

# Value-Based Competition in Health Care

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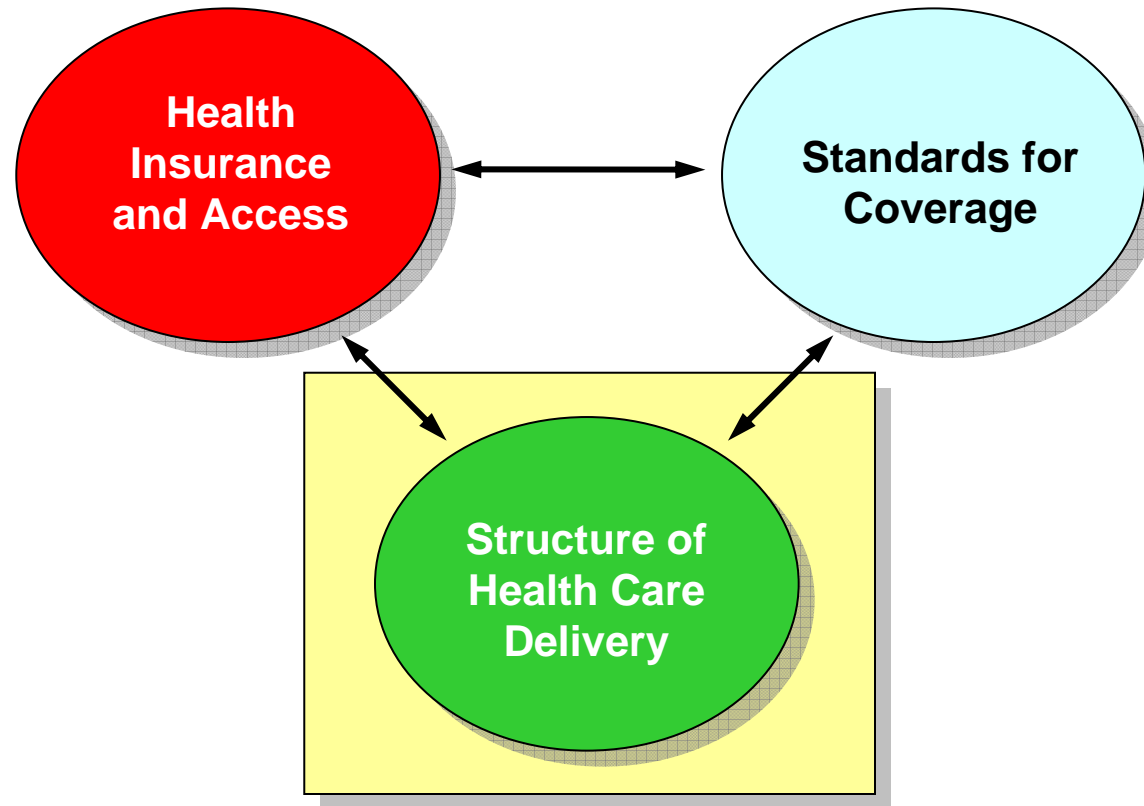
This presentation draws on Michael E. Porter and Elizabeth Olmsted Teisberg: [Redefining Health Care: Creating Value-Based Competition on Results](#), Harvard Business School Press, May 2006, and “How Physicians Can Change the Future of Health Care,” *Journal of the American Medical Association*, 2007; 297:1103:1111. 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>.

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# 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

# Creating a Value-Based Health Care System

- Significant improvement in value will require **fundamental restructuring of health care delivery**, not incremental improvements

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

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

# Creating a Value-Based Health Care System

- Competition must be harnessed as a powerful force to encourage restructuring of care and **continuous improvement in value**

# 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?

# Zero-Sum Competition in U.S. Health Care

## Bad Competition

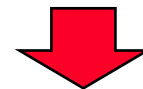
- Competition to **shift costs** or **capture a bigger share of revenue**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to **restrict services** in order to maximize revenue per visit or reduce costs



Zero or Negative Sum

## Good Competition

- Competition to **increase value for patients**

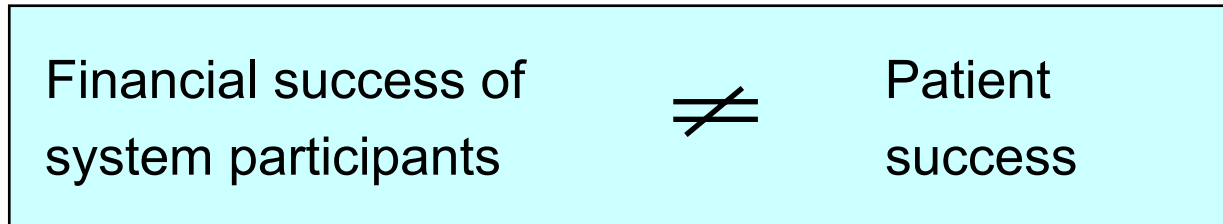


Positive Sum



# 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**

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

- Results vs. supply control
- Results vs. process compliance
- Get patients to excellent providers vs. “lift all boats” or “pay for performance”
- Expand the proportion of patients cared for by the most effective teams
- Grow the excellent teams by reallocating capacity and operating multiple locations

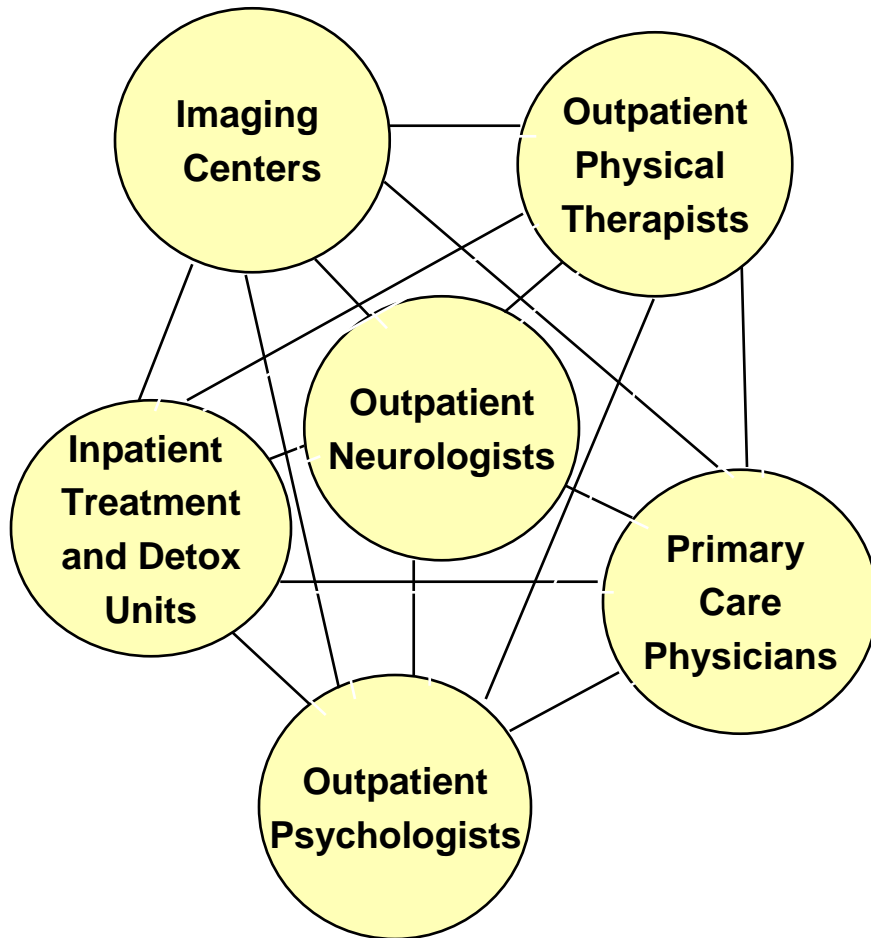
# Principles of Value-Based Competition

1. The goal should be **value for patients**, not just lowering costs
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4. Competition should center on **medical conditions** over the **full cycle of care**

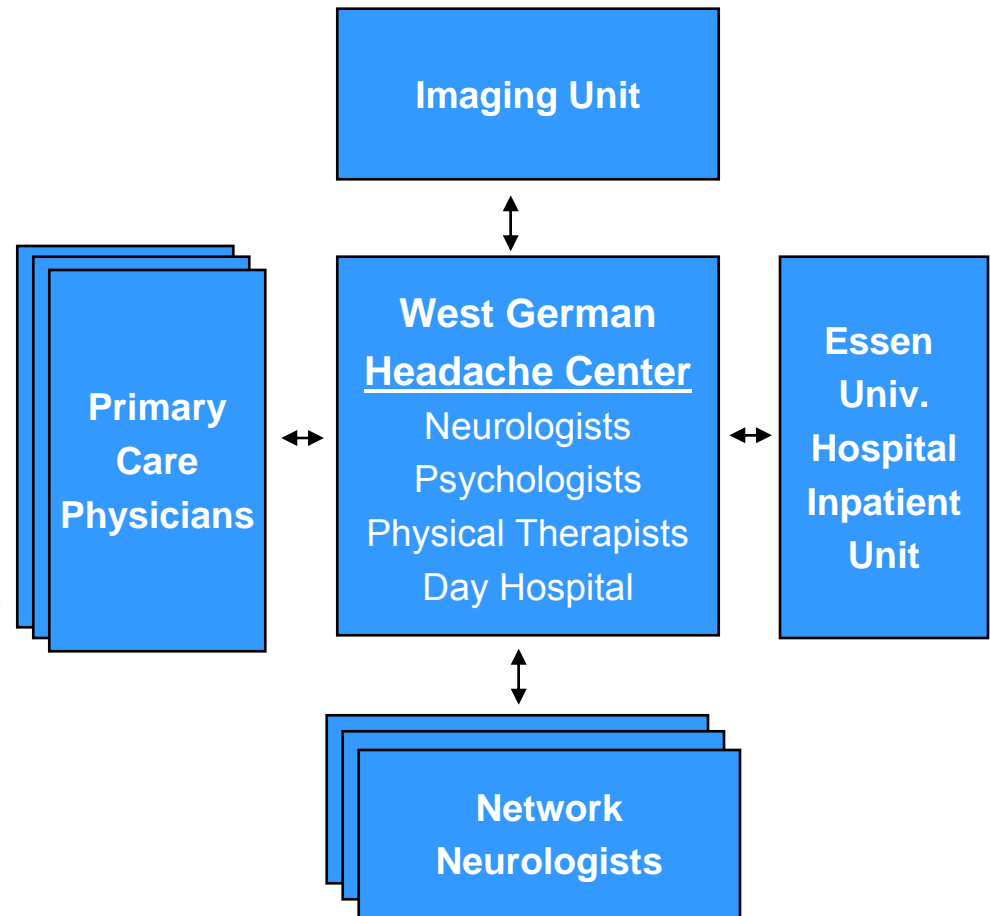
# Restructuring Health Care Delivery: Medical Conditions

## Migraine Care in Germany

### Old Model: Organize by Specialty and Discrete Services



### New Model: Integrated Practice Units (IPUs)



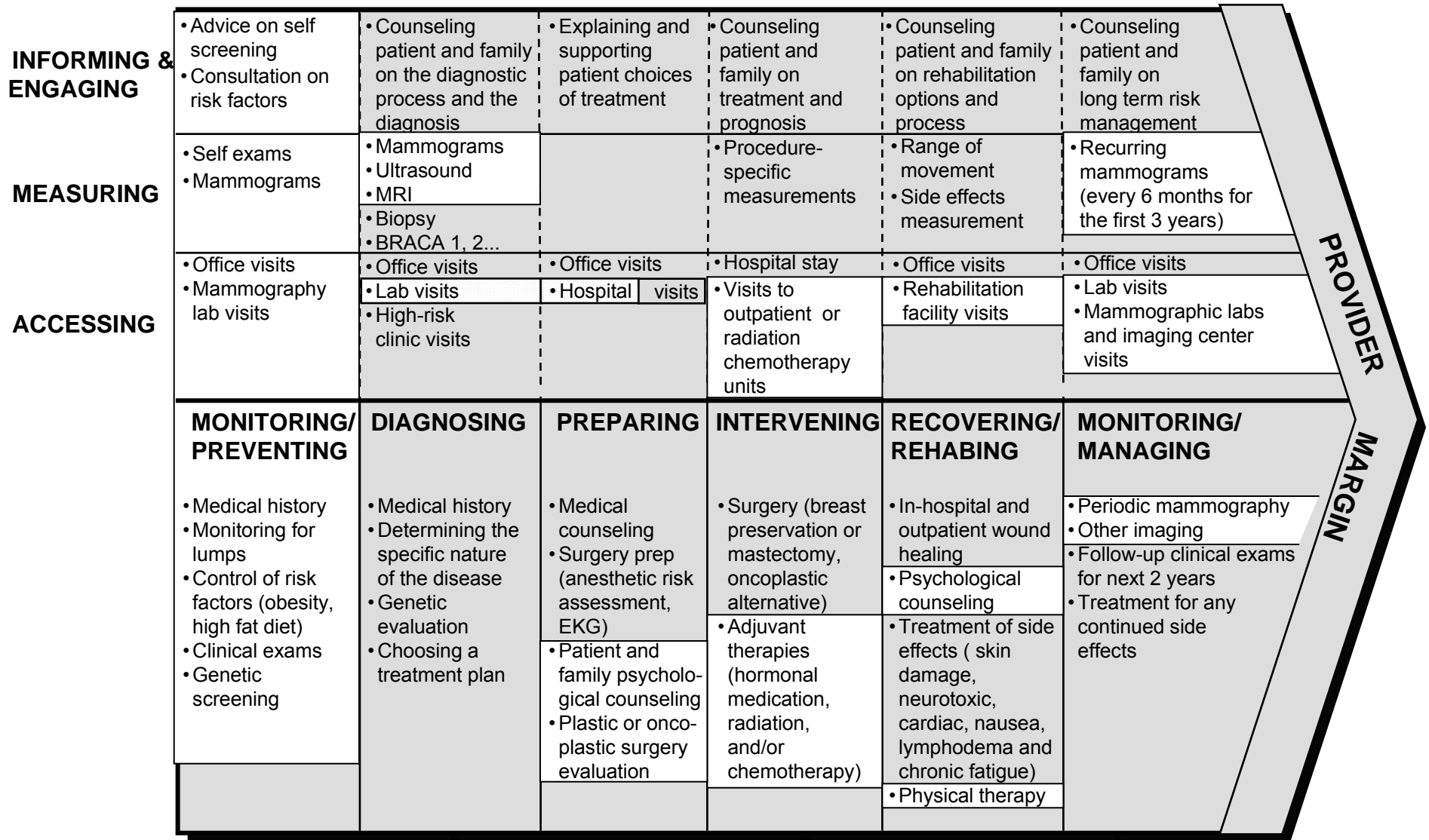
Source: KKH, Westdeutsches Kopfschmerzzentrum

# What is a Medical Condition?

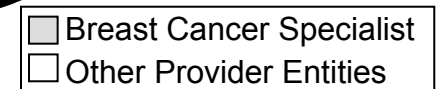
- A medical condition is **an interrelated set of patient medical circumstances best addressed in an integrated way**
  - From the patient's perspective
- **Includes** the most common co-occurrences
- Examples
  - Diabetes (including vascular disease, hypertension, others)
  - Breast Cancer
  - Stroke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

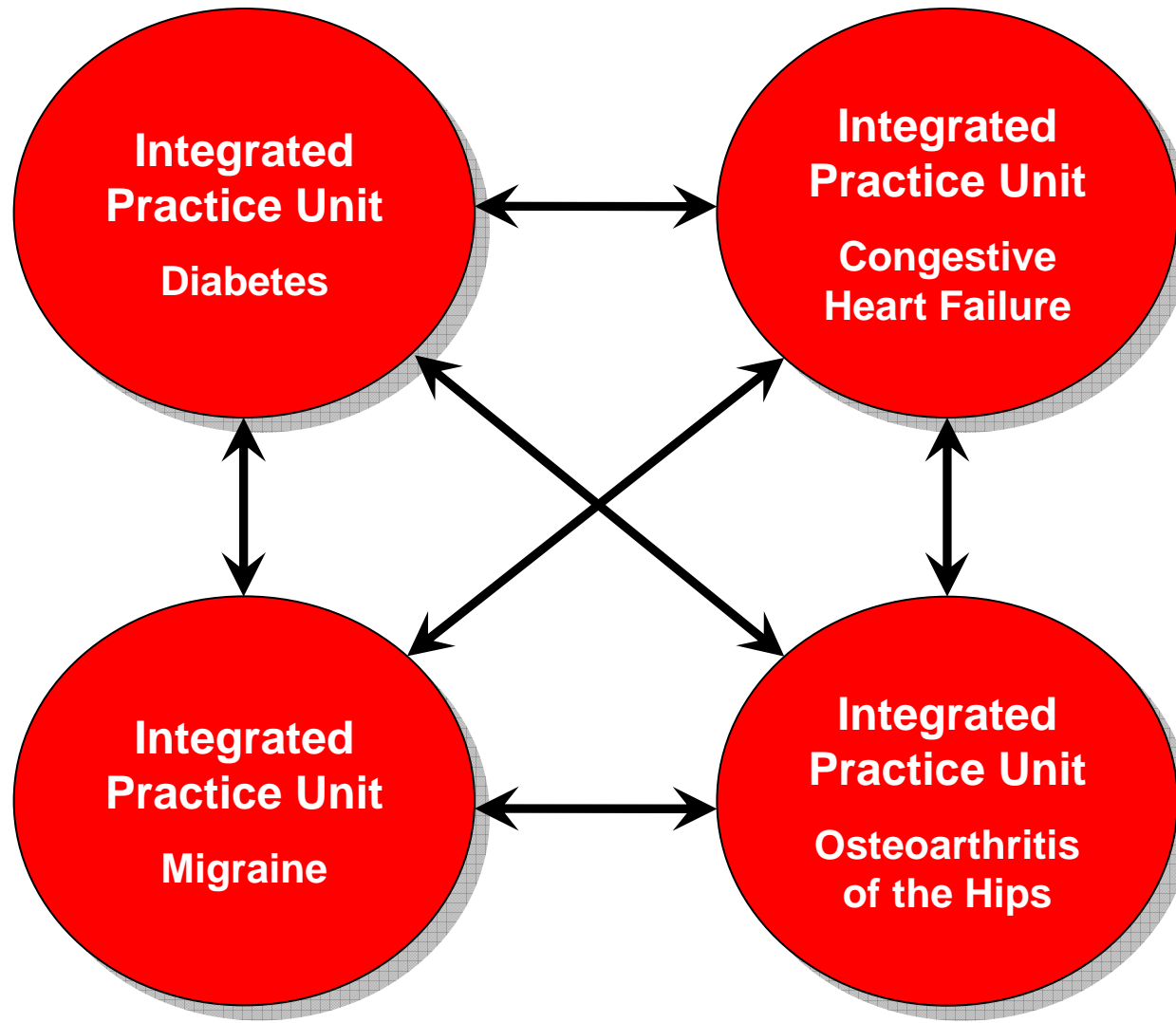




# Cycles of Care vs. Discrete Services

- Value is created by the **cycle of care**, not individual interventions
- **Prevention, screening, and ongoing disease management** are integral to the care cycle of every medical condition
  - Disease management must be **integral to the provision of care delivery**, not an overlay
- 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**

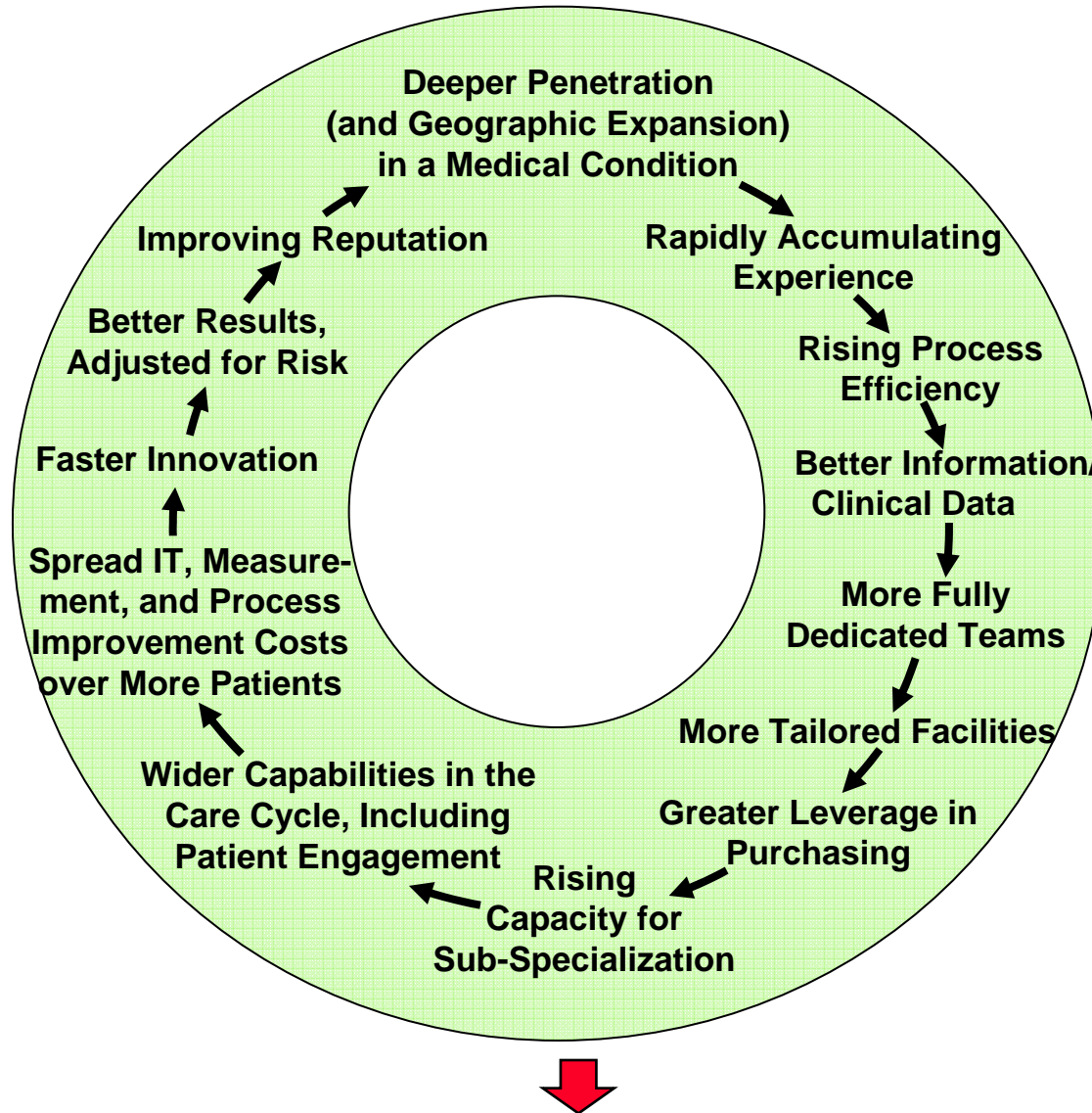
# Integrating Care Delivery: Patients With Multiple Medical Conditions



# Principles of Value-Based Competition

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

# Principles of Value-Based Competition

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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

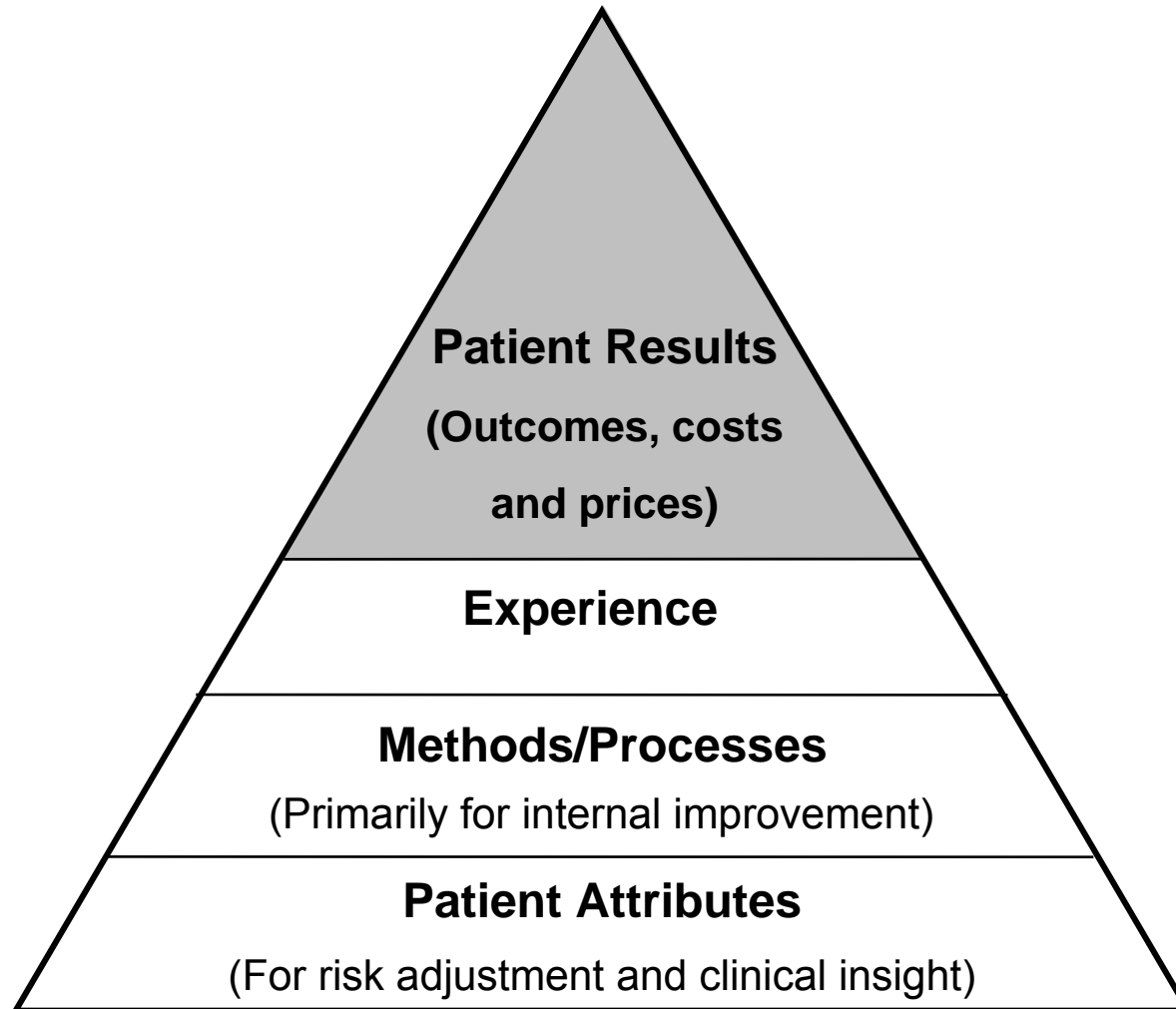
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5. Value is driven by provider **experience**, **scale**, and **learning** at the medical condition level
6. Competition should be **regional** and **national**, not just local
7. **Results** must be universally measured and reported

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

# **Measuring Results**

## **The Information Hierarchy**



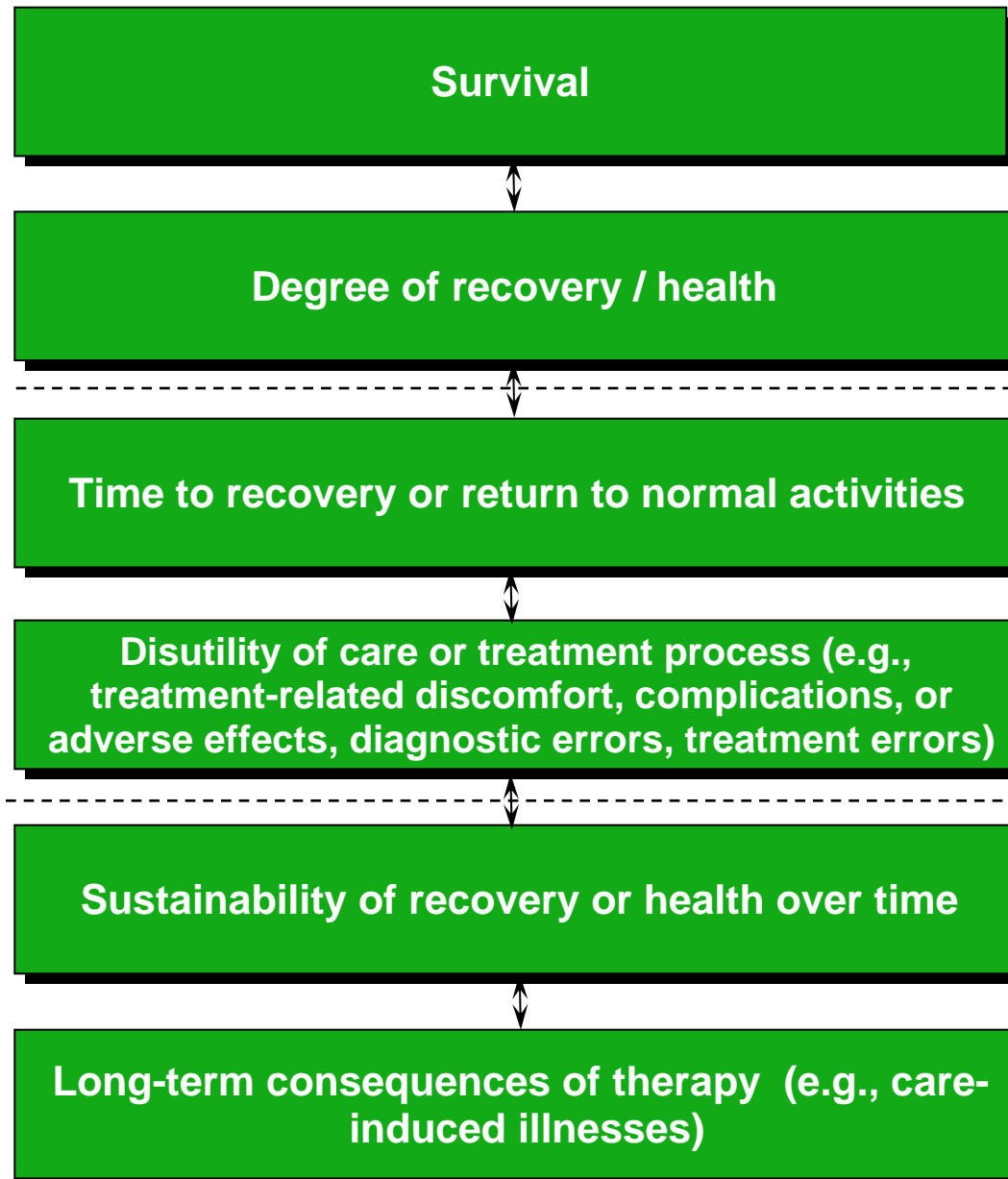
# Measuring Results Principles

- 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



# Measuring Outcomes

## The Outcome Measures Hierarchy



# Measuring Results

## Principles

- Outcomes must be **adjusted for risk/patient initial circumstances**
- Outcomes are as important for **physicians** as for consumers and health plans

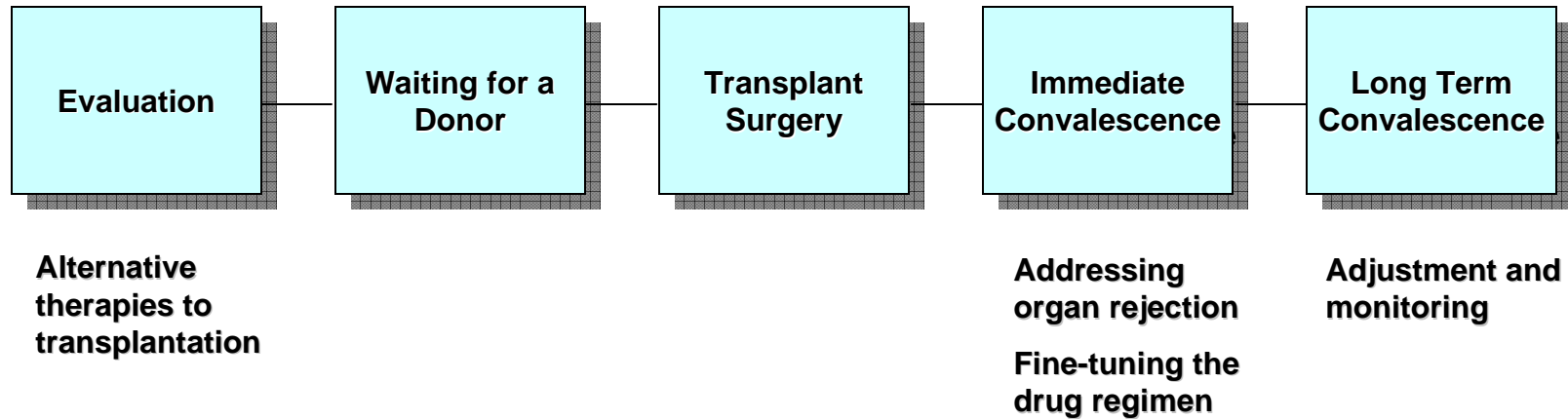


- The feasibility of universal outcome measurement at the medical condition level has been **conclusively demonstrated**

# Principles of Value-Based Competition

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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
  - Most DRG systems are **too narrow**

# Organ Transplantation Care Cycle



# Principles of Value-Based Competition

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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

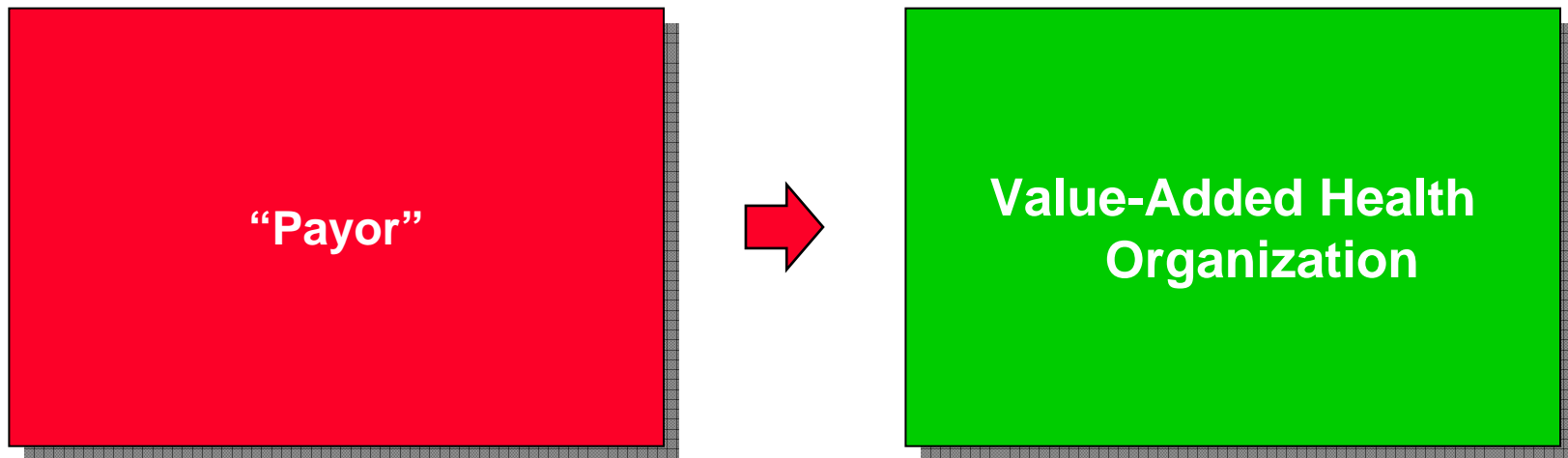
# Moving to Value-Based Competition

## Implications for Providers

- Organize around **integrated practice units** (IPU) for each medical condition
- Choose the appropriate **scope of services** in each facility based on excellence in **patient value**
- Integrate services for each medical condition **across geographic locations**
- Employ formal **partnerships** and **alliances** across entities involved in the care cycle to integrate care and improve capabilities
- Measure **results** by medical condition
- Expand high-performance IPUs **across geography** using an integrated model
  - Instead of merging broad line, stand-alone facilities
- Lead the development of **new contracting models** with health plans based on care cycle reimbursement

# Moving to Value-Based Competition

## Health Plans



# Moving to Value-Based Competition


## Value-Adding Roles of Health Plans

- 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
    - Assist subscribers in **accessing excellent providers** for their medical conditions
    - Contract for **care cycles** rather than discrete services
    - Make prevention, screening, and disease management integral to health benefits
  - 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**

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

## Consumers

- Participate actively in **managing personal health**
- Expect **relevant information** and seek advice
- Make treatment and provider **choices** based on **outcomes**, not convenience, waiting time, or amenities
- Get informed and **comply** with care
- Work with the health plan in **long-term health management**



- But “consumer-driven health care” is the **wrong metaphor** for reforming the system

# 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
- **Open up competition** among providers and across geography

# Moving to Value-Based Competition

## Government – cont'd.

- Require health plans to measure and report **health outcomes** for members
- Encourage the **responsibility of individuals** for their health and their health care
- Enable **universal insurance** consistent with value-based principles
  - Create **neutrality** between employer-provided and individually-purchased health insurance
  - Establish **risk pooling adjustment vehicles** that eliminate incentives for cherry picking healthier patients
  - 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