

Redefining Competition in Health Care

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*World Health Care Congress
Washington, DC*

April 22, 2007

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, and “How Physicians Can Change the Future of Health Care,” *Journal of the American Medical Association*, 2007; 297:1103:1111. 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. Further information about these ideas, as well as case studies, can be found on the website of the Institute for Strategy & Competitiveness at <http://www.isc.hbs.edu>.

Redefining Competition in Health Care

- Universal insurance **is not enough**
- True reform must significantly increase the **value of health care delivery**

Value: Patient outcomes per dollar spent

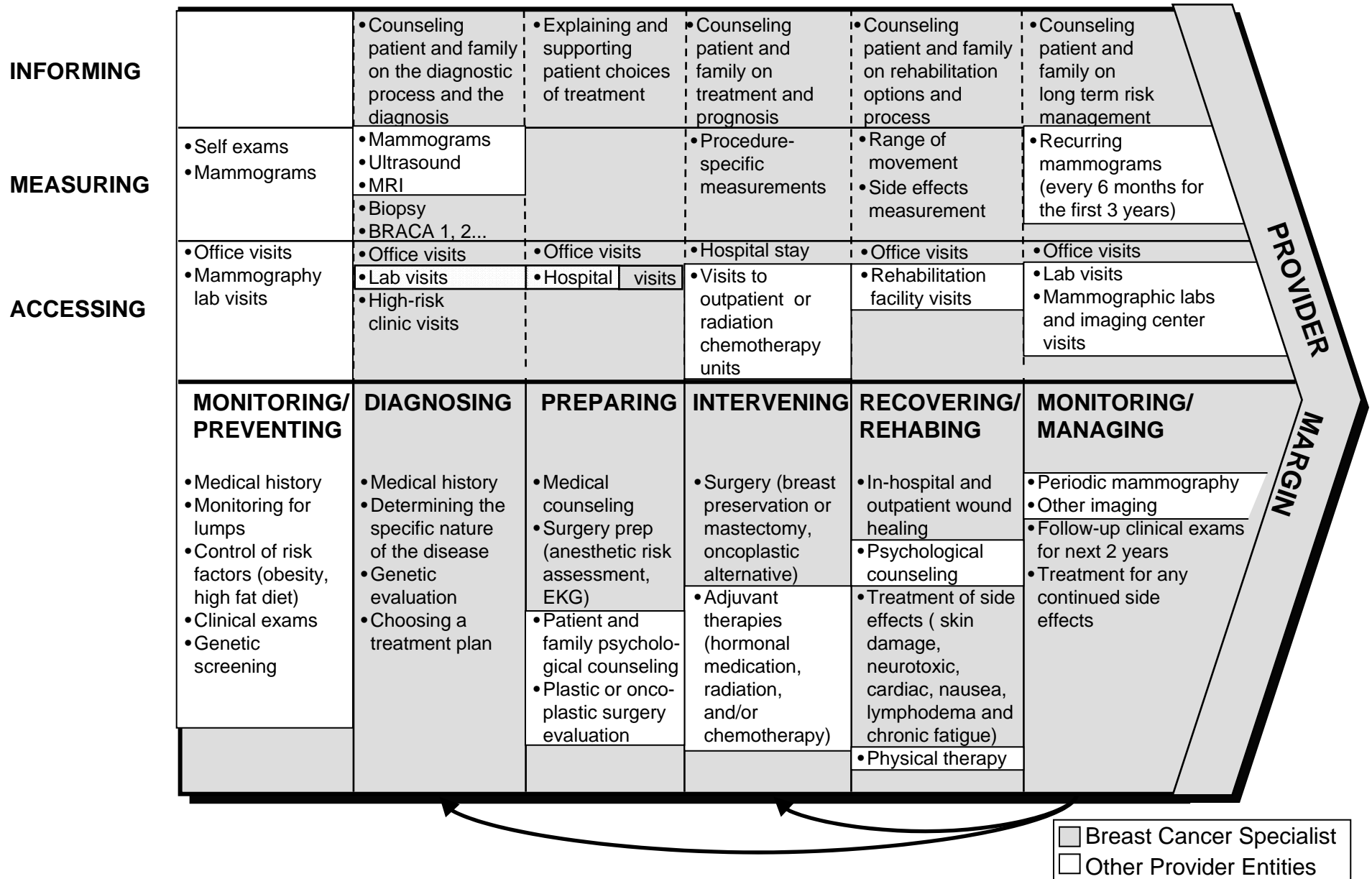
Redefining Competition in Health Care

- Universal insurance **is not enough**
- True reform must significantly increase the **value of health care delivery**
- Increasing value will require going **beyond cost containment and administrative savings**
- Significant value improvement will require **fundamental restructuring of health care delivery**, not incremental improvements

Today, 21st century medical technology is delivered with 19th century organization structures, management practices, and pricing models

Integrated Care By Medical Condition

Breast Cancer Care Delivery Value Chain

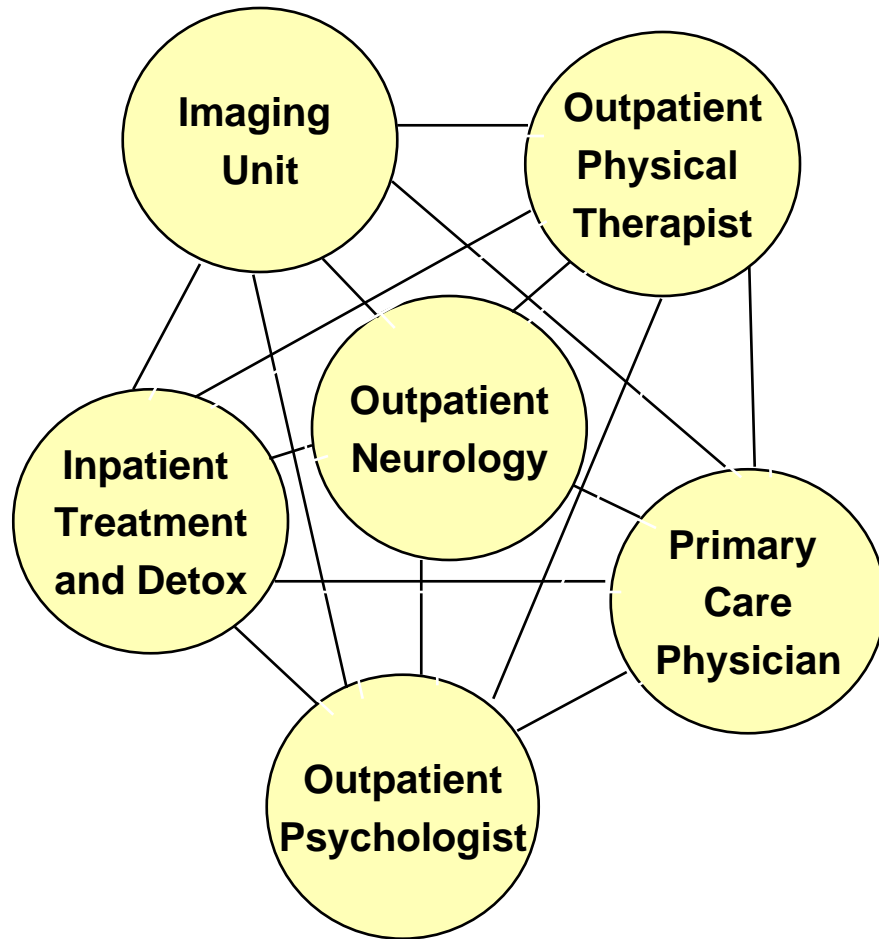


What is a Medical Condition?

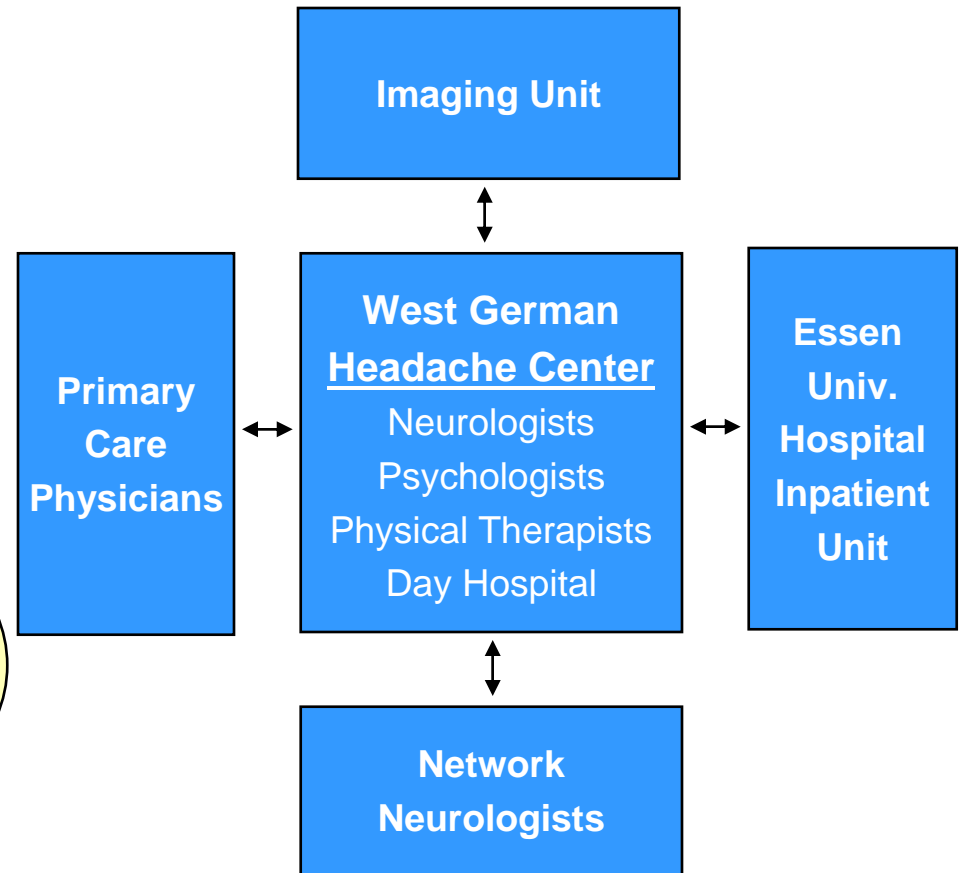
- A medical condition is **an interrelated set of patient medical circumstances best addressed in an integrated way**
 - From the patient's perspective
- **Includes** the most common co-occurrences
- Examples
 - Breast Cancer
 - Diabetes (including vascular disease, hypertension)
 - Stroke
 - Migraine

Migraine Care in Germany

Old Model

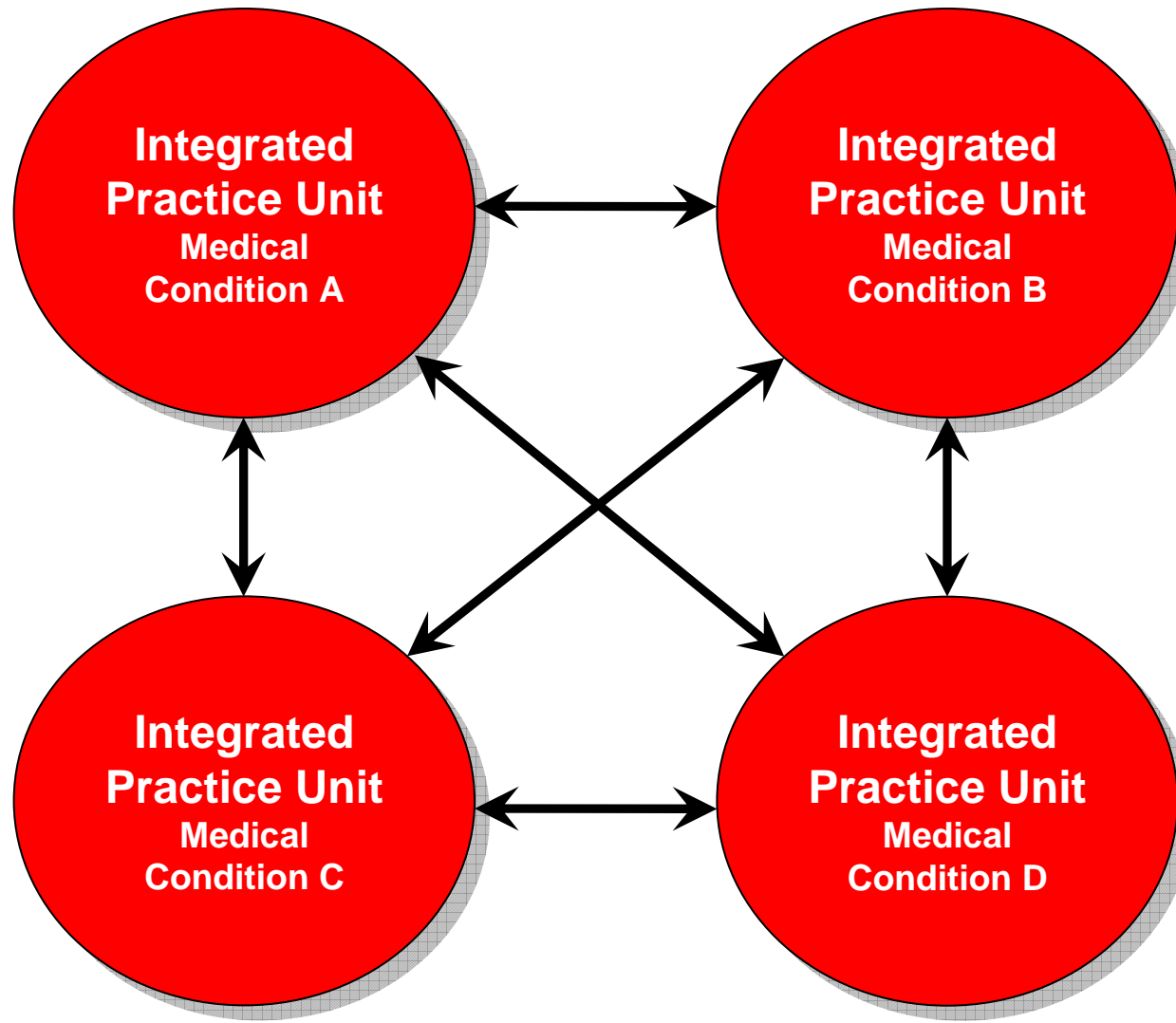


New Model



Source: KKH, Westdeutsches Kopfschmerzzentrum

Integrating Care Delivery: First Order and Second Order Within Medical Condition versus Across Medical Condition



Redefining Competition in Health Care, cont'd.

- Today's **competition** in health care is **not aligned with value**

Financial success of
system participants



Patient
success

Competition in Health Care

Bad Competition

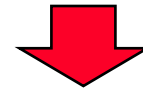
- Competition to **shift costs** or **capture a bigger share of revenue**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to **restrict services** in order to reduce costs



- Zero or Negative Sum Competition

Good Competition

- Competition to **increase value for patients**



- Positive Sum Competition

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

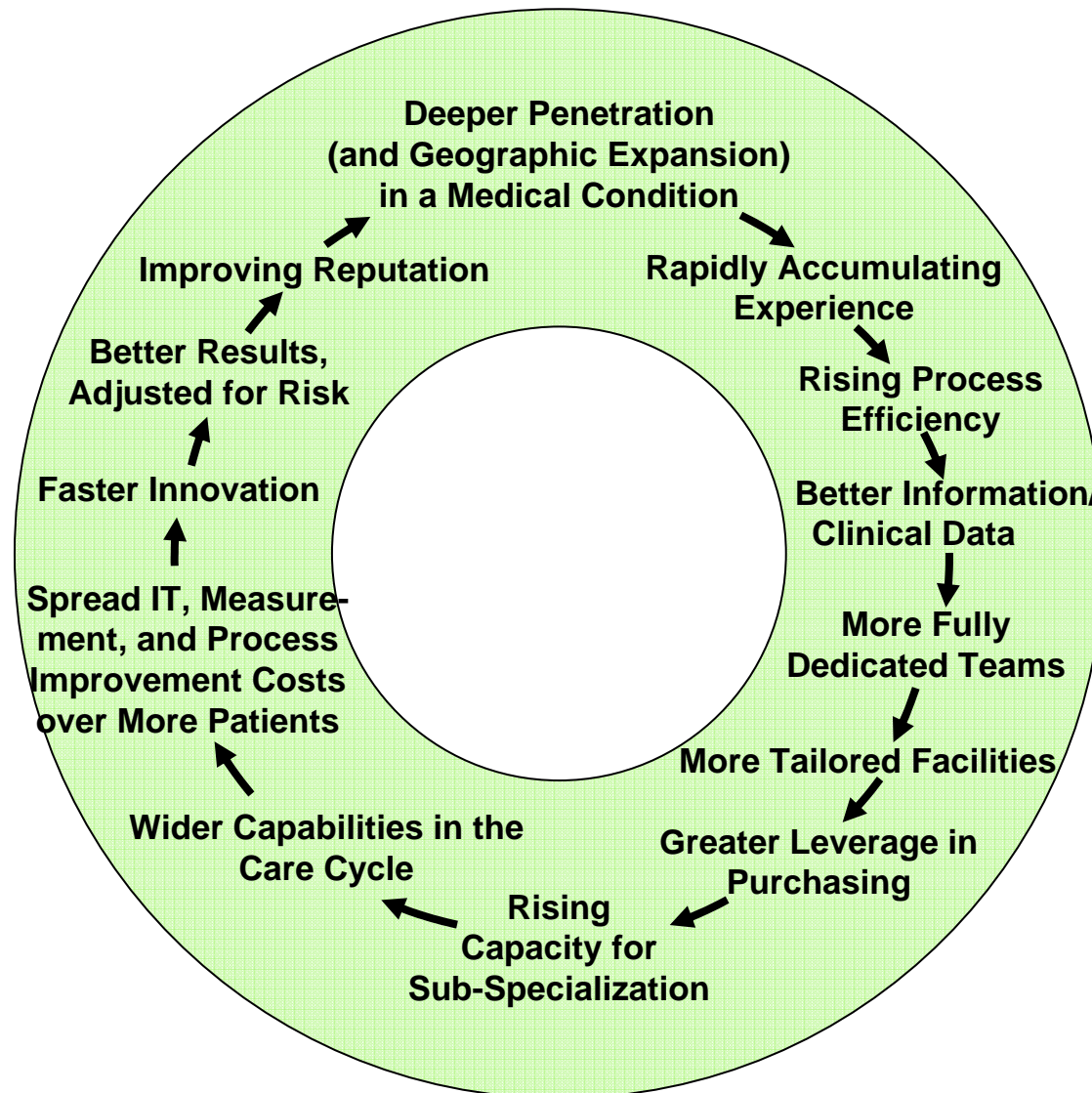


- Market definition is **misaligned with patient value**

Redefining Competition in Health Care, cont'd.

- Today's **competition** in health care is **not aligned with value**
- Restructuring health care delivery will require **realigning competition around value**
 - Compete on results, not process compliance
 - Get patients to excellent providers
 - Reimburse for care cycles, not discrete services

The Virtuous Circle in a Medical Condition



- The virtuous cycle extends **across geography**

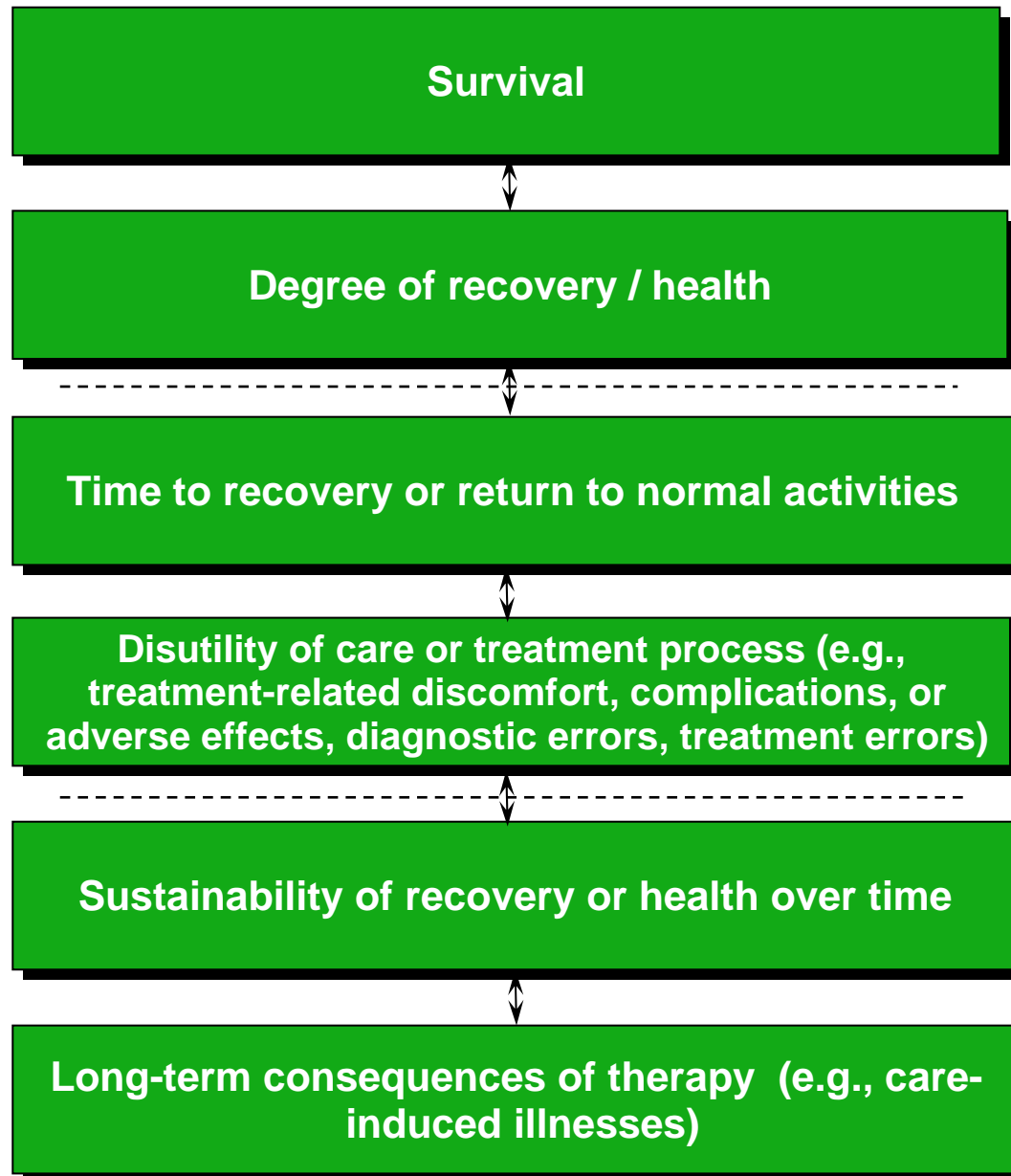
Redefining Competition in Health Care, cont'd.

- Today's **competition** in health care is **not aligned with value**
- Restructuring health care delivery will require **redefining competition around value**
- The most important single driver of improvement in health care is **measuring results**

Results: Patient health outcomes over the care cycle
Total cost of achieving those outcomes

Measuring Results

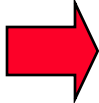
The Outcome Measures Hierarchy



Redefining Competition in Health Care, cont'd.

- Today's **competition** in health care is **not aligned with value**
- Restructuring health care delivery will require **redefining competition around value**
- The most important single driver of improvement in health care is **measuring results**
- **Information technology is an enabler** of restructuring care delivery and measuring results, **not a solution itself**
- Value-based competition will involve **new roles, organizational structures, and operating practices** for each system participant
 - Providers
 - Health plans
 - Employers
 - Suppliers

Redefining Competition in Health Care, cont'd.

- Government policy should **set the right rules and ensure results measurement**, but restructuring health care delivery must occur from the **bottom up**
 - Government-led
 - Payer-centric
 - Consumer-driven
 - Physician-led
 - Patient-centric
 - Results-driven
- Achieving universal coverage must **reinforce, rather than complicate**, value-based competition and restructuring of care
 - **Neutrality** between employer and individual coverage
 - **Infrastructure** for individually purchased coverage
 - **Individual mandate** with subsidies
 - Patient responsibilities: **participation in care**, not just payment responsibility

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
- Appropriate government policy **can speed up the process**



- There is **no need to wait**