

Value-Based Competition in Health Care

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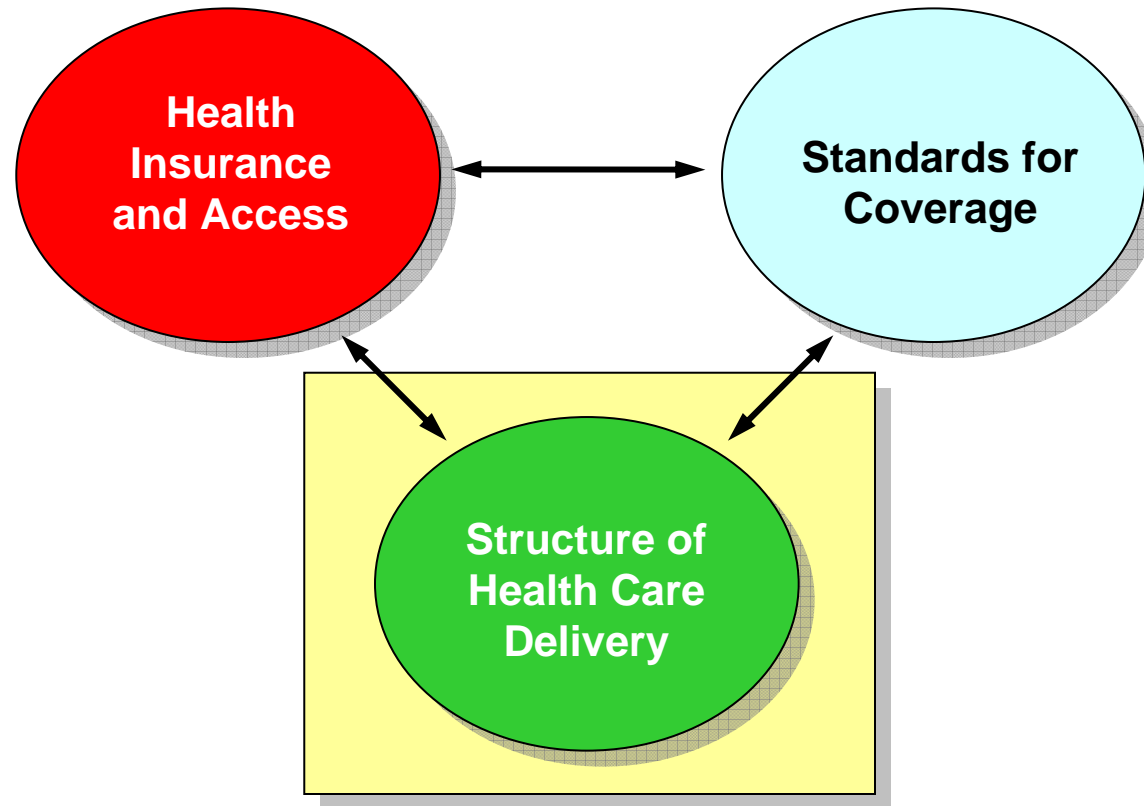
June 1, 2007

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. 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.

Proposals for Reforms

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

Issues in Health Care Reform



Creating a Value-Based Health Care System

- Universal insurance **is not enough**
- The core issue in health care is the **value of health care delivered**

Value: Patient outcomes per dollar spent

- How to design a health care system that **dramatically improves value**
- How to design a **dynamic system** that keeps rapidly improving
- Significant improvement in value 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

- TQM, process improvements, and safety initiatives are beneficial but **not sufficient**

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 U.S. Health Care

Bad Competition

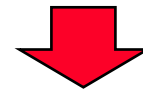
- Competition to **shift costs** or **capture a bigger share of revenue**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to **restrict services** in order to maximize revenue per visit or reduce costs



Zero or Negative Sum

Good Competition

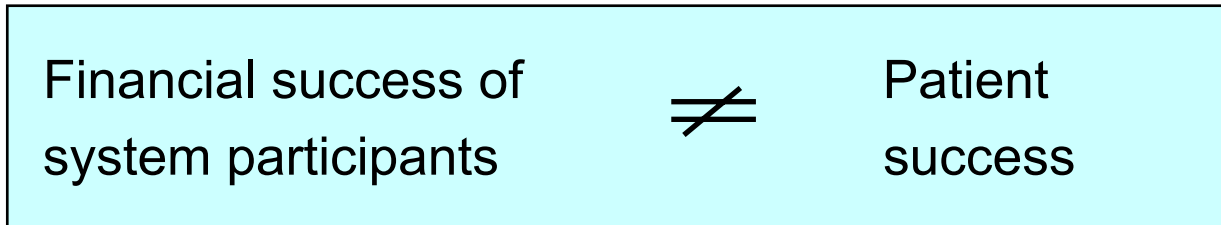
- Competition to **increase value for patients**



Positive Sum

Creating a Value-Based Health Care System

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



- Creating **competition around value** is the central challenge in health care reform

Principles of Value-Based Competition

1. The goal should be **value for patients**, not just lowering costs.
 - This will require going **beyond cost containment** and **administrative savings**

Principles of Value-Based Competition

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

2. The best way to contain costs is to drive improvement in **quality**

- Prevention
- Early detection
- Right diagnosis
- Early treatment
- Right treatment to the right patients
- Treatment earlier in the causal chain of disease
- Fewer mistakes and repeats in treatment
- Fewer delays in the care delivery process
- Less invasive treatment methods
- Faster recovery
- More complete recovery
- Less disability
- Fewer relapses or acute episodes
- Slower disease progression
- Less need for long term care



• Better health is **inherently less expensive** than poor health

Principles of Value-Based Competition

1. The goal should be **value for patients**, not just lowering costs
2. The best way to contain costs is to drive improvement in **quality**
3. There must be **unrestricted competition** based on **results**
 - Results vs. supply control or process compliance
 - Get patients to excellent providers vs. “lift all boats”

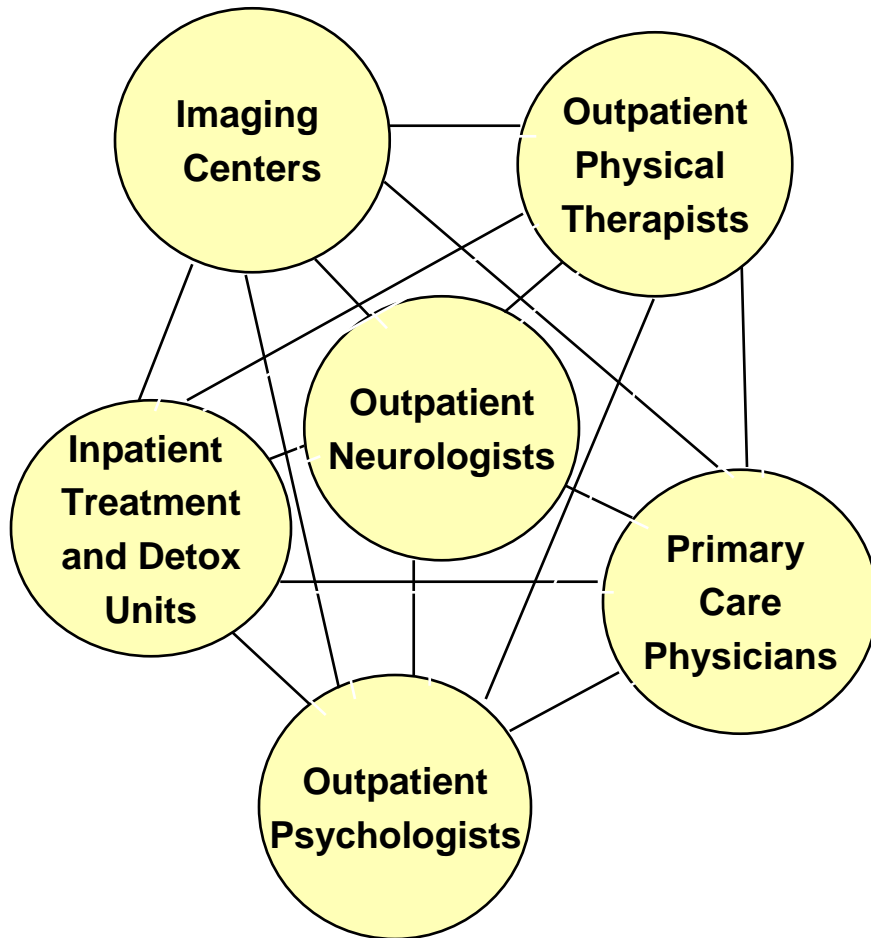
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4. Competition should center on **medical conditions** over the **full cycle of care**

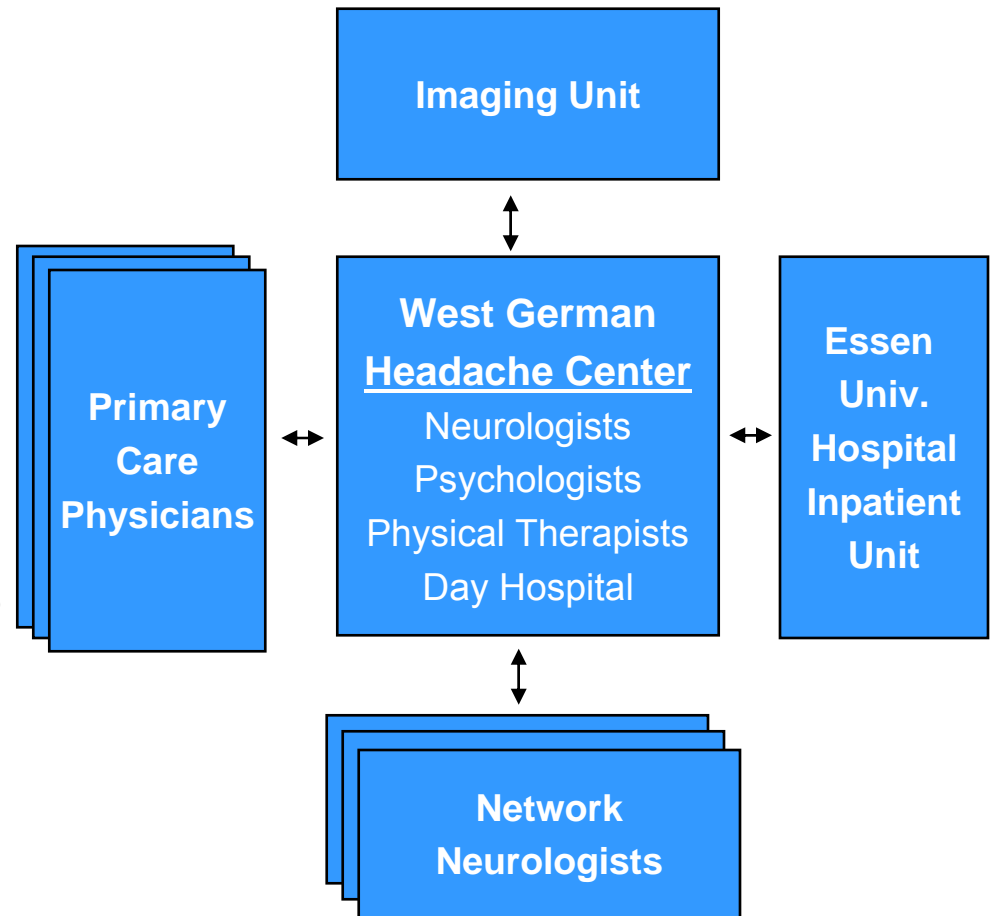
Restructuring Health Care Delivery: Medical Conditions

Migraine Care in Germany

Old Model: Organize by Specialty and Discrete Services



New Model: Integrated Practice Units



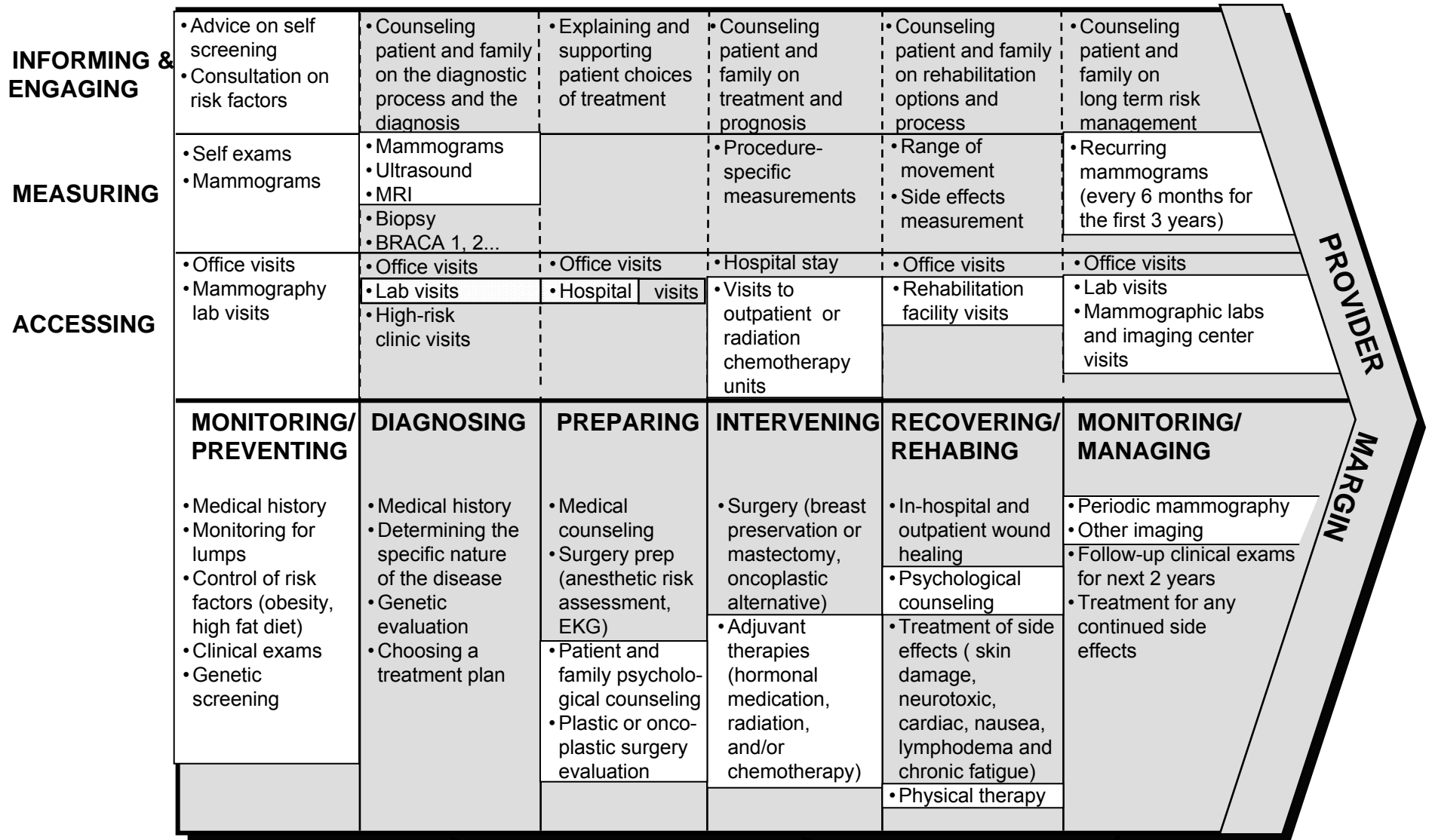
Source: KKH, Westdeutsches Kopfschmerzzentrum

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
 - Diabetes (including vascular disease, hypertension)
 - Breast Cancer
 - Stroke
 - Migraine
 - Asthma
 - Congestive Heart Failure
 - HIV/AIDS

The Care Delivery Value Chain

Breast Cancer



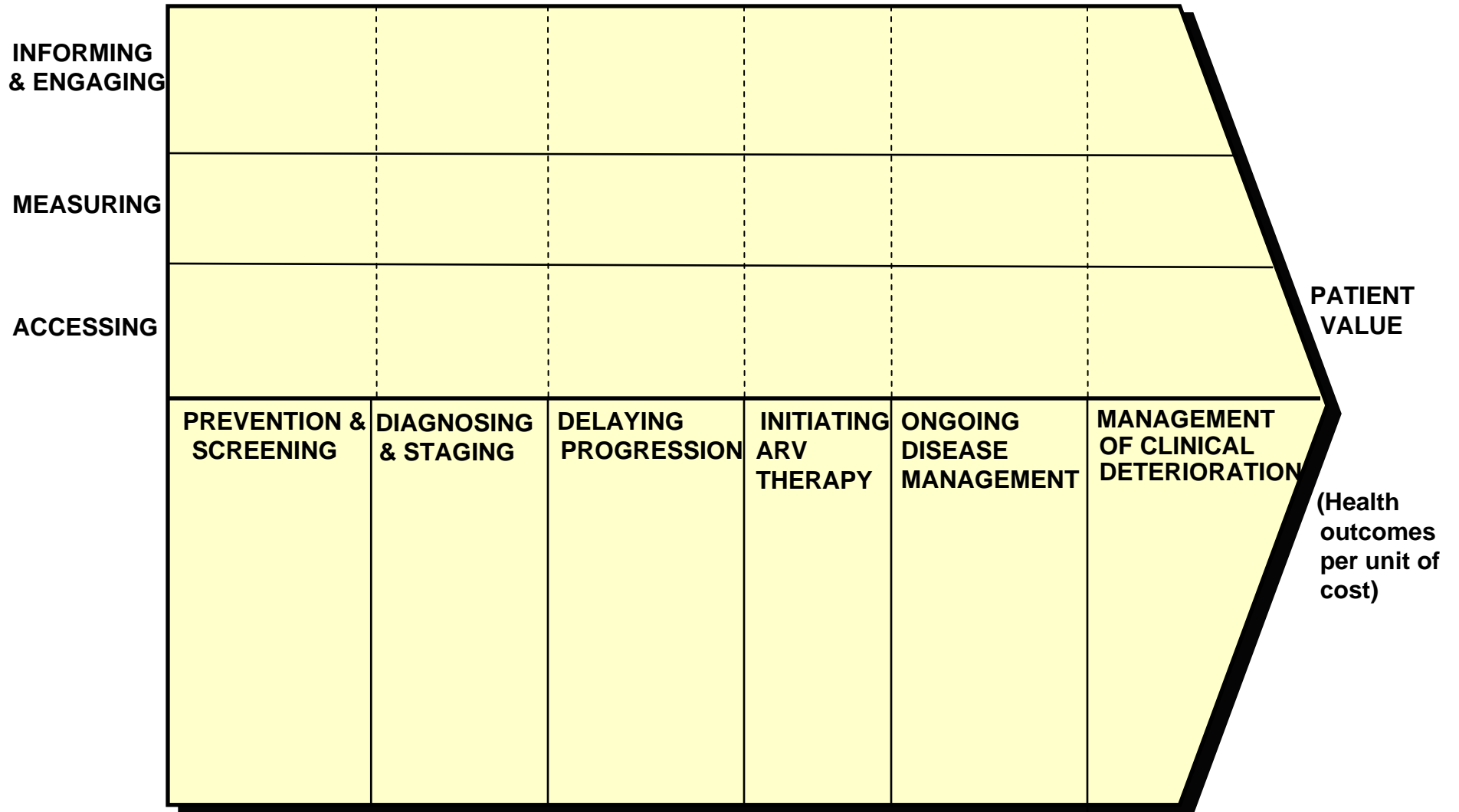
- **Primary care providers** are often the beginning and end of care cycles

Breast Cancer Specialist
 Other Provider Entities

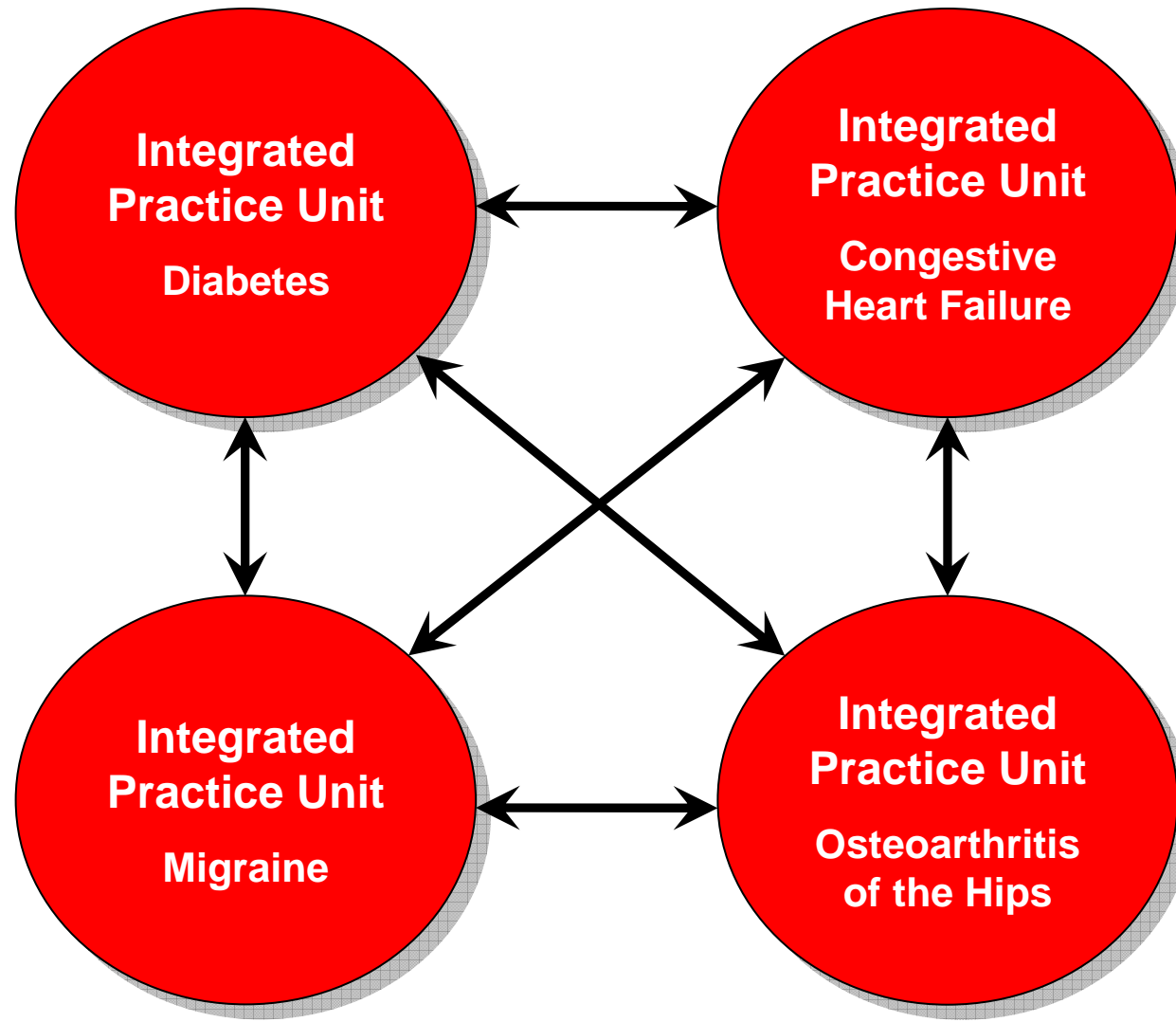
The Patient/Family Engagement

- Health care is **co-produced** between the patient and the medical team
- The patient and his/her family must be **actively involved** in their health and their health care
- Excellent providers make patient engagement and compliance monitoring an **integral part of care delivery**

HIV/AIDS Care Delivery Value Chain: Resource Poor Settings



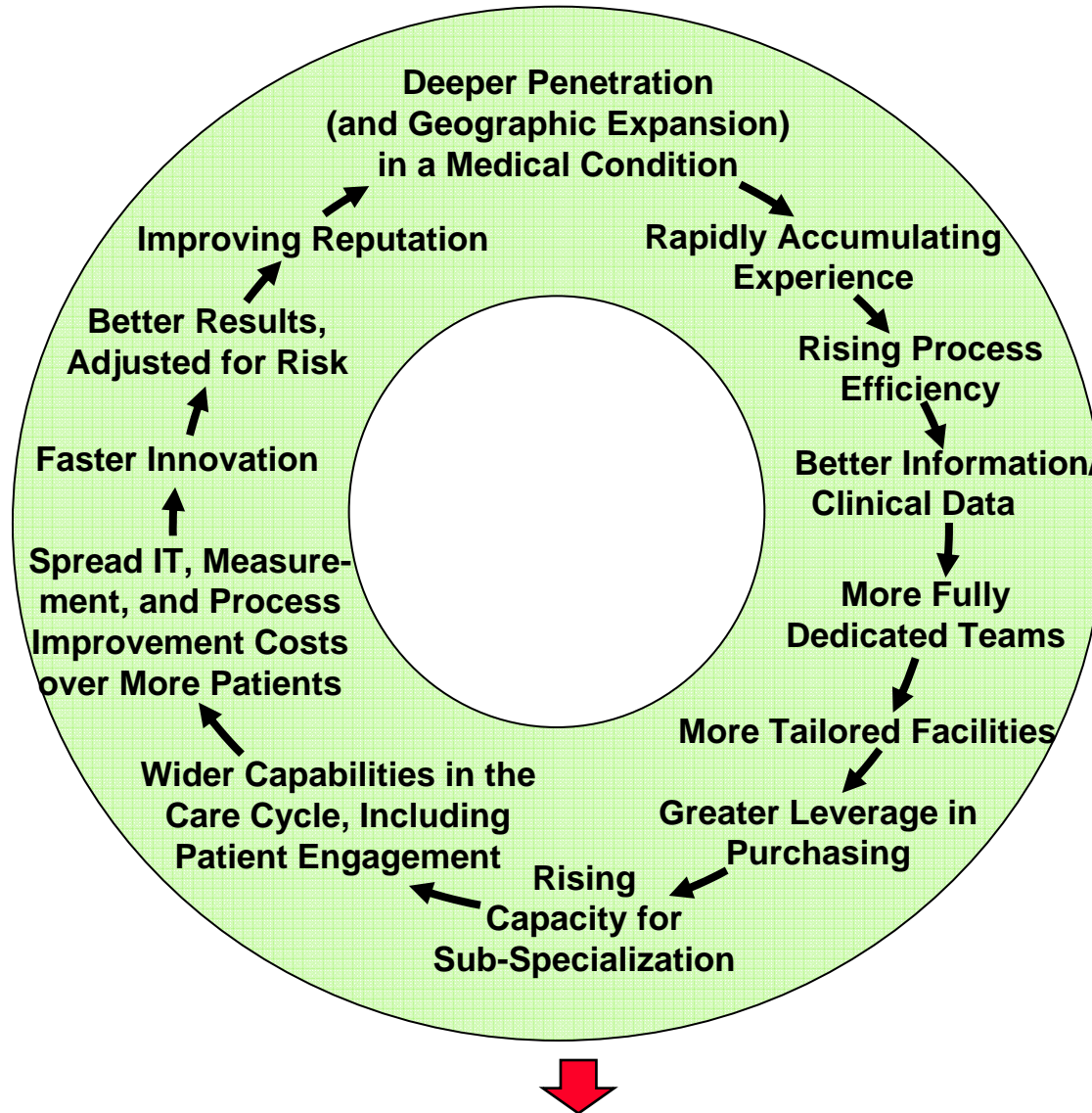
Integrating Care Delivery: Patients With Multiple Medical Conditions



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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



- The virtuous cycle extends across geography
- Fragmentation of provider services works against patient value

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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
 - Manage care cycles across geography
 - Utilize partnerships and inter-organizational integration among separate institutions

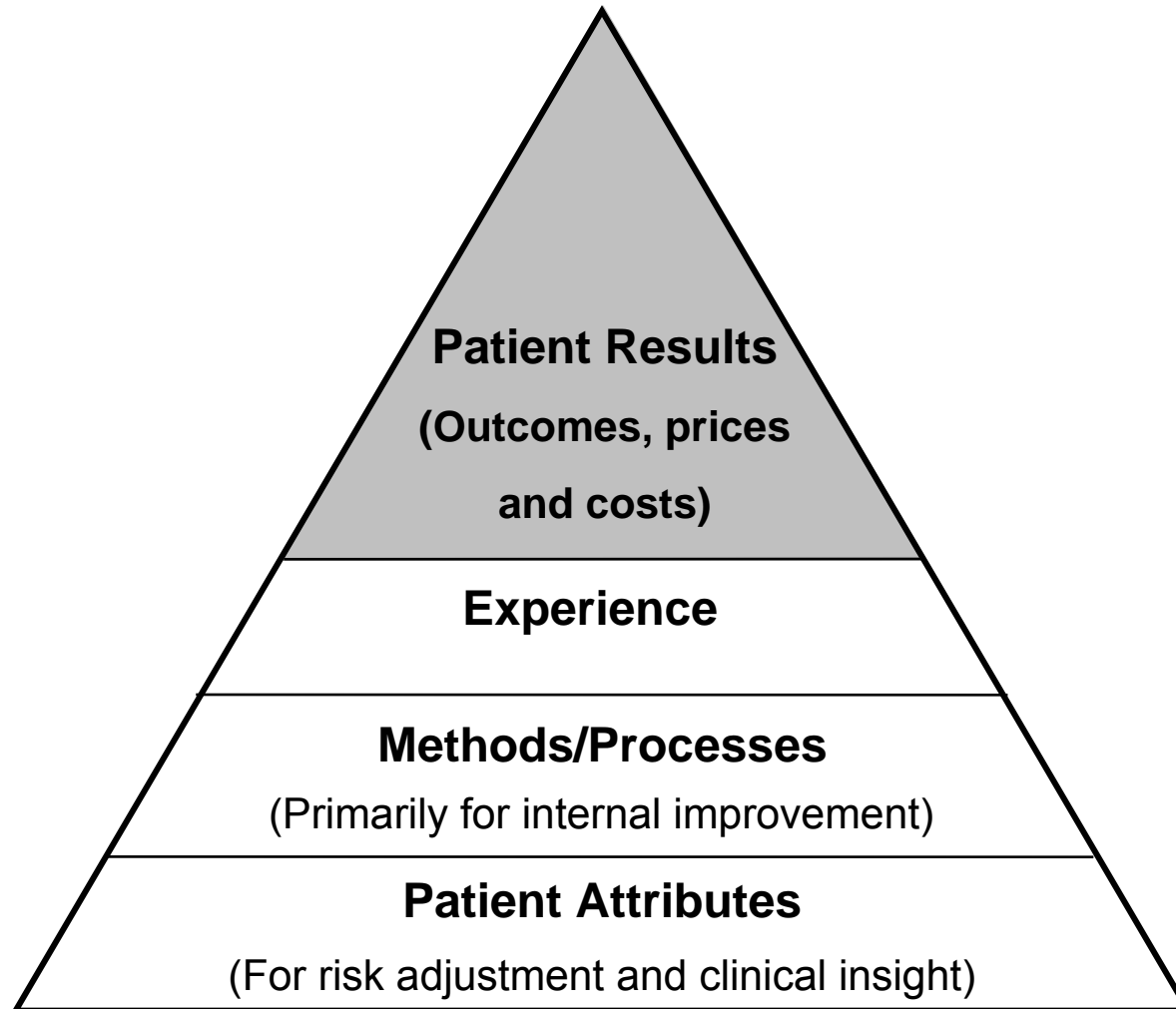
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6. Competition should be **regional** and **national**, not just local
7. **Results** must be universally measured and reported

Results:
$$\frac{\text{Patient health outcomes over the care cycle}}{\text{Total cost of achieving those outcomes}}$$

Measuring Results

The Information Hierarchy



Measuring Results Principles

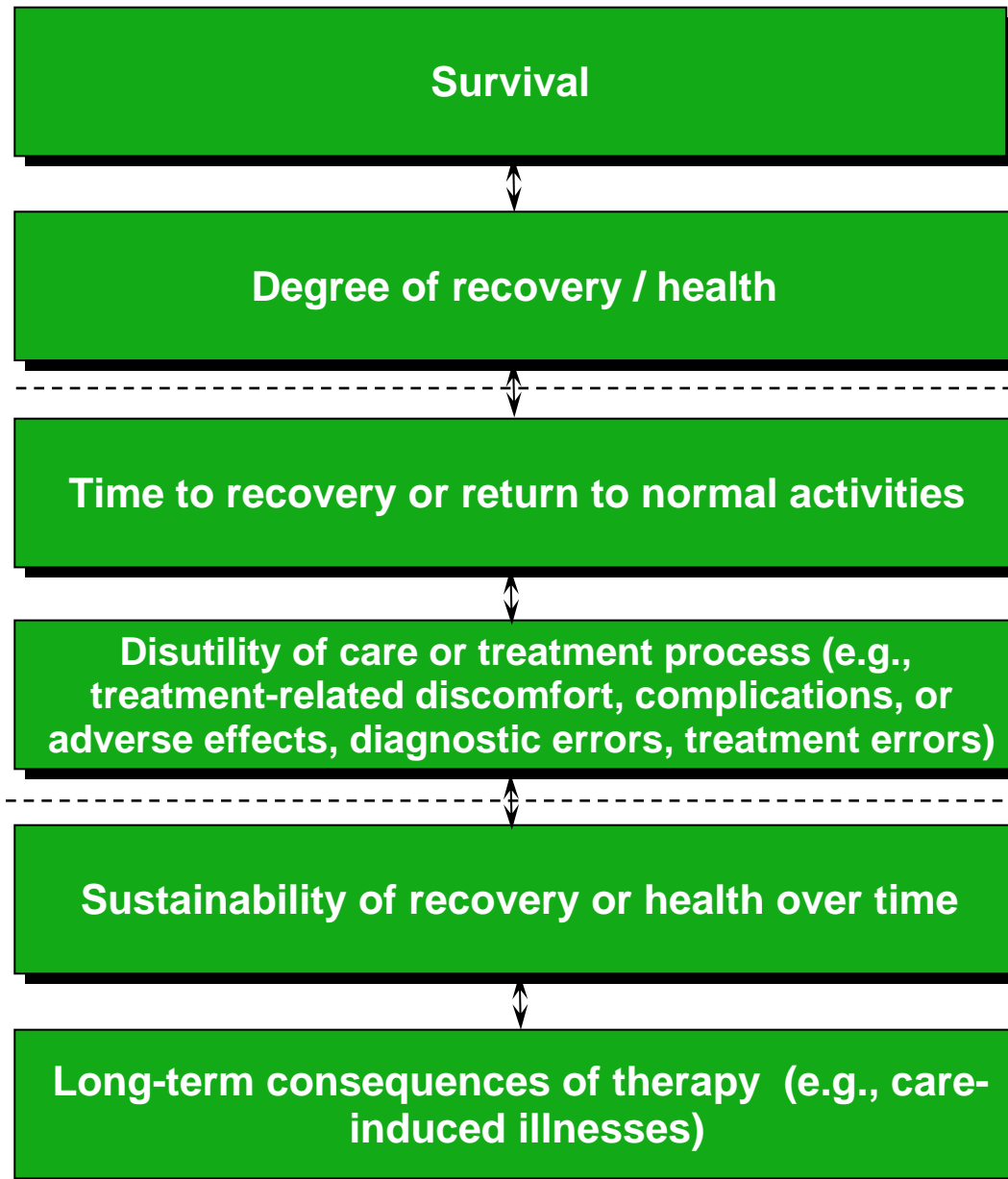
- Measure **outcomes** versus processes of care
 - Process control is the wrong model
- Outcome measurement should take place:
 - At the **medical condition** level
 - Over the **cycle of care**
- There are **multiple outcomes** for every medical condition
- Outcomes must be **adjusted for risk**
- Outcomes are as important for **physicians** as for consumers and health plans



- The feasibility of universal outcome measurement at the medical condition level has been **conclusively demonstrated**

Measuring Results

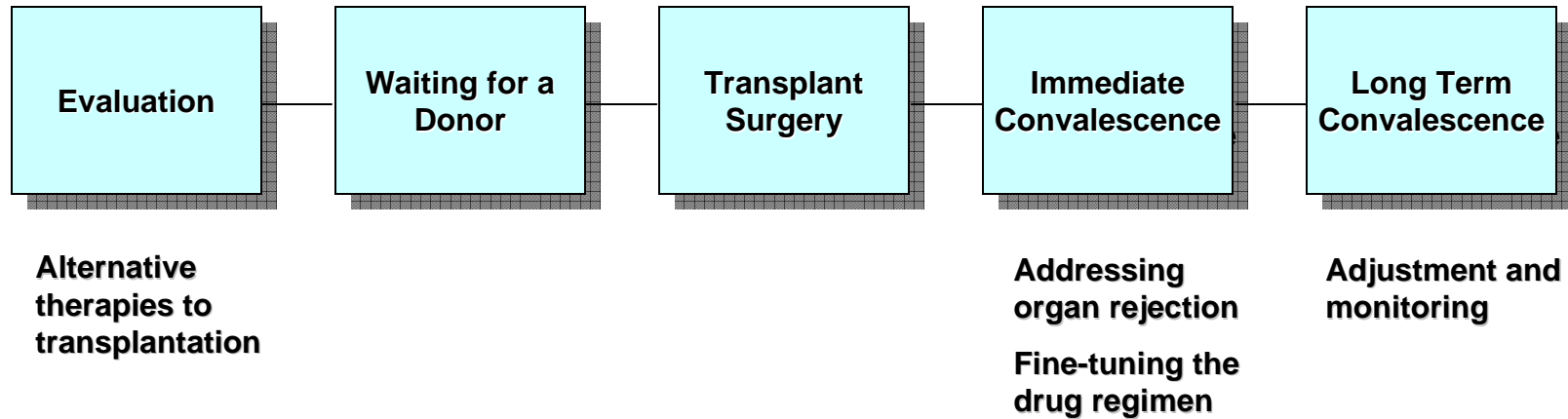
The Outcome Measures Hierarchy



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6. Competition should be **regional** and **national**, not just local
7. **Results** must be universally measured and reported
8. Reimbursement should be aligned with **value** and reward **innovation**
 - Reimbursement for care cycles, not discrete treatments or services

Organ Transplantation Care Cycle



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7. **Results** must be universally measured and reported
8. Reimbursement should be aligned with **value** and reward **innovation**
9. **Information technology** is an **enabler** of restructuring care delivery and measuring results, **not a solution itself**
 - Common data definitions
 - Interoperability standards
 - Patient-centered database

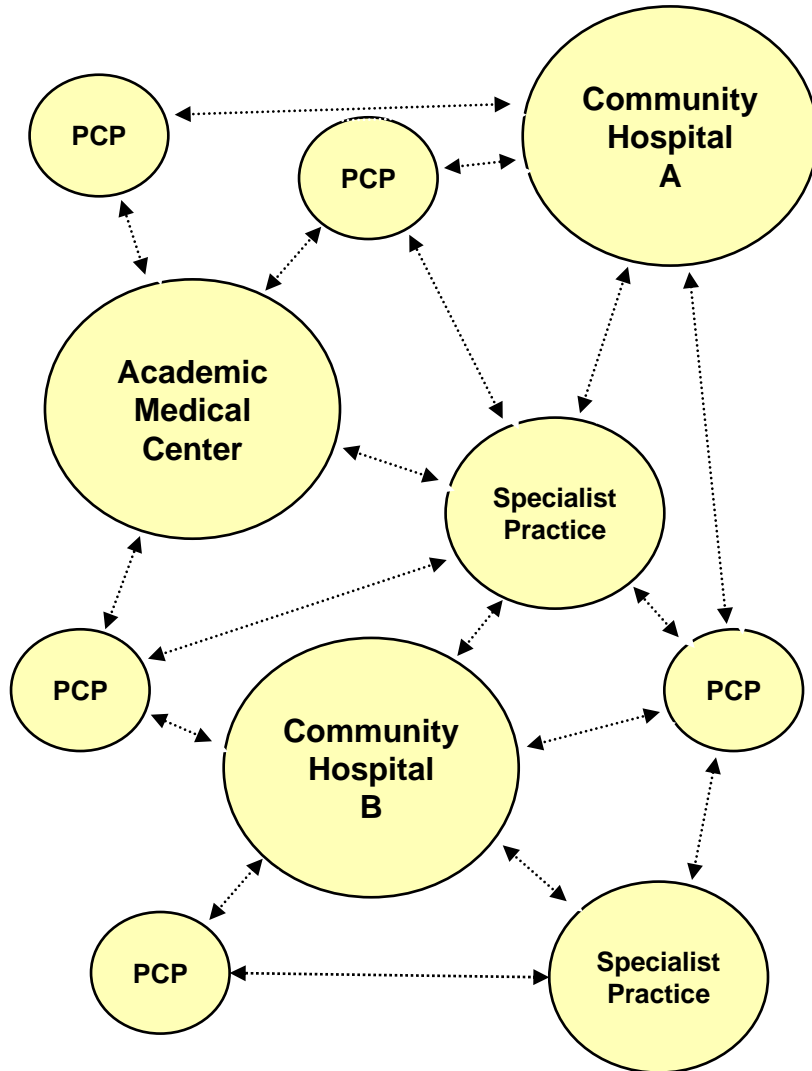
Moving to Value-Based Competition

Implications for Providers

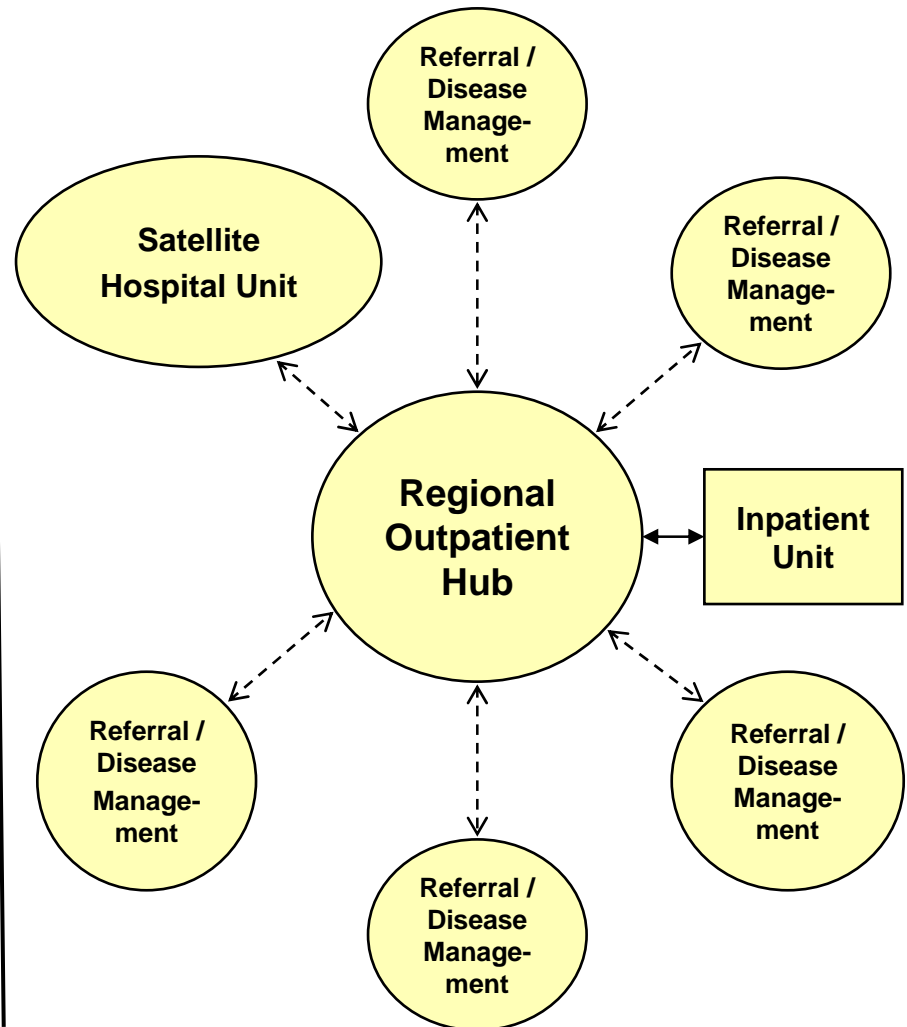
- Organize around **integrated practice units** (IPU) for each medical condition
- Choose the appropriate **scope of services** in each facility based on **value delivered**
- Integrate services for each medical condition **across geographic locations**
- Employ formal **partnerships** and **alliances** with other entities in the care cycle to integrate care and improve capabilities
- Measure **results** by medical condition
- Expand care delivery in high-performance medical conditions to **multiple geographic areas** using an integrated model

Integrating Services Across Geography

Current Model: Each Unit is Stand Alone and Offers Most Services

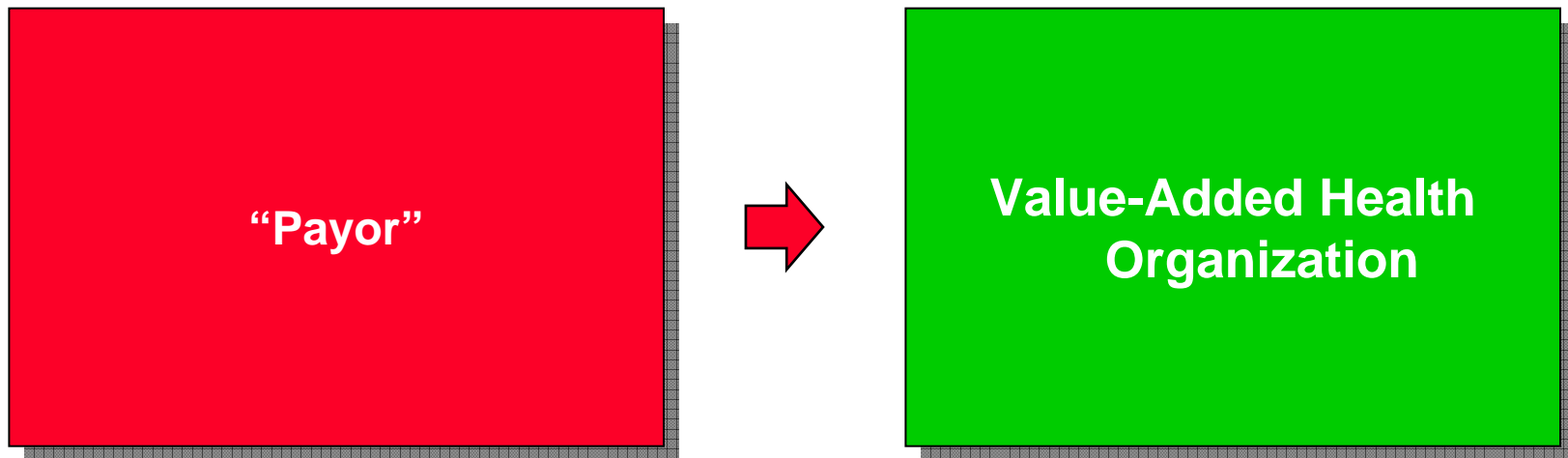


New Model: Care is Specialized and Integrated Across Geographic Units By Medical Conditions



Moving to Value-Based Competition

Health Plans




Moving to Value-Based Competition

Roles of a Health Plan

- Monitor and compare **provider results** by medical condition
- Provide advice to patients (and referring physicians) in selecting **excellent providers**
- Assist in coordinating patient care across the **full care cycle** and **across medical conditions**
- Provide for comprehensive **prevention** and **chronic disease management** services to all members
- Design new reimbursement models **for care cycles**
- Assemble and manage the **total medical records** of members
- Measure and report **overall health results** for members

Creating a High-Value Health Care System: Roles and Responsibilities

Employers

- Set the goal of **employee health**
 - Assist employees in **healthy living** and **active participation in their own care**
 - Provide for convenient access to **prevention, screening, and disease management** services
 - Set new expectations for health plans, including **self-insured** plans
 - Provide for health plan **continuity** for employees, rather than plan churning
 - 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

Government

- Measure and report health **results**
- Create IT 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