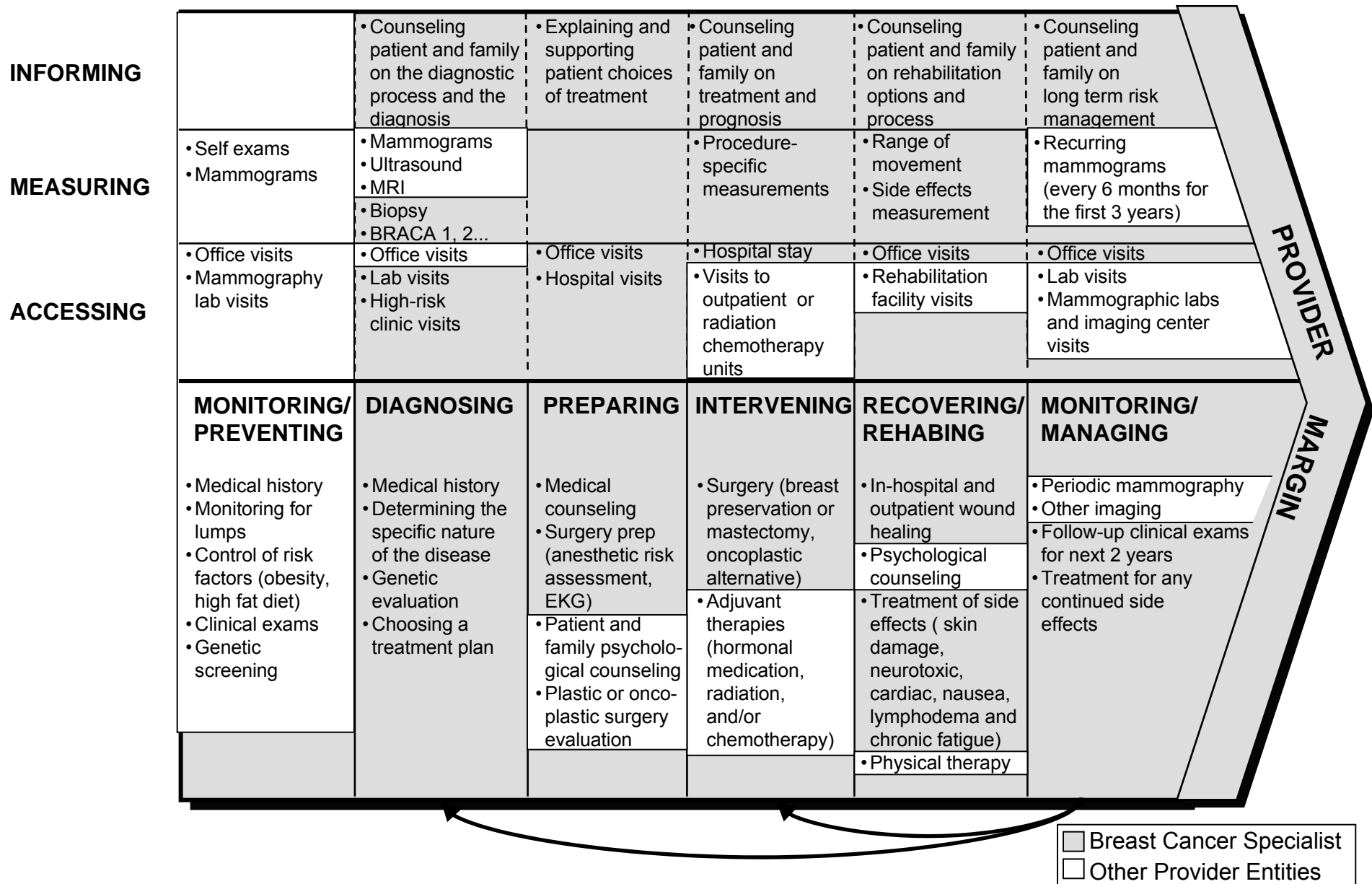
Principles of Value-Based Competition

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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)

Breast Cancer Care Care Delivery Value Chain



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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

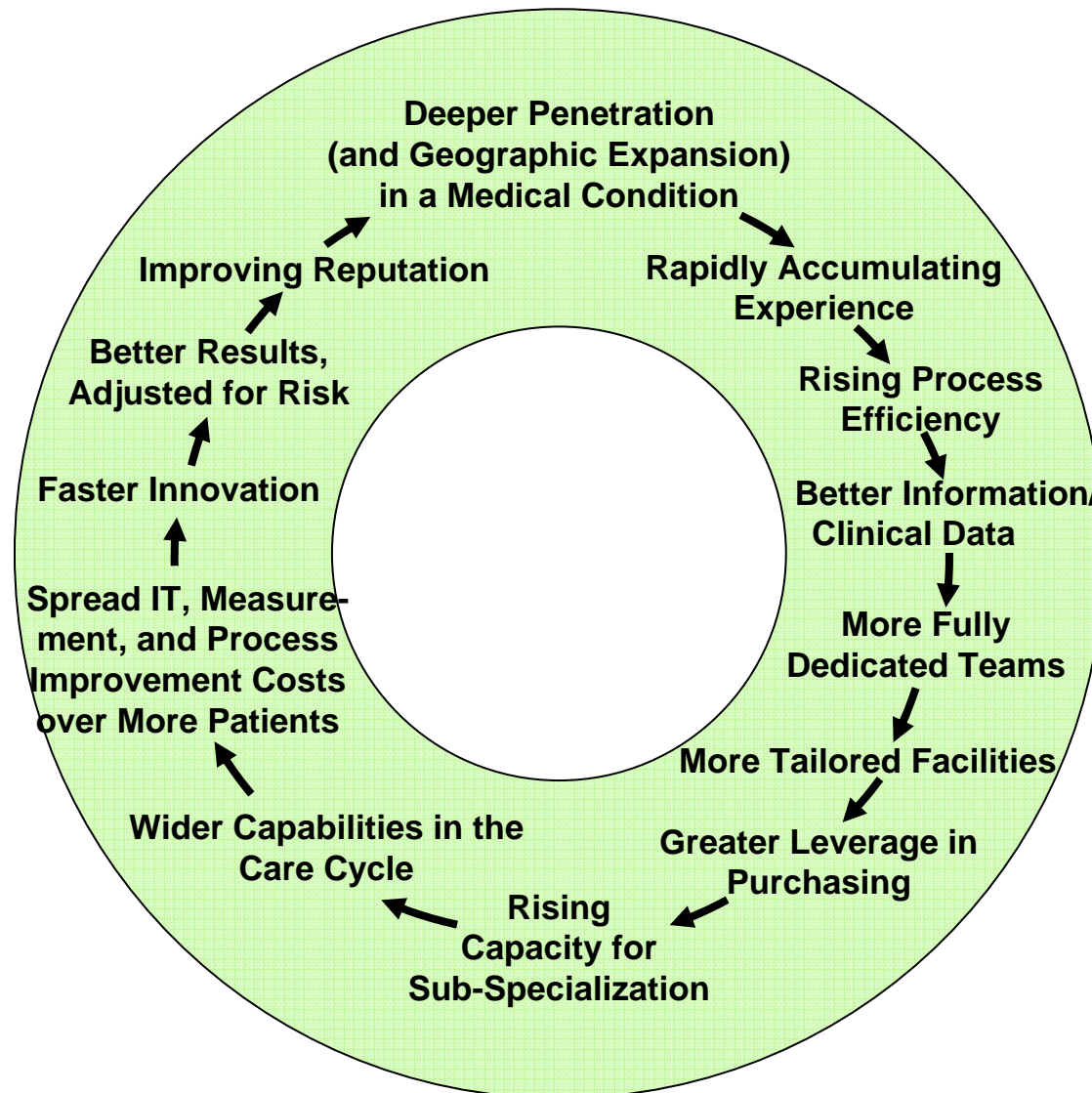


- Better health is **inherently less expensive** than worse health

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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

Principles of Value-Based Competition

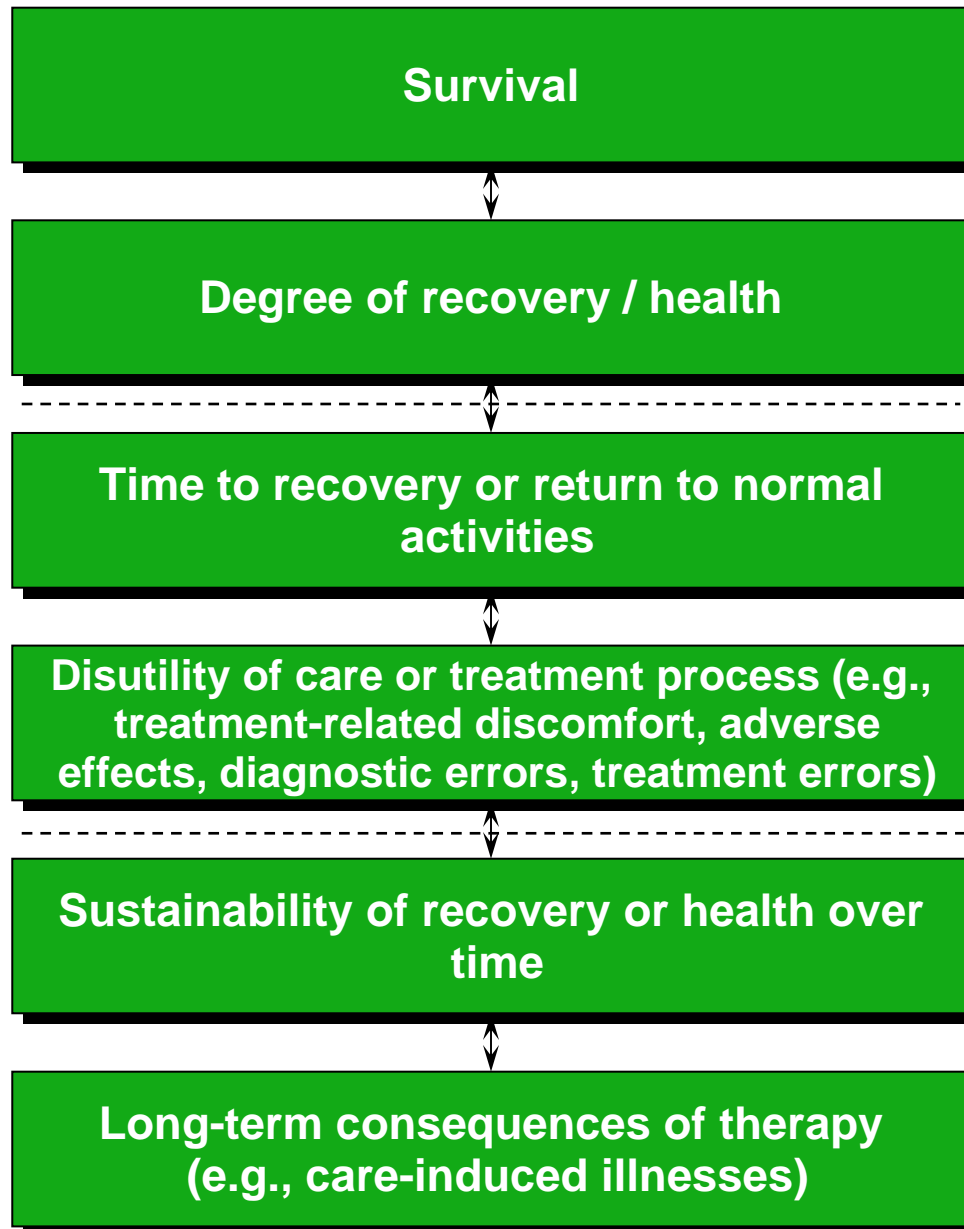
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6. Competition should be **regional** and **national**, not just local.
 - Management of care cycles across geography
 - Partnerships and inter-organizational integration

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

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

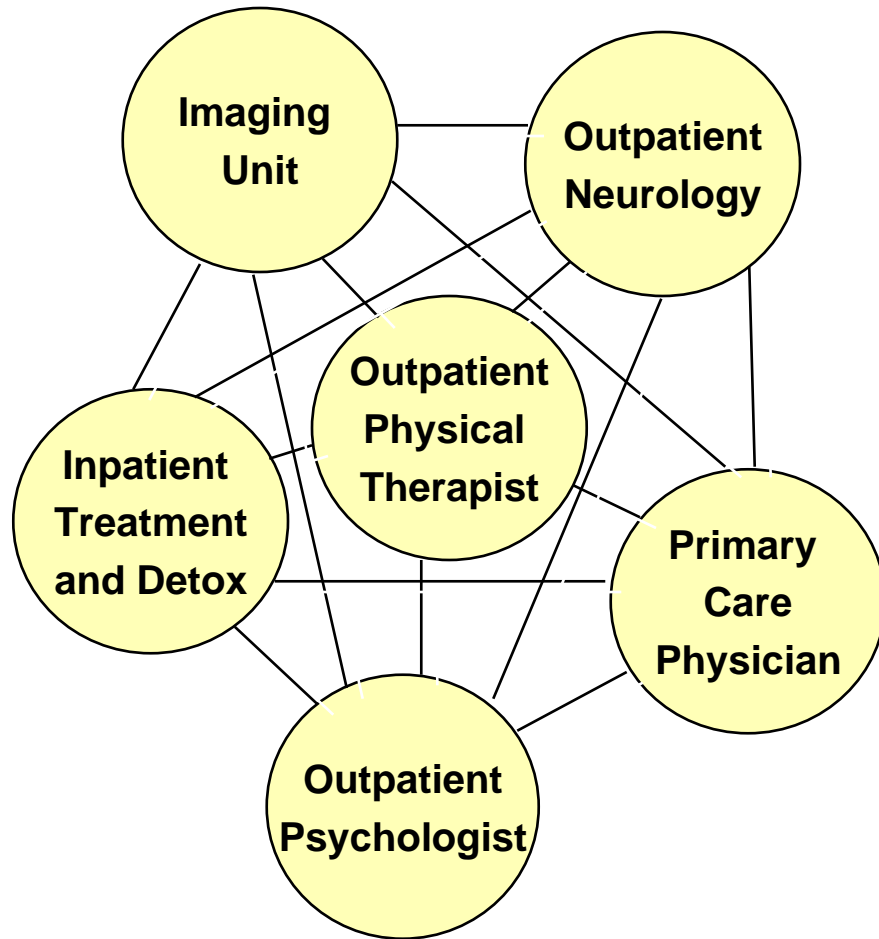
Moving to Value-Based Competition

Providers

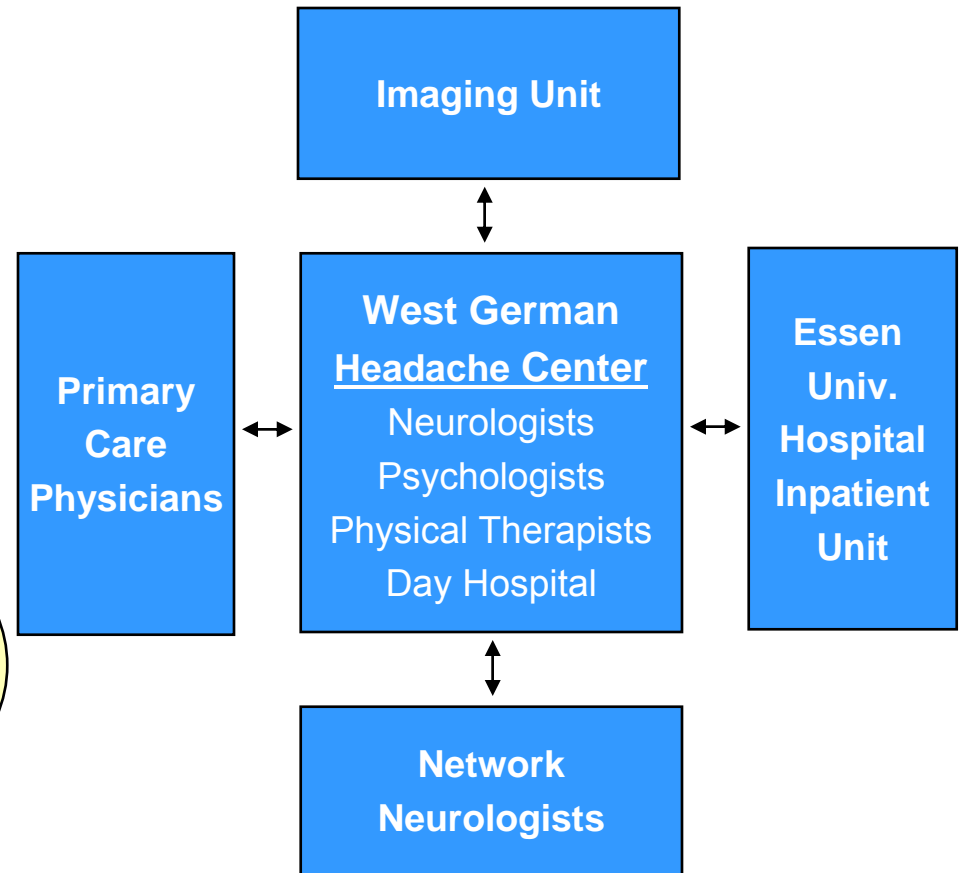
- Choose the **scope of services** based on excellence
- Organize around **medically integrated practice units** (IPU)
- Integrate services in each medical condition **across geographic locations**
- Measure **results**, **methods**, and **patient attributes** by IPU
- Move to **single bills** and pricing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

Migraine Care in Germany

Old Model



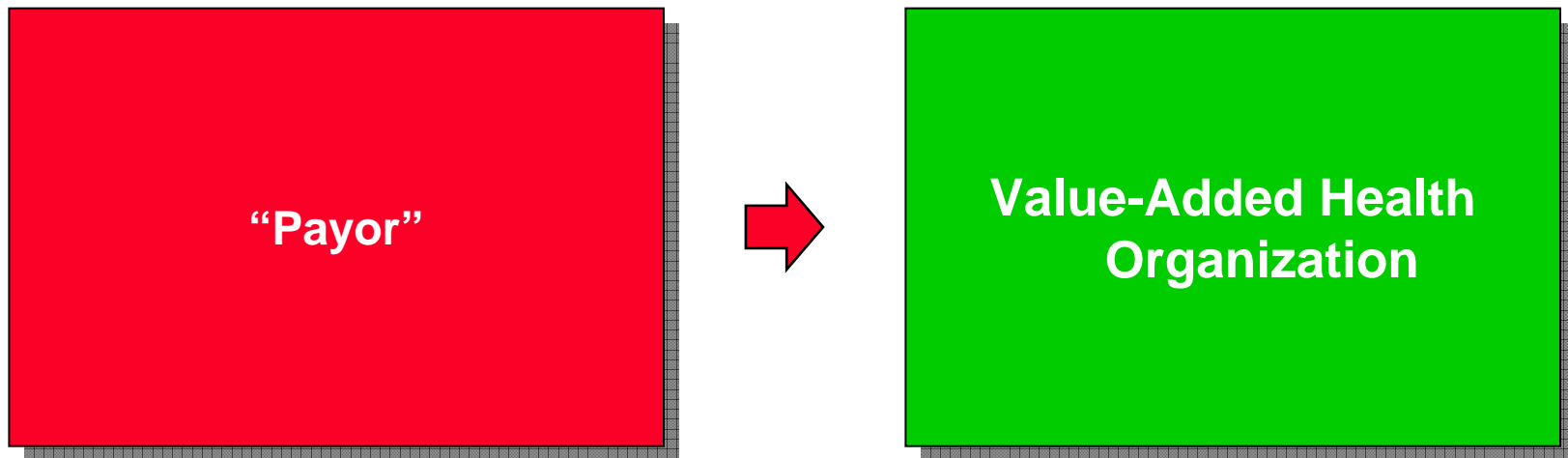
New Model



Source: KKH, Westdeutsches Kopfschmerzzentrum

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

- Measure and report health **results**
- Create standard **data definitions** and **interoperability standards** to enable the collection and exchange of medical information for every patient
- Enable the **restructuring of health care delivery** around the integrated care of **medical conditions** across the **full care cycle**
- Shift reimbursement to **bundled prices for cycles of care** instead of payments for discrete treatments or services
- End **provider price discrimination** across patients
- Remove **artificial restraints to competition** among providers and across geography

Moving to Value-Based Competition

Government – cont'd.

- Encourage the **responsibility of individuals** for their health and their health care
- Require health plans to measure and report **health outcomes** for members
- Enable **universal insurance** consistent with value-based principles
 - Create neutrality between employer-provided and individually-purchased health insurance
 - Move towards an individual mandate to purchase health insurance
 - All health insurance plans should include screening and preventive care in addition to disease management for chronic conditions

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