

# Value-Based Health Care Delivery: Implications for Providers

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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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# The Paradox of U.S. Health Care

The United States has a **private system** with **intense competition**

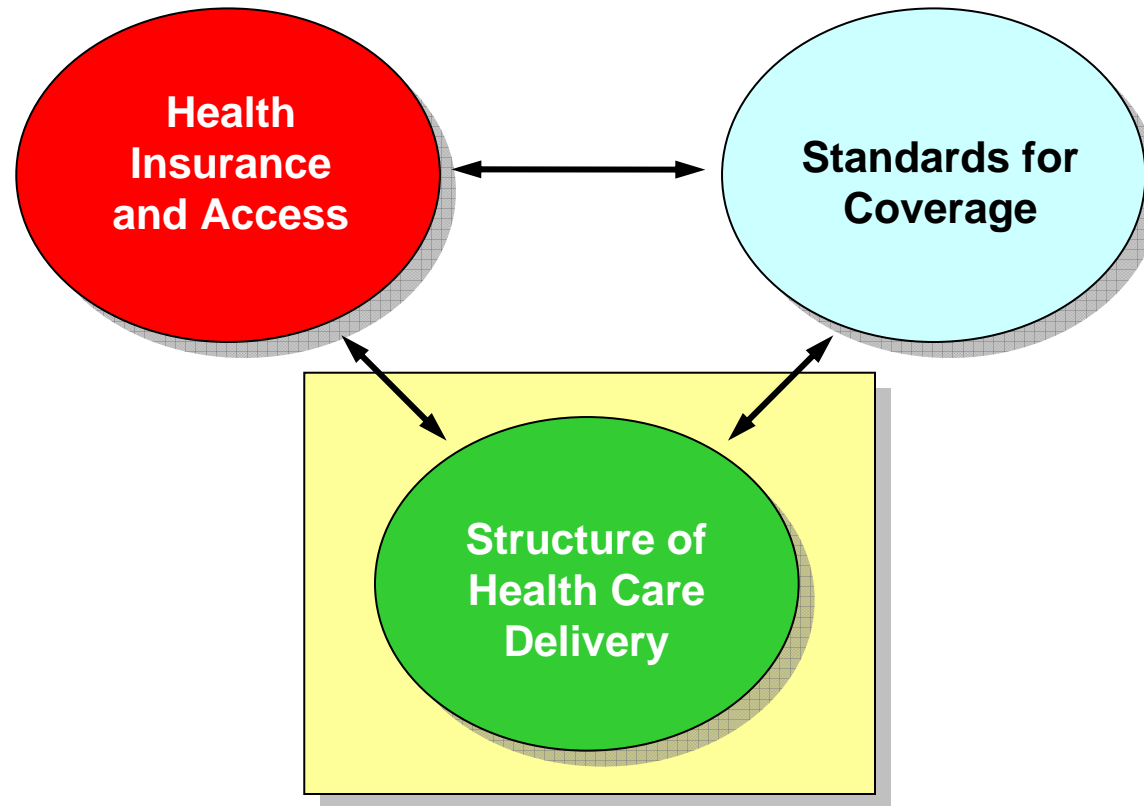
But

- 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?

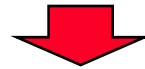
# Issues in Health Care Reform



# Redefining Health Care

- 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**
  - Ownership of entities is secondary
- How to create 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 is a powerful force to encourage **restructuring** of care and **continuous improvement** in value
- Today's **competition** in health care is often **not aligned with value**

Financial success of  
system participants



Patient  
success

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

## Bad Competition

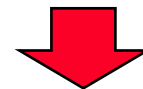
- Competition to **shift costs** or **capture a bigger share of revenue**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to **restrict services** in order to maximize revenue per visit or reduce costs



Zero or Negative Sum

## Good Competition

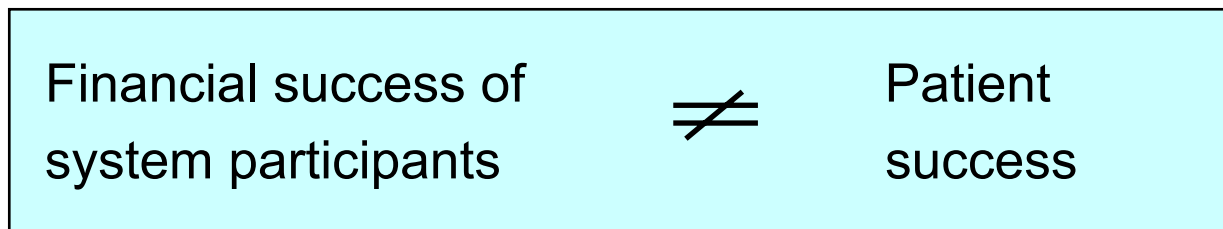
- Competition to **increase value for patients**



Positive Sum

# Creating a Value-Based Health Care System

- Competition is a powerful force to encourage **restructuring** of care and **continuous improvement** in value
- Today's **competition** in health care is often **not aligned with value**



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



# Principles of Value-Based Competition

1. The goal should be **value for patients**, not capturing revenue, community service or 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 capturing revenue, community service or 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 capturing revenue, community service or lowering costs
2. The best way to contain costs is to drive improvement in **quality**
3. There must be **unrestricted competition** based on **results**

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

- 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 expanding across locations

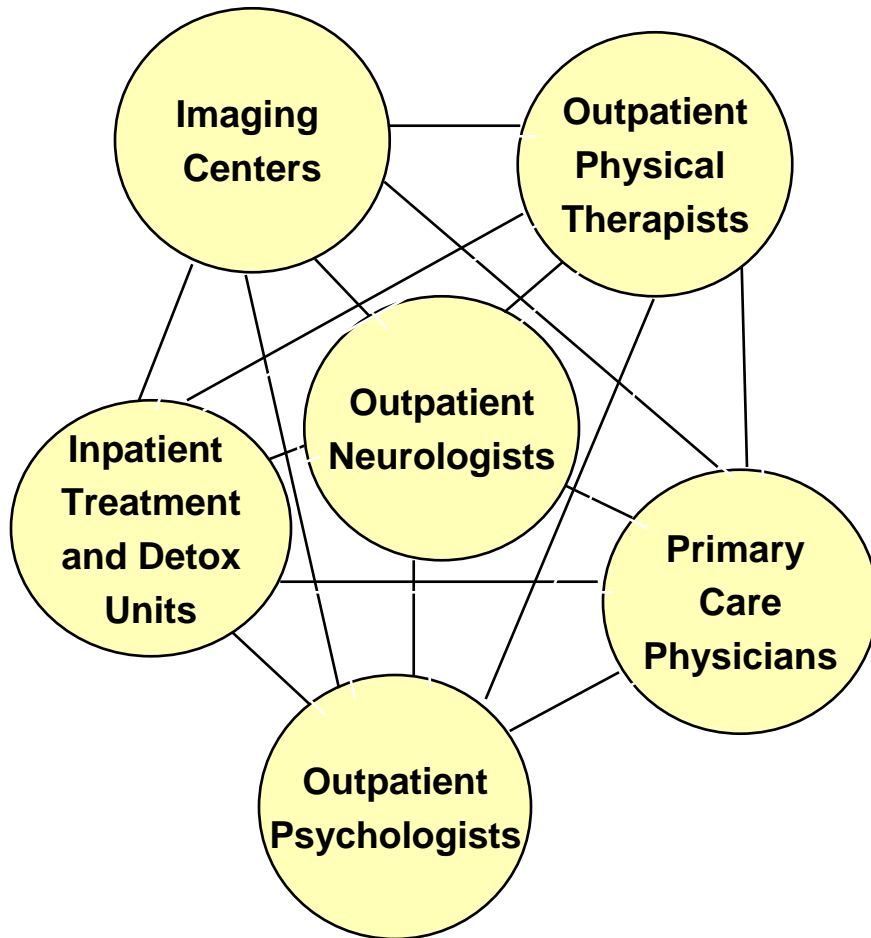
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4. Competition should center on **medical conditions** over the **full cycle of care**

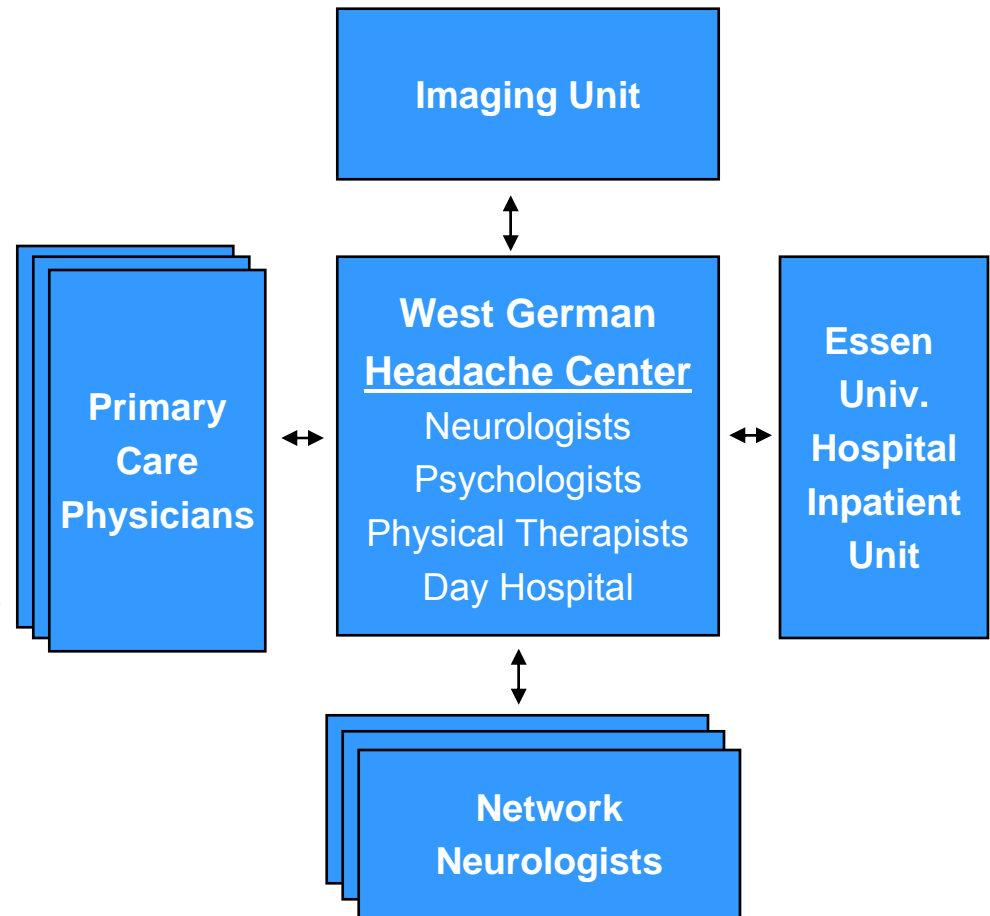
# Restructuring Health Care Delivery

## Migraine Care in Germany

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



### New Model: Integrated Practice Unit (IPU)



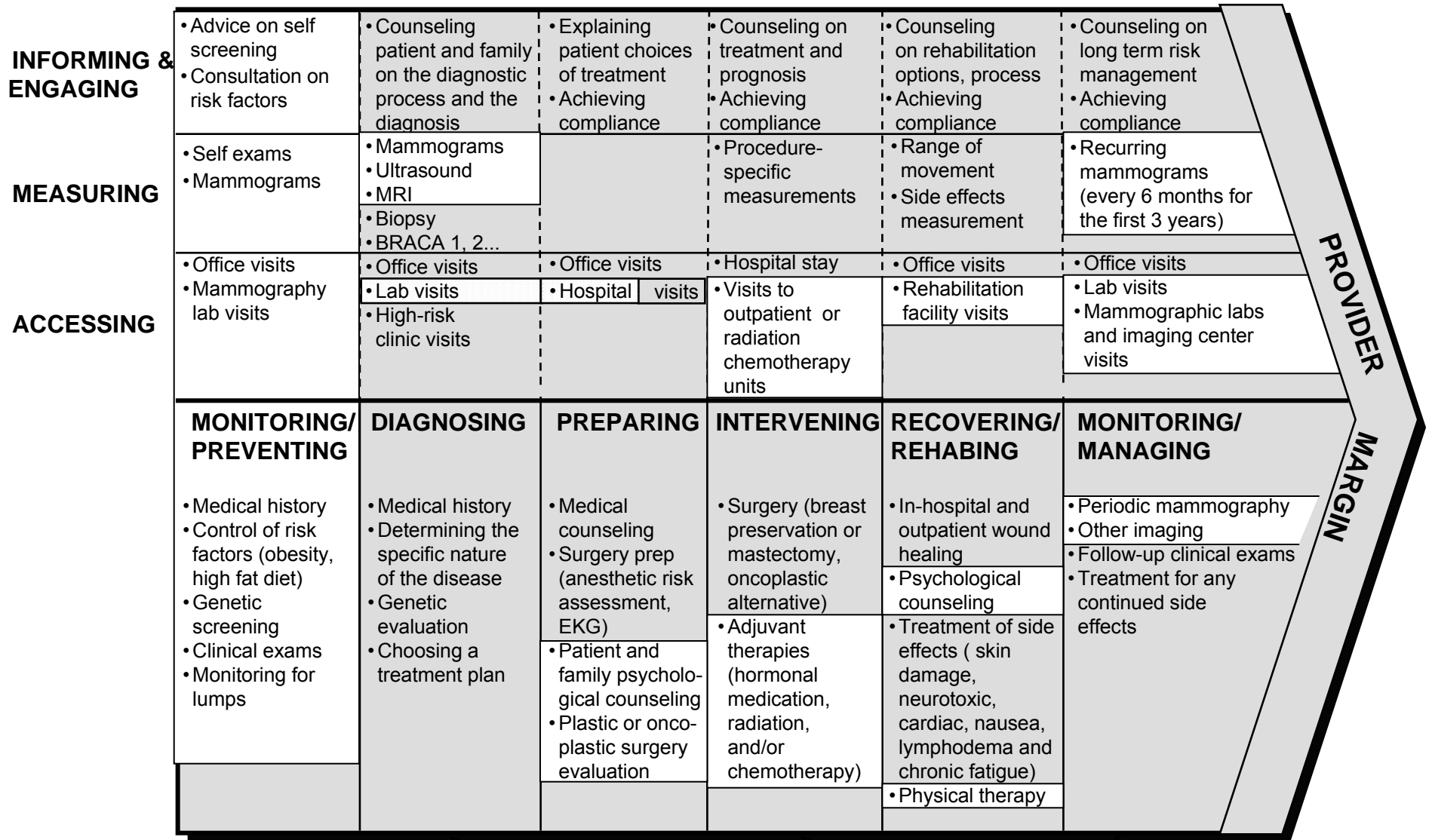
Source: KKH, Westdeutsches Kopfschmerzzentrum

# What is a Medical Condition?

- A medical condition is **an interrelated set of patient medical circumstances best addressed in an integrated way**
  - Defined 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
- The value delivered at the medical condition level is inevitably the **joint responsibility** of the providers involved

# The Cycle of Care

## Care Delivery Value Chain for Breast Cancer



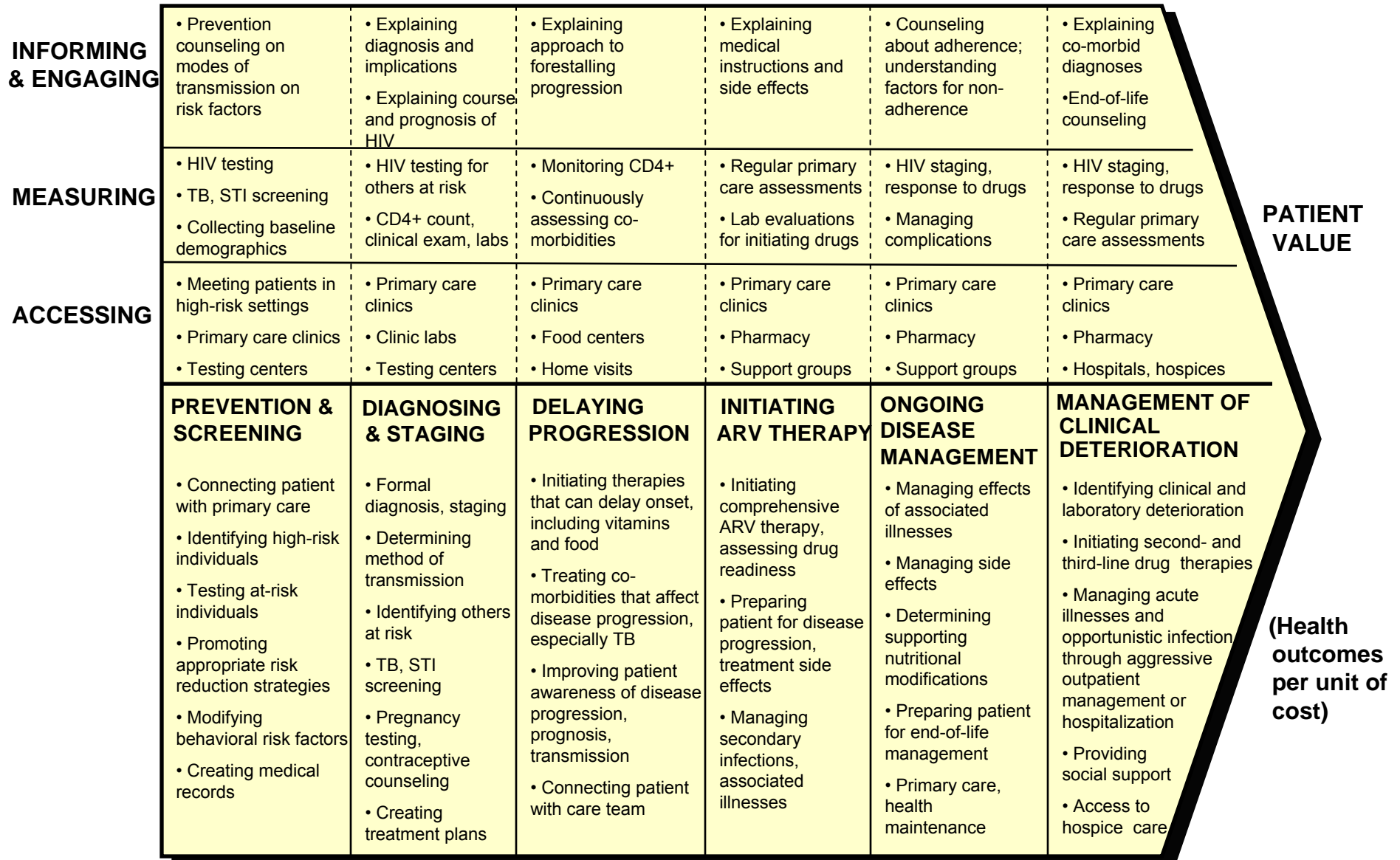
**PROVIDER MARGIN**

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

<span style="display: inline-block; width: 15px; height: 15px; background-color: #cccccc; border: 1px solid black;"></span> Breast Cancer Specialist
<span style="display: inline-block; width: 15px; height: 15px; background-color: white; border: 1px solid black;"></span> Other Provider Entities

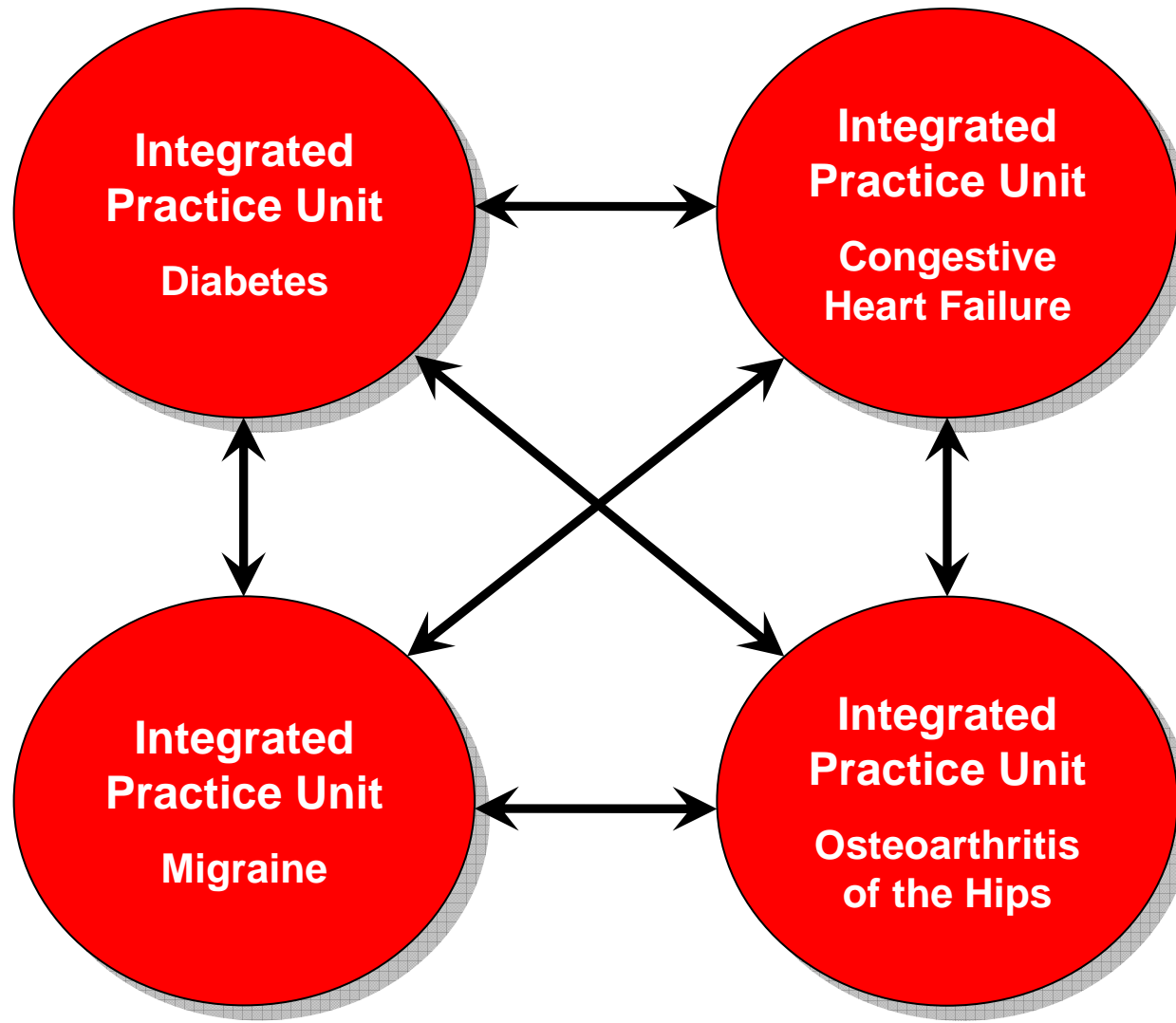
# The Care Delivery Value Chain

## HIV/AIDS





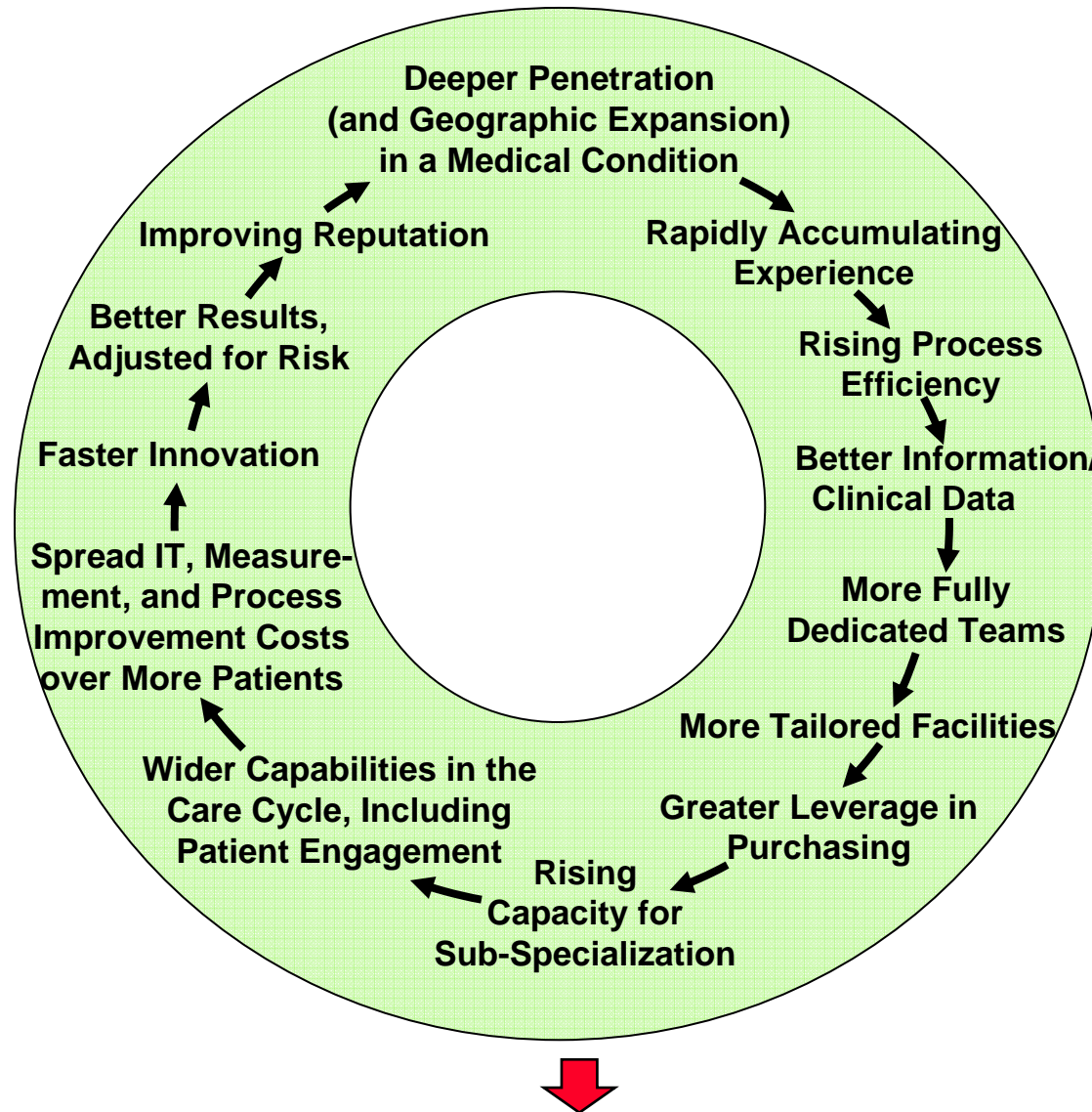
# Integrating Care Delivery: Patients With Multiple Medical Conditions



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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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6. Competition should be **regional** and **national**, not just local
  - Manage integrated care **across geography**
  - Utilize partnerships and inter-organizational integration among separate institutions

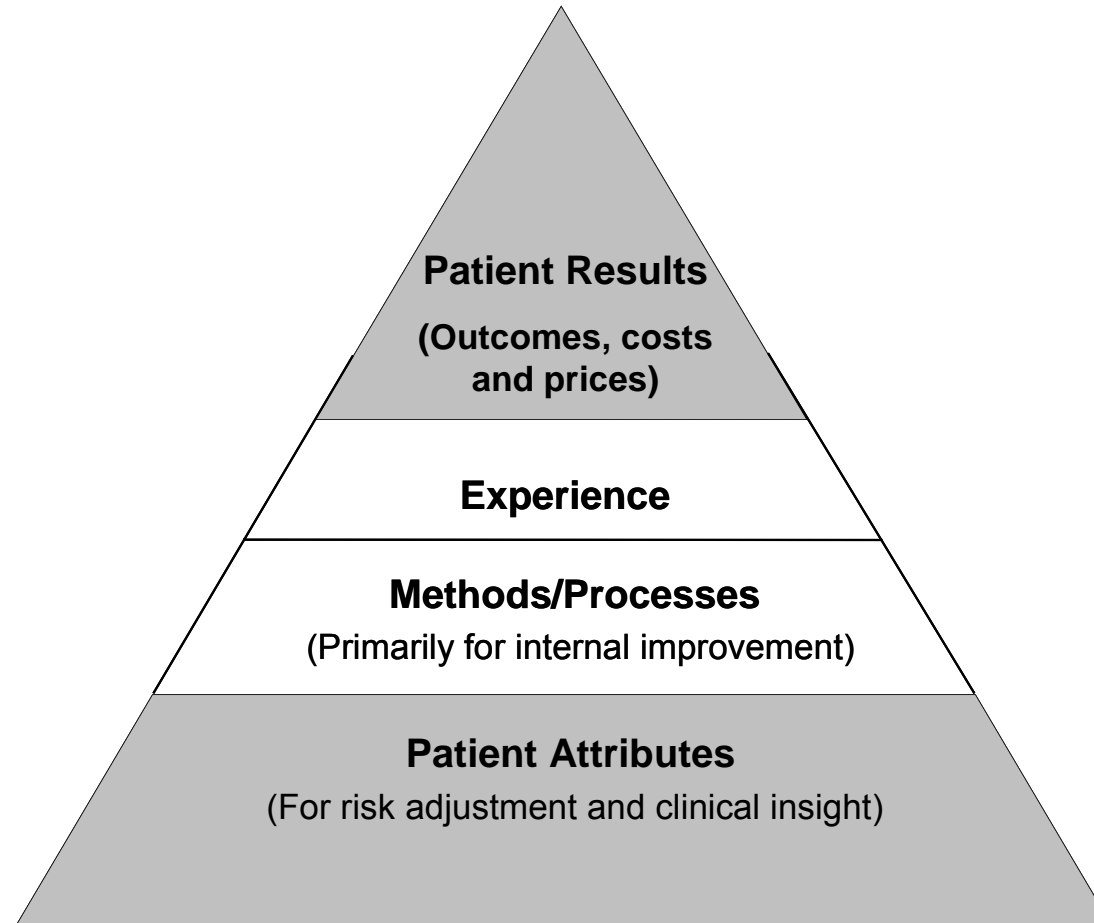
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7. **Results** must be universally measured and reported

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

# Measuring Results

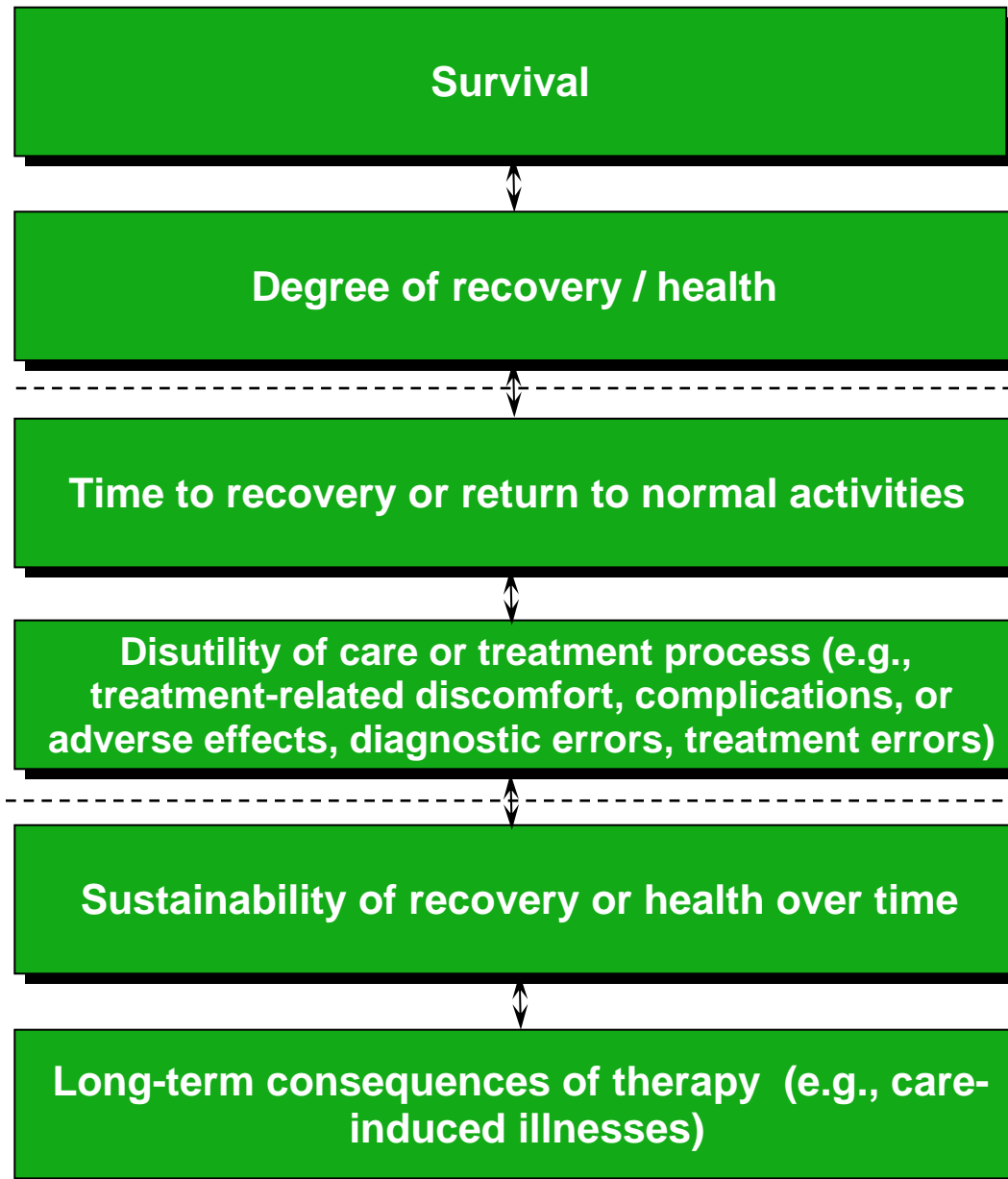
## The Information Hierarchy



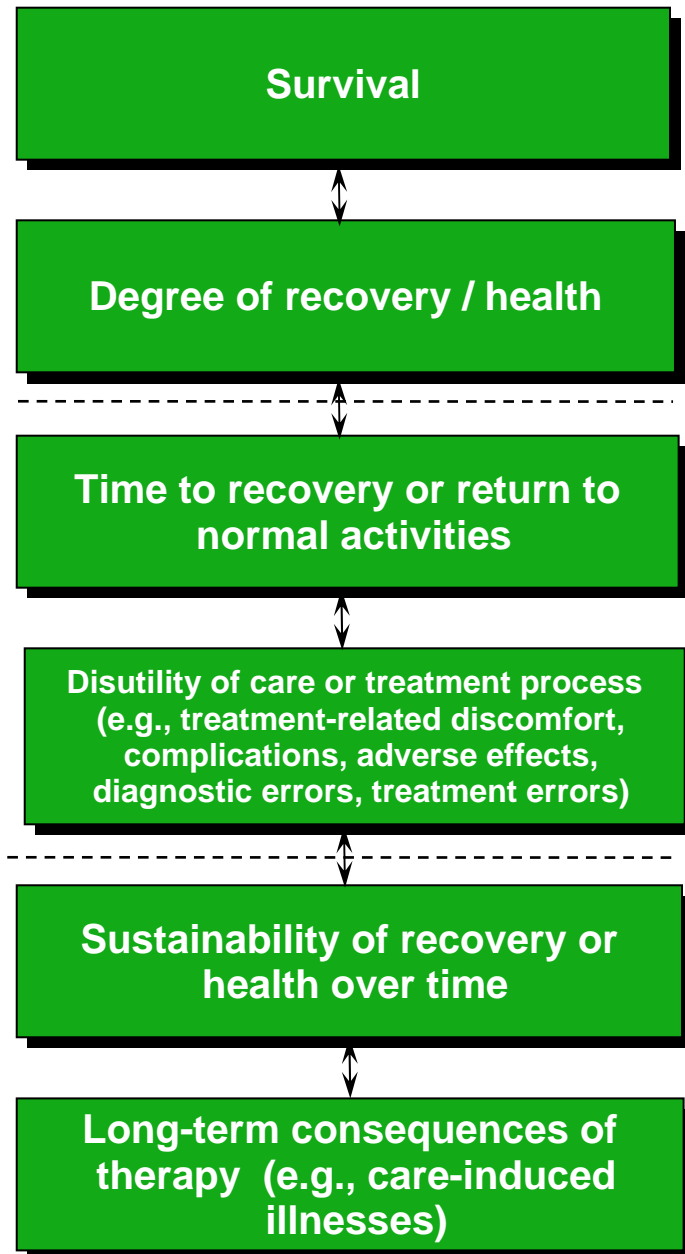
- Outcome and cost measurement should take place:
  - At the **medical condition** level
  - Over the **cycle of care**

# Measuring Outcomes

## The Outcome Measures Hierarchy



# Measuring Breast Cancer Outcomes



- **Survival rate**  
(One year, three year, five year, longer)
- **Remission**
- **Functional status**
- **Breast conservation surgery outcome**
- **Time to remission**
- **Time to achieve functional status**
- **Nosocomial infection**
- **Nausea**
- **Vomiting**
- **Febrile neutropenia**
- **Limitation of motion**
- **Depression**
- **Cancer recurrence**
- **Sustainability of functional status**
- **Incidence of secondary cancers**
- **Brachial plexopathy**
- **Premature osteoporosis**



# Measuring Breast Cancer Outcomes

## Initial Conditions

- Stage of disease
- Type of cancer (infiltrating ductal carcinoma, tubular, medullary, lobular, etc.)
- Estrogen and progesterone receptor status (positive or negative)
- Sites of metastases
- Age
- Menopausal status
- General health, including co-morbidities

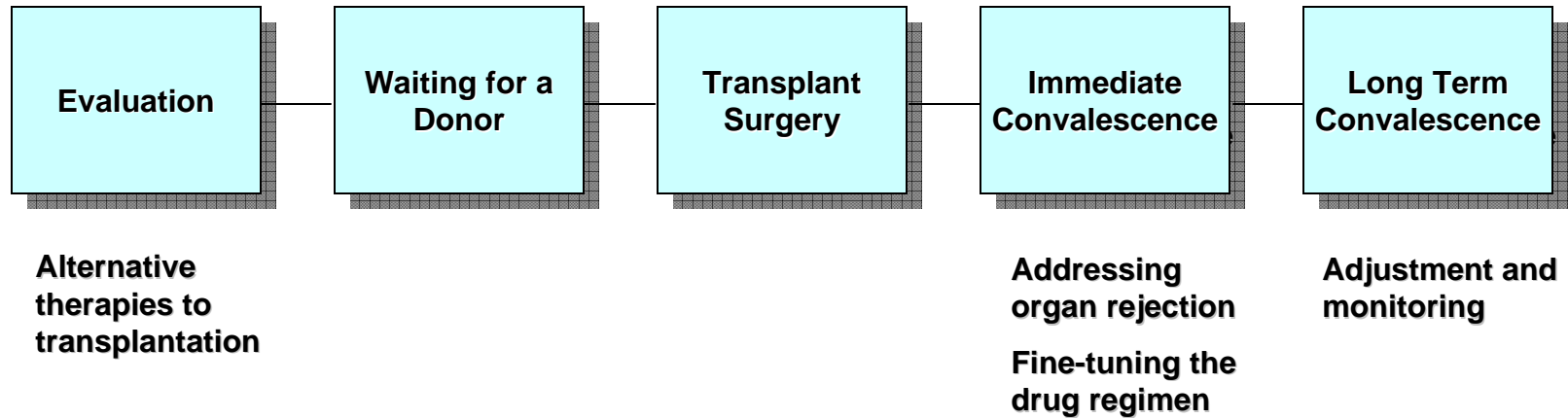


- As care delivery improves, some initial conditions will **decline in importance** for outcomes

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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



- Leading transplantation centers quote a **single price**

# 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

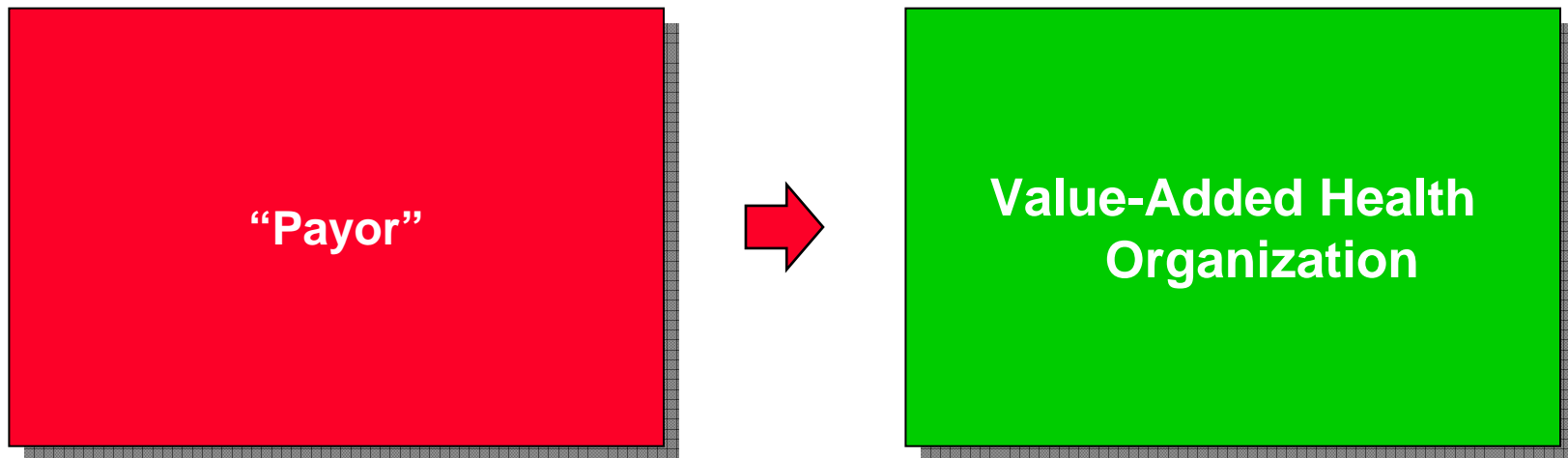
# Moving to Value-Based Competition

## 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

## 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