

Value-Based Health Care Delivery

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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, “How Physicians Can Change the Future of Health Care,” *Journal of the American Medical Association*, 2007; 297:1103:1111, and “What is Value in Health Care,” ISC working paper, 2008. 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 Health Care

- Universal coverage **is essential, but not enough**
- The core issue in health care is the **value of health care delivered**

Value: Patient health outcomes per dollar spent



- How to design a health care system that **dramatically improves value**
 - Ownership of entities is secondary (e.g. non-profit vs. for profit vs. government)
- How to create a **dynamic system** that keeps rapidly improving

Creating a Value-Based Health Care System

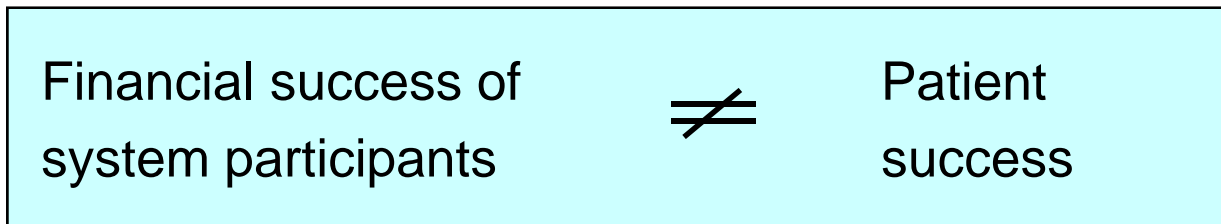
- Significant improvement in value will require **fundamental restructuring of health care delivery**, not incremental improvements

Today, 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** to substantially improve value
- Consumers cannot fix the dysfunctional structure of the current system

Creating a Value-Based Health Care System

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



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

Zero-Sum Competition in U.S. Health Care

Bad Competition

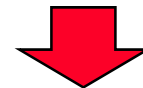
- Competition to **shift costs** or **capture a bigger share of revenue**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to **restrict services** in order to maximize revenue per visit or reduce costs



Zero or Negative Sum

Good Competition

- Competition to **increase value for patients**



Positive Sum

Principles of Value-Based Health Care Delivery

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



- Improving value will require going **beyond waste reduction** and **administrative savings**

Principles of Value-Based Health Care Delivery

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

- The best way to **contain costs** is to **improve quality**

Quality = Health outcomes

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



- Better health is **inherently less expensive** than poor health
- **Better health** is the goal, not more treatment

Principles of Value-Based Health Care Delivery

1. The goal must be **value for patients**, not lowering costs
 - There must be **competition for patients** based on **value**
 - Not process compliance or administrative oversight



- Get **patients** to excellent providers vs. “lift all boats”
- Expand the **proportion of patients** cared for by the most effective teams
- **Grow the excellent teams** by reallocating capacity and expanding across locations

Principles of Value-Based Health Care Delivery

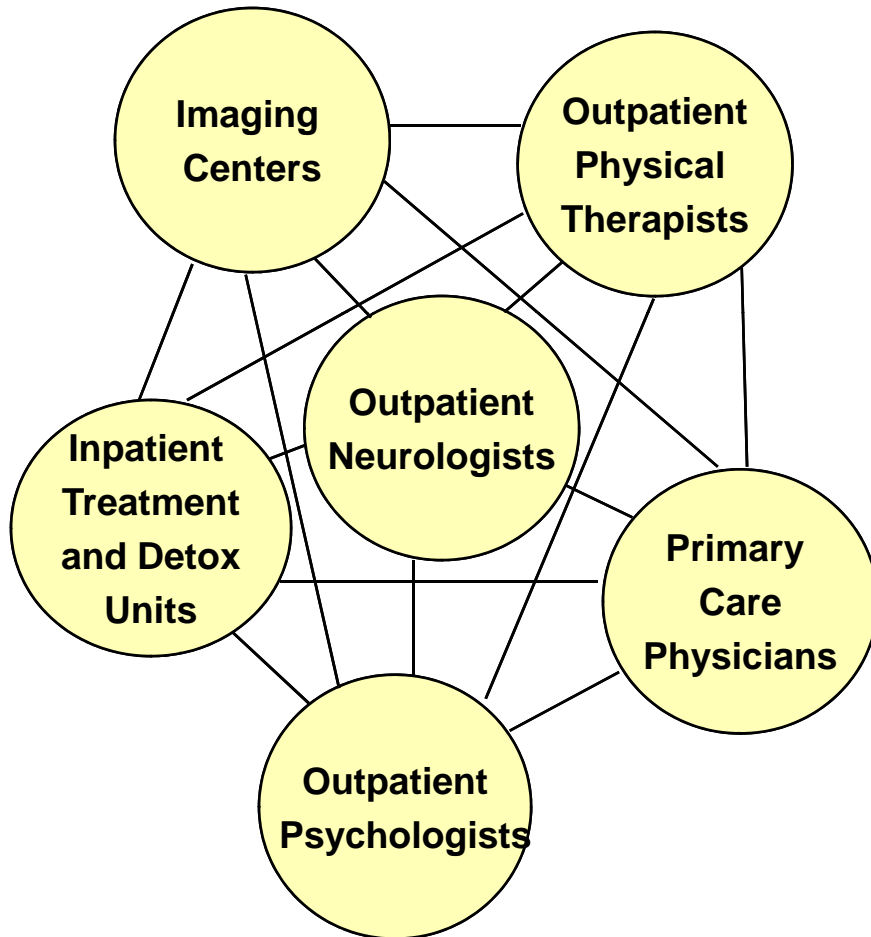
1. The goal must be **value for patients**, not lowering costs
2. Health care delivery should be organized around **medical conditions** over the **full cycle of care**

- A medical condition is **an interrelated set of patient medical circumstances best addressed in an integrated way**
 - Defined from the **patient's** perspective
 - Involving **multiple** specialties and services
- **Includes** the most common co-occurring conditions
- Examples
 - Diabetes (including vascular disease, hypertension, others)
 - Migraine
 - Breast Cancer
 - Stroke
 - Asthma
 - Congestive Heart Failure

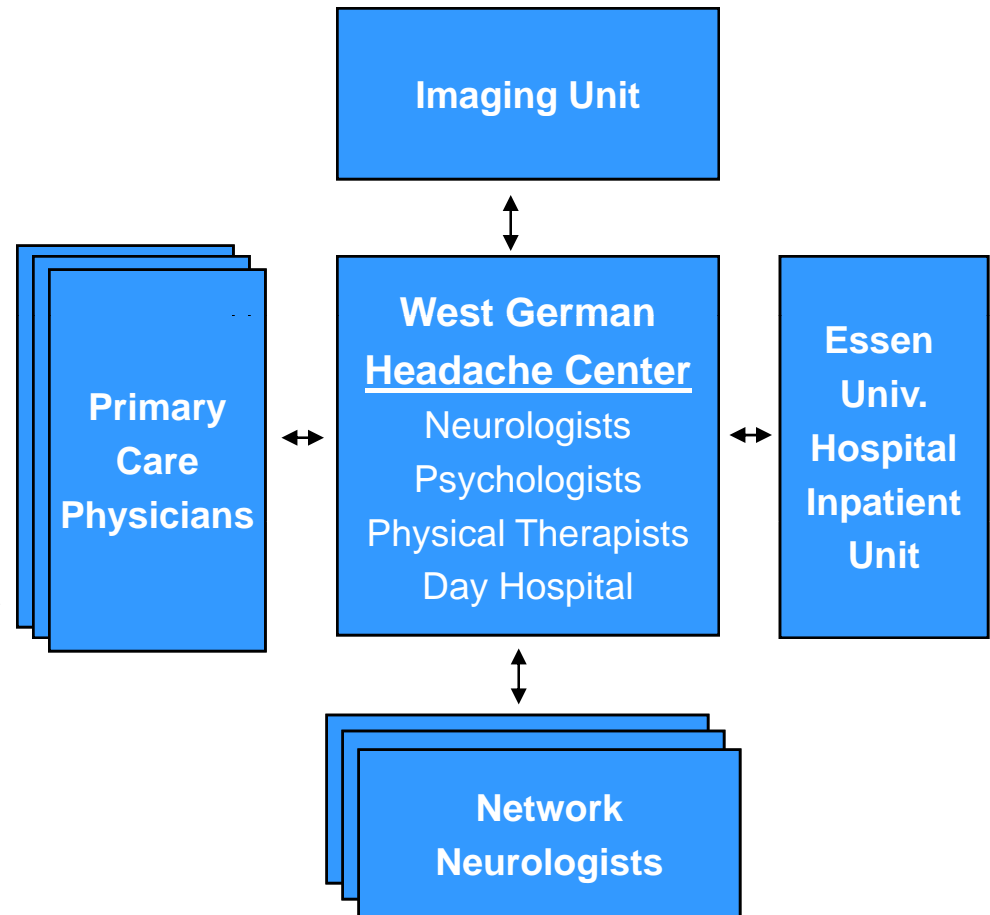
Restructuring Health Care Delivery

Migraine Care in Germany

Existing Model: Organize by Specialty and Discrete Services



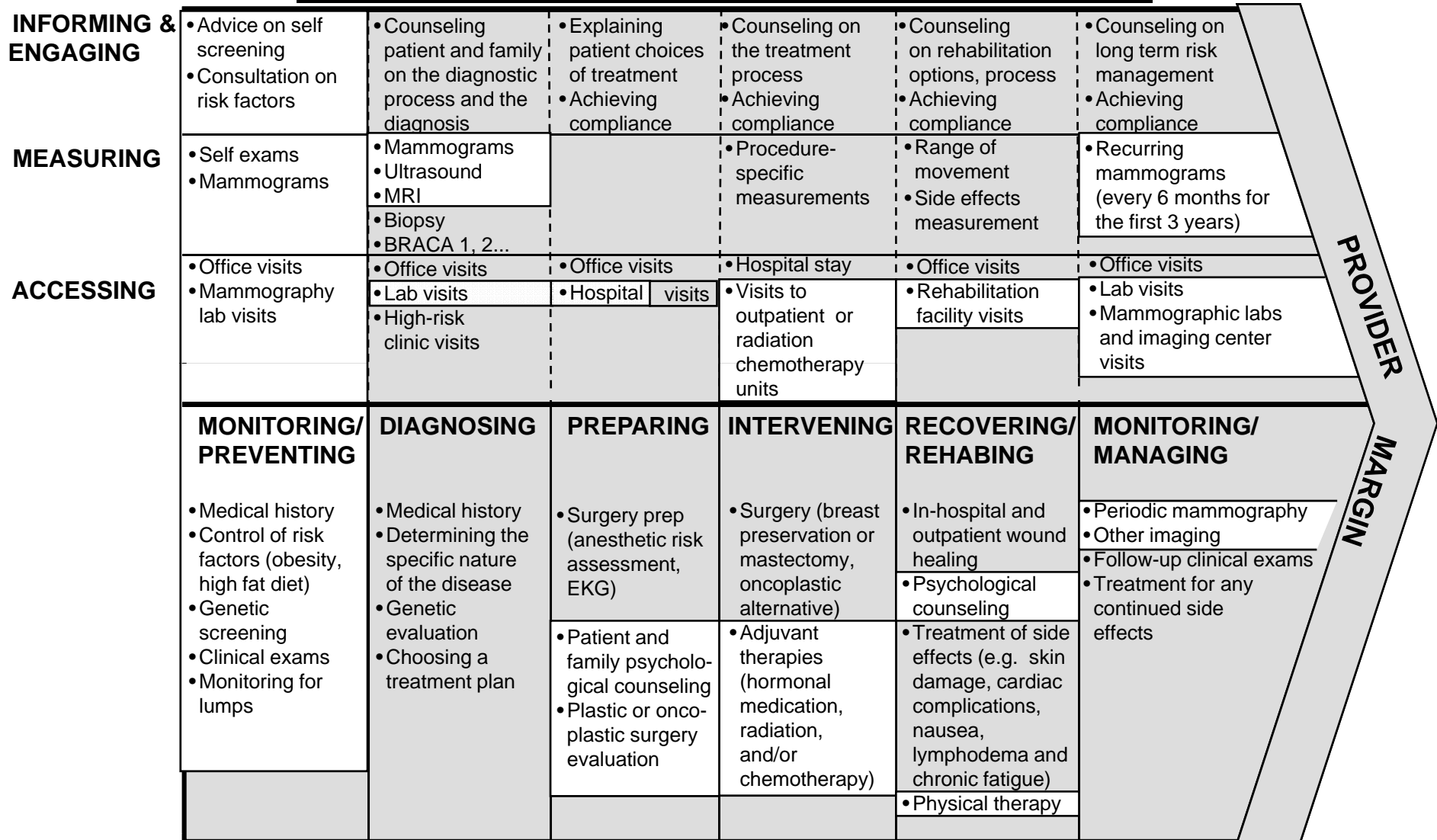
New Model: Organize into Integrated Practice Units (IPUs)



Source: Porter, Michael E., Clemens Guth, and Elisa Dannemiller, *The West German Headache Center: Integrated Migraine Care*, Harvard Business School Case 9-707-559, September 13, 2007

The Cycle of Care

Care Delivery Value Chain for Breast Cancer



- **Primary care providers** are often the **beginning** and **end** of the care cycle
- The medical condition is the **unit of value creation** in health care delivery

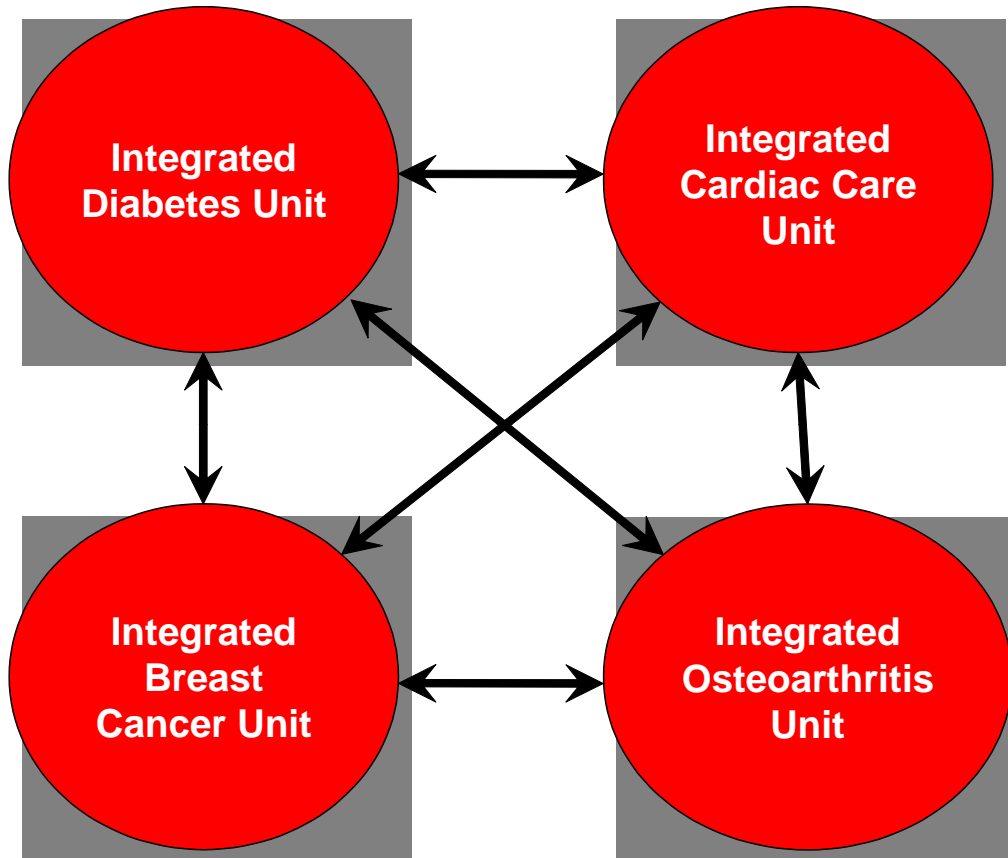
Breast Cancer Specialist
 Other Provider Entities

What is Integrated Care?

- Integration of specialties and services over the **care cycle for a medical condition (IPU)**
 - Many providers will operate multiple IPUs
- For some patients, coordination of care **across medical conditions**
 - A patient can be cared for by **more than one IPU**
- Integrated care is **not**:
 - Co-location of care
 - Care delivered by the same organization
 - A multispecialty group practice
 - Freestanding focused factories
 - A Center or an Institute
 - A health plan/provider system

Patients with Multiple Medical Conditions

Coordinating Care Across IPUs

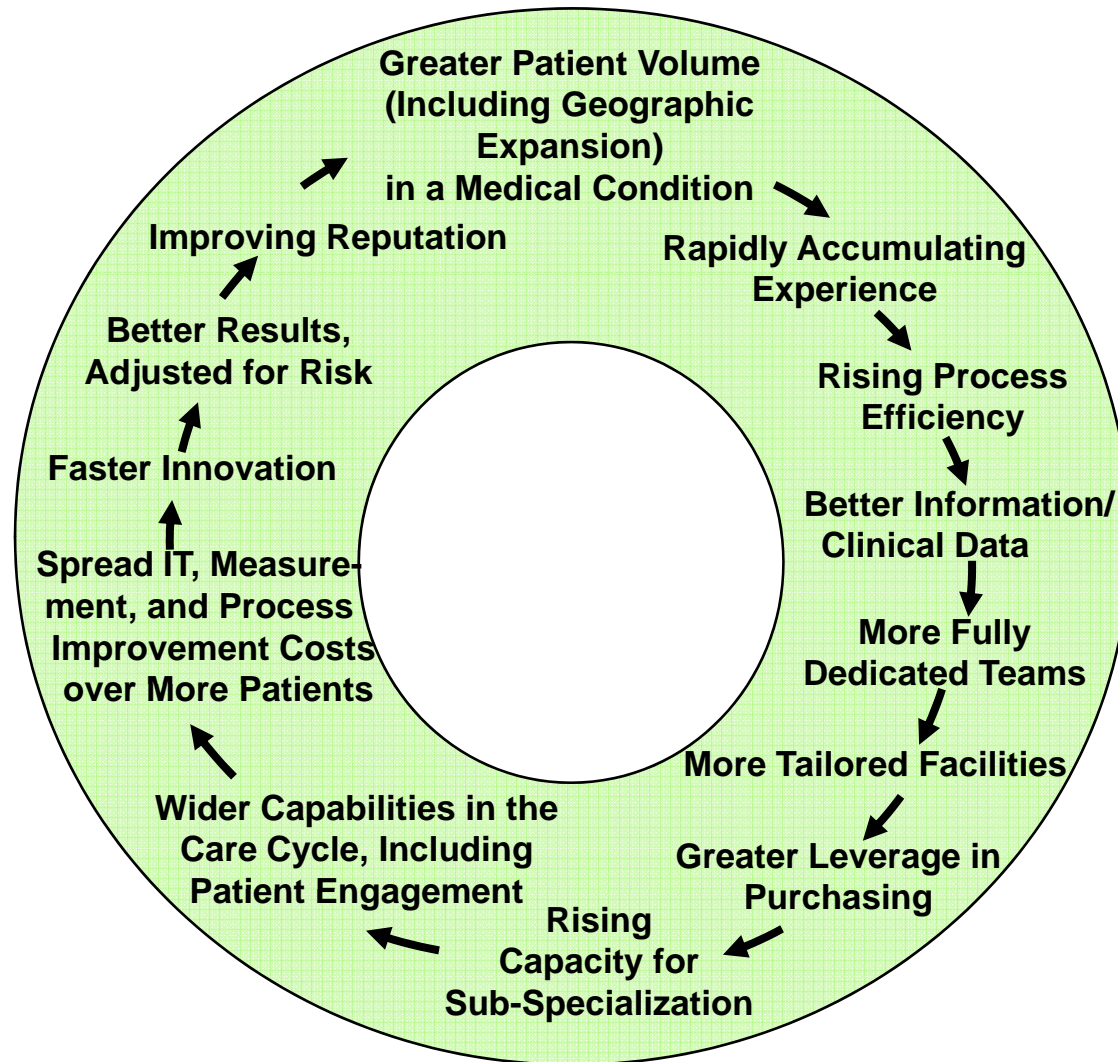


- The primary organization of care delivery should be around the integration required for **every patient**
- IPUs will also greatly simplify coordination of care for patients with multiple medical conditions
- The patient with multiple conditions will be **better off** in an IPU model

Principles of Value-Based Health Care Delivery

- Value is driven by provider **experience**, **scale**, and **learning** at the medical condition level

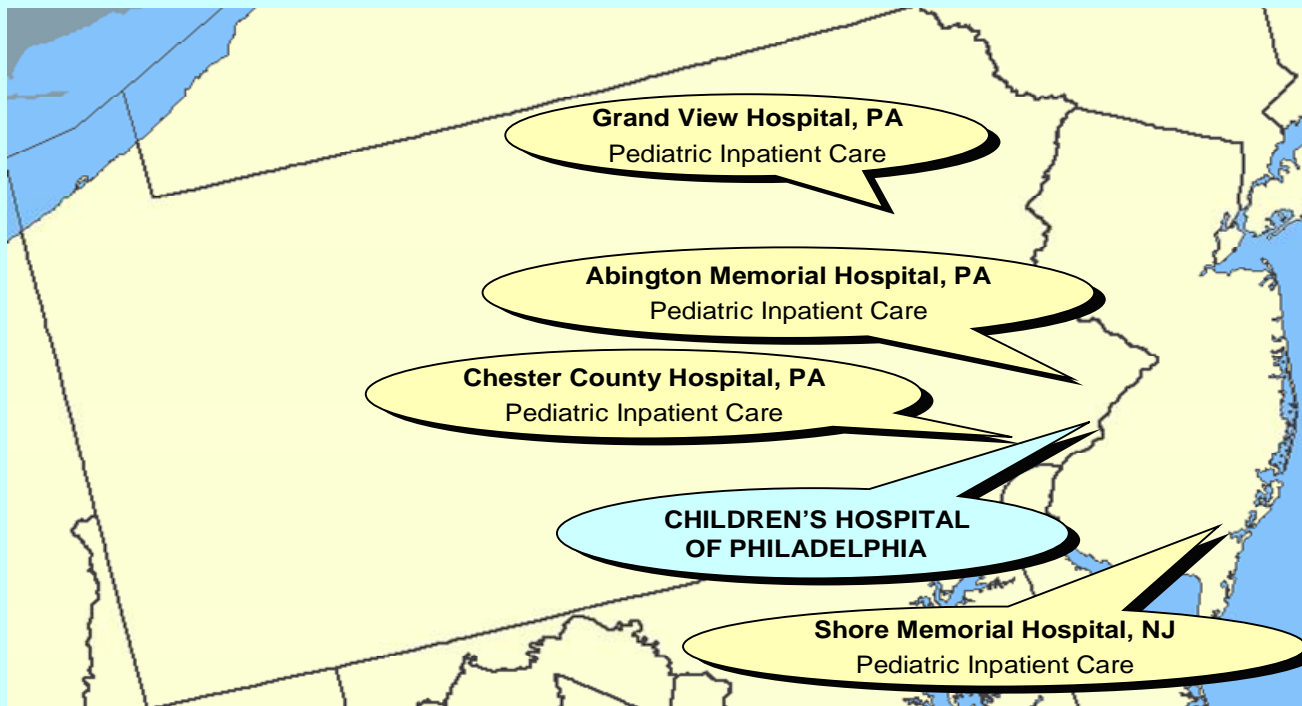
The Virtuous Circle



Principles of Value-Based Health Care Delivery

- Health care delivery should be **integrated across facilities and regions**, rather than take place in stand-alone units

Children's Hospital of Philadelphia (CHOP) Affiliations



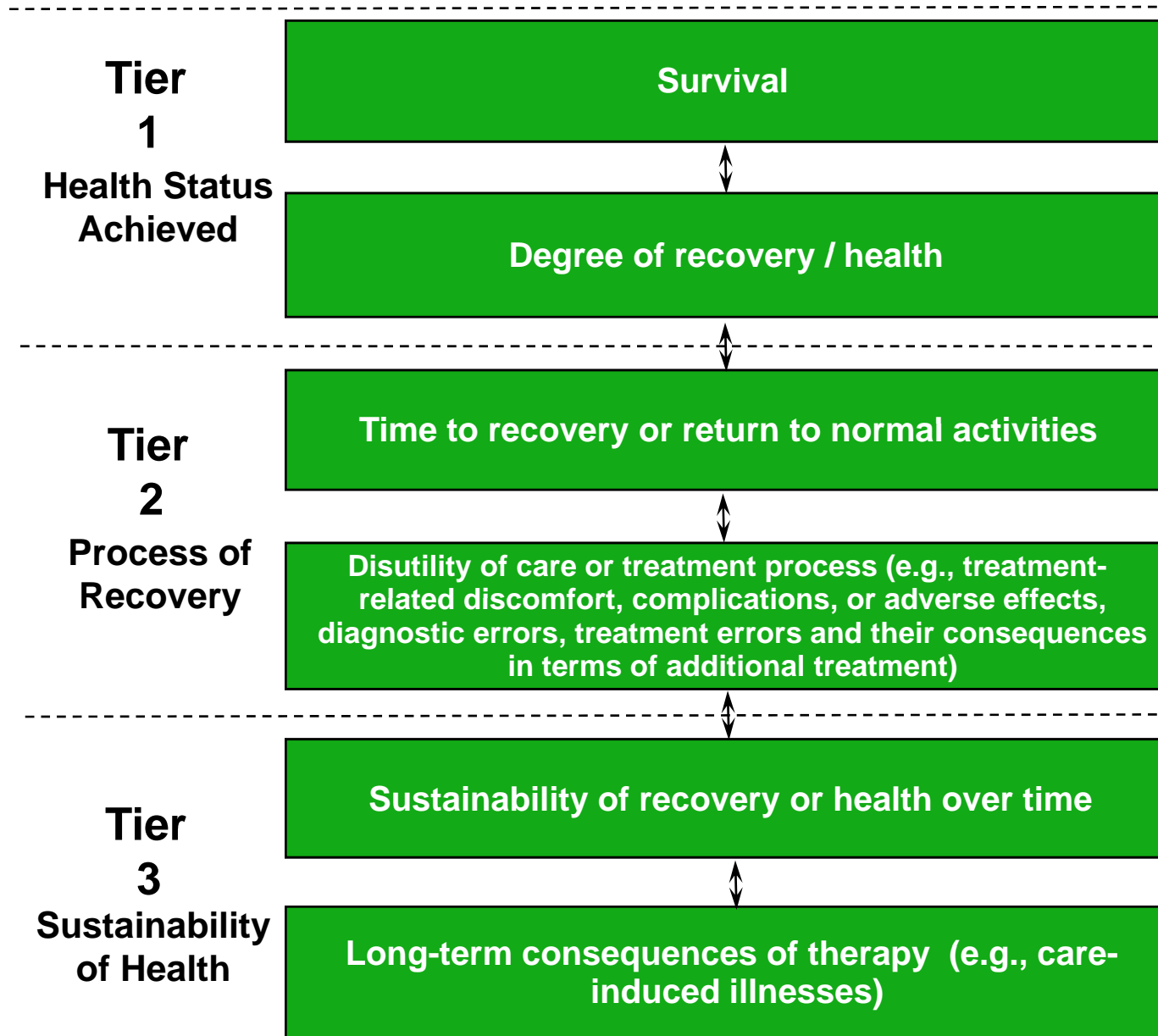
- Excellent providers can manage care delivery **across multiple geographies**

Principles of Value-Based Health Care Delivery

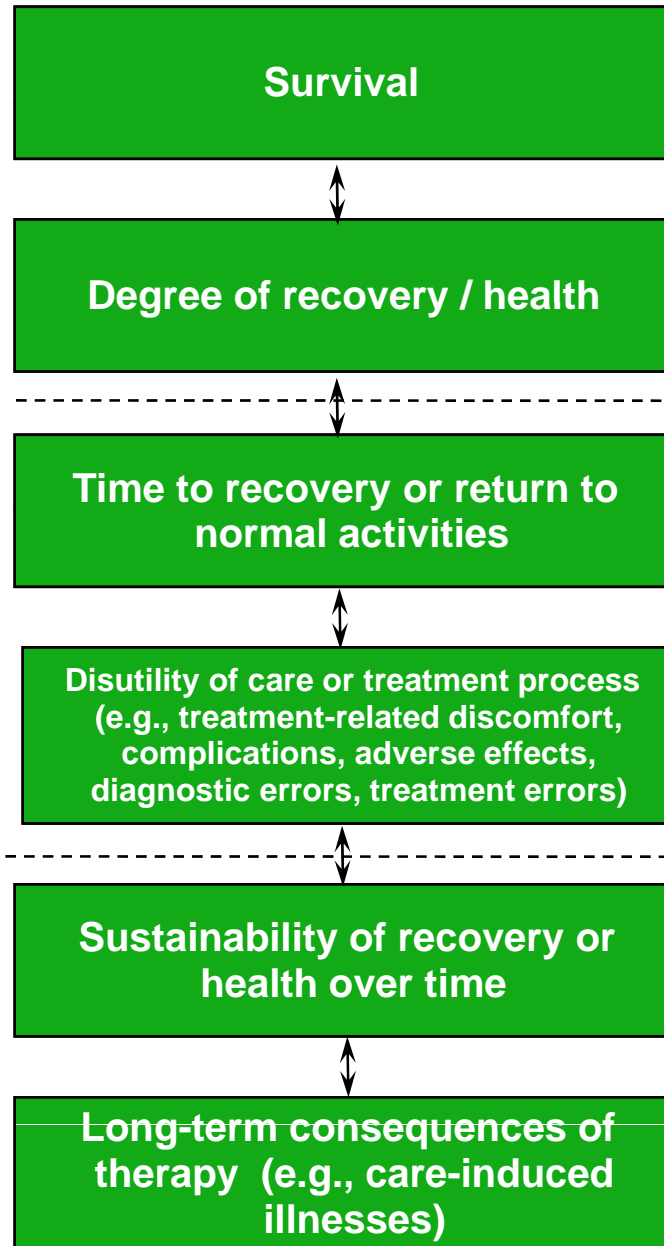
1. The goal must be **value for patients**, not lowering costs
2. Health care delivery should be organized around **medical conditions** over the **full cycle of care**
3. **Value** must be universally measured and reported
 - Results must be measured at the **level at which value is created** for patients

- **For** medical conditions over the cycle of care
 - Not for interventions or short episodes
 - Not for hospitals, practices, clinics, or departments
 - Not for types of service (e.g. inpatient, outpatient, tests, rehabilitation)

The Outcome Measures Hierarchy



Measuring Breast Cancer Outcomes



- **Survival rate**
(One year, three year, five year, longer)
- **Remission**
- **Functional status**
- **Breast conservation 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 Value: Key Principles

- **Physicians** need results measures in order to drive value improvement
- Outcomes must be **adjusted for patient initial conditions**
- We cannot wait for perfection: outcome measures and risk adjustment will **improve rapidly**



- The feasibility of outcome measurement at the medical condition level has been **conclusively demonstrated**
- Failure to measure outcomes will **invite further micromanagement** of physician practice

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4. Reimbursement should be aligned with **value** and reward **innovation**

- Bundled reimbursement for **care cycles**, not payment for discrete treatments or services
 - Most DRG systems are **too narrow**
- Reimbursement for **prevention and screening**, not just treatment
- Reimbursement for **overall management of chronic conditions**
- Reimbursement adjusted for **patient complexity**



- **Providers** should be proactive in moving to new reimbursement models, not wait for health plans and Medicare

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5. Information technology will enable **restructuring of care delivery** and **measuring results**, but is not a solution by itself

- Common data definitions
- Interoperability standards
- Patient-centered database
- Includes all types of data (e.g. notes, images)
- Cover the full care cycle, including referring entities
- Accessible to all involved parties

Principles of Value-Based Health Care Delivery

Implications for Providers

- Organize around **integrated practice units** (IPUs) for each medical condition
 - With mechanisms for cross-IPU coordination
- Choose the appropriate **scope of services** in each facility based on excellence in **patient value**
- Integrate services for each IPU / medical condition **across geographic locations**
- Employ formal **partnerships** and **alliances** with independent practices involved in the care cycle in order to integrate care
- Expand high-performance IPUs **across geography** using an integrated model
 - Instead of federations of broad line, stand-alone facilities
- Measure **outcomes** and **costs** for every medical condition over the full care cycle
- Lead the development of **new contracting models** with health plans based on bundled reimbursement for care cycles
- Implement a single, integrated, patient centric **electronic medical record system** which is utilized by every unit and accessible to partners, referring physicians, and patients

How Will Redefining Health Care Begin?

- It is **already happening** in the U.S. and other countries
- Providers, as well as health plans and employers, can take **voluntary** steps in these directions, and will **benefit** irrespective of other changes
- The changes will be **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