

Value-Based Health Care Delivery

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This presentation draws on *The Strategy That Will Fix Health Care*, by Michael E. Porter and Thomas H. Lee published in Harvard Business Review October 2013; *Redefining German Health Care* (with Clemens Guth), Springer Press, February 2012; *Redefining Health Care: Creating Value-Based Competition on Results* (with Elizabeth O. Teisberg), Harvard Business School Press, May 2006; “A Strategy for Health Care Reform—Toward a Value-Based System,” *New England Journal of Medicine*, June 3, 2009; “Value-Based Health Care Delivery,” *Annals of Surgery* 248: 4, October 2008; “Defining and Introducing Value in Healthcare,” *Institute of Medicine Annual Meeting*, 2007. Additional information about these ideas, as well as case studies, can be found the Institute for Strategy & Competitiveness Redefining Health Care website at <http://www.hbs.edu/rhc/index.html>. 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,

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Creating A High Value Delivery Organization

- The core issue in health care is the **value of health care delivered**

Value: Patient health outcomes per pound spent

- Delivering high and improving value is the **fundamental purpose** of health care
- Value is the only goal that can **unite the interests** of all system participants



- Improving value is the only real **solution** to reforming health care versus cost cutting, per se **cost shifting** to patients, **restricting services**, or **reducing provider compensation**

Creating a Value-Based Health Care System

- Significant improvement in value will require **fundamental restructuring of health care delivery**, not incremental improvements
- Today's delivery approaches reflect a **legacy** of medical science, organizational structures, management practices, patient mobility, and payment models that are obsolete.

Care pathways, process improvements, safety initiatives, care coordinators, focus on frequent flyers, inspections, and other **overlays** to the current structure can be beneficial, but not sufficient

Principles of Value-Based Health Care Delivery

$$\text{Value} = \frac{\text{Health outcomes that matter to patients}}{\text{Costs of delivering the outcomes}}$$

- Value is measured for the **care of a patient's medical condition** over the full cycle of care
 - Outcomes are the **full set of health results for a patient's condition** over the care cycle
 - Costs are the **total costs of care for a patient's condition** over the care cycle

Creating a Value-Based Health Care Delivery System

The Strategic Agenda

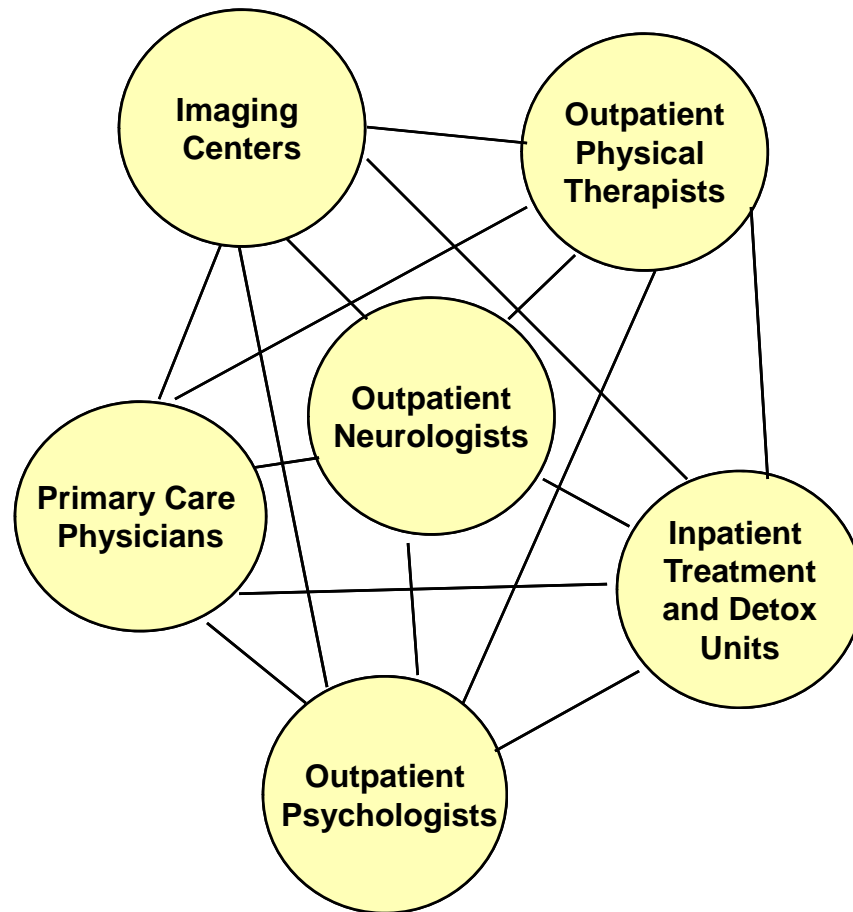
1. Organize Care into **Integrated Practice Units (IPUs)** around Patient Medical Conditions
 - For primary and preventive care, organize to serve **distinct patient segments**
2. Measure **Outcomes** and **Costs** for Every Patient
3. Move to **Bundled Payments** for Care Cycles
4. Integrate Care Delivery **Systems**
5. Expand **Geographic Reach**
6. Build an Enabling **Information Technology Platform**

1. Organize Care Around Patient Medical Conditions

Migraine Care in Germany

Existing Model:

Organize by Specialty and Discrete Service



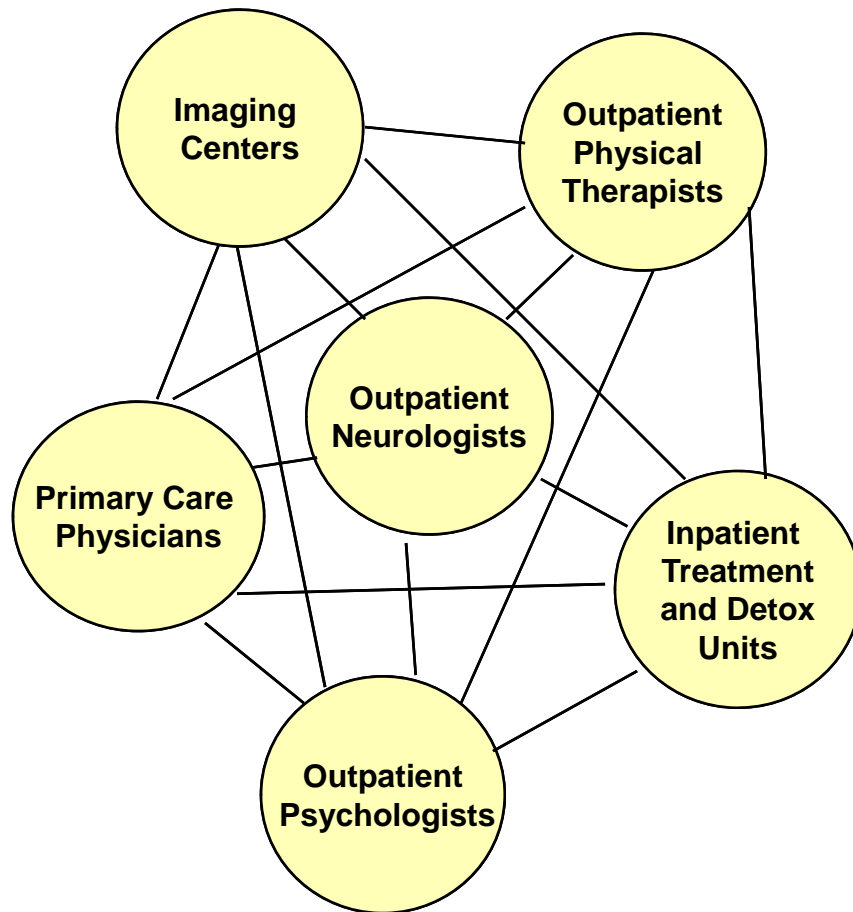
Source: Porter, Michael E., Clemens Guth, and Elisa Dannemiller, *The West German Headache Center: Integrated Migraine Care*, Harvard Business School Case 9-707-559, September 13, 2007

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Migraine Care in Germany

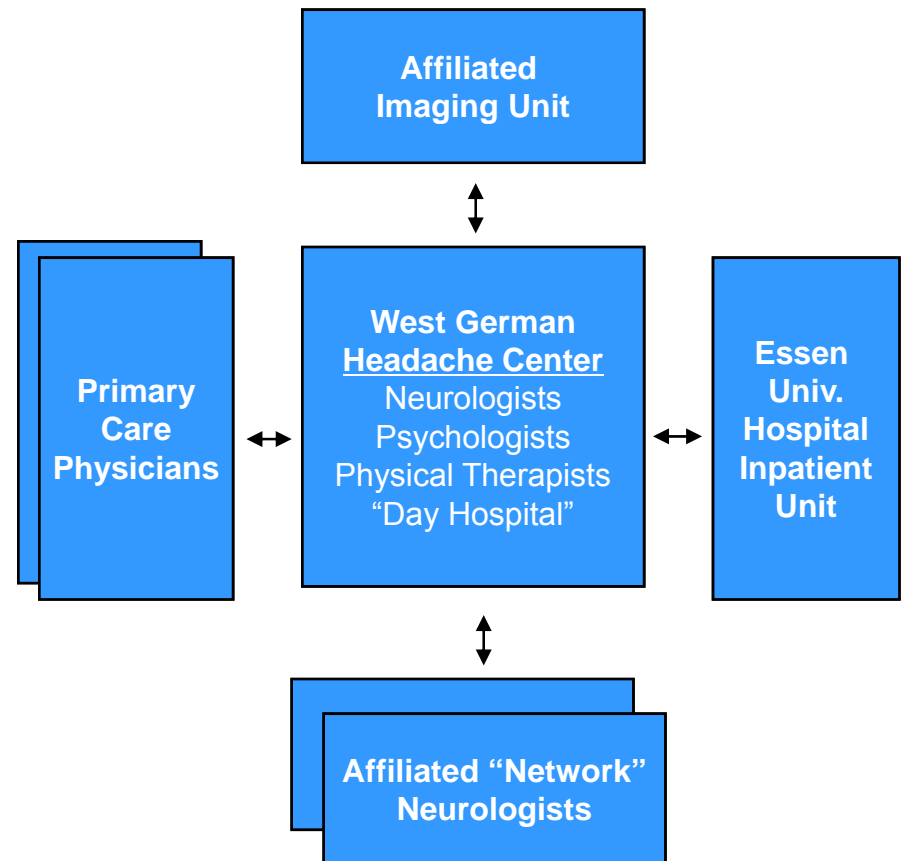
Existing Model:

Organize by Specialty and Discrete Service



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 Care Delivery Value Chain

Acute Knee-Osteoarthritis Requiring Replacement

INFORMING AND ENGAGING	<ul style="list-style-type: none"> Importance of exercise, weight reduction, proper nutrition 	<ul style="list-style-type: none"> Meaning of diagnosis Prognosis (short- and long-term outcomes) Drawbacks and benefits of surgery 	<ul style="list-style-type: none"> Setting expectations Importance of nutrition, weight loss, vaccinations Home preparation 	<ul style="list-style-type: none"> Expectations for recovery Importance of rehab Post-surgery risk factors 	<ul style="list-style-type: none"> Importance of rehab adherence Longitudinal care plan 	<ul style="list-style-type: none"> Importance of exercise, maintaining healthy weight
	<ul style="list-style-type: none"> Joint-specific symptoms and function (e.g., WOMAC scale) Overall health (e.g., SF-12 scale) 	<ul style="list-style-type: none"> Loss of cartilage Change in subchondral bone Joint-specific symptoms and function Overall health 	<ul style="list-style-type: none"> Baseline health status Fitness for surgery (e.g., ASA score) 	<ul style="list-style-type: none"> Blood loss Operative time Complications 	<ul style="list-style-type: none"> Infections Joint-specific symptoms and function Inpatient length of stay Ability to return to normal activities 	<ul style="list-style-type: none"> Joint-specific symptoms and function Weight gain or loss Missed work Overall health
MEASURING	<ul style="list-style-type: none"> PCP office Health club Physical therapy clinic 	<ul style="list-style-type: none"> Specialty office Imaging facility 	<ul style="list-style-type: none"> Specialty office Pre-op evaluation center 	<ul style="list-style-type: none"> Operating room Recovery room Orthopedic floor at hospital or specialty surgery center 	<ul style="list-style-type: none"> Nursing facility Rehab facility PT clinic Home 	<ul style="list-style-type: none"> Specialty office Primary care office Health club
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CARE DELIVERY	<p>MONITORING/PREVENTING</p> <p>MONITOR</p> <ul style="list-style-type: none"> Conduct PCP exam Refer to specialists, if necessary <p>PREVENT</p> <ul style="list-style-type: none"> Prescribe anti-inflammatory medicines Recommend exercise regimen Set weight loss targets 	<p>DIAGNOSING</p> <p>IMAGING</p> <ul style="list-style-type: none"> Perform and evaluate MRI and x-ray <ul style="list-style-type: none"> -Assess cartilage loss -Assess bone alterations <p>CLINICAL EVALUATION</p> <ul style="list-style-type: none"> Review history and imaging Perform physical exam Recommend treatment plan (surgery or other options) 	<p>PREPARING</p> <p>OVERALL PREP</p> <ul style="list-style-type: none"> Conduct home assessment Monitor weight loss <p>SURGICAL PREP</p> <ul style="list-style-type: none"> Perform cardiology, pulmonary evaluations Run blood labs Conduct pre-op physical exam 	<p>INTERVENING</p> <p>ANESTHESIA</p> <ul style="list-style-type: none"> Administer anesthesia (general, epidural, or regional) <p>SURGICAL PROCEDURE</p> <ul style="list-style-type: none"> Determine approach (e.g., minimally invasive) Insert device Cement joint <p>PAIN MANAGEMENT</p> <ul style="list-style-type: none"> Prescribe preemptive multimodal pain meds 	<p>RECOVERING/REHABBING</p> <p>SURGICAL</p> <ul style="list-style-type: none"> Immediate return to OR for manipulation, if necessary <p>MEDICAL</p> <ul style="list-style-type: none"> Monitor coagulation <p>LIVING</p> <ul style="list-style-type: none"> Provide daily living support (showering, dressing) Track risk indicators (fever, swelling, other) <p>PHYSICAL THERAPY</p> <ul style="list-style-type: none"> Daily or twice daily PT sessions 	<p>MONITORING/MANAGING</p> <p>MONITOR</p> <ul style="list-style-type: none"> Consult regularly with patient <p>MANAGE</p> <ul style="list-style-type: none"> Prescribe prophylactic antibiotics when needed Set long-term exercise plan Revise joint, if necessary
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Orthopedic Specialist
 Other Provider Entities

Integrating Across the Care Cycle An Orthopedic Surgeon Teaches A Course to Physical Therapists About Treatment Post-Surgery




What is a Medical Condition?

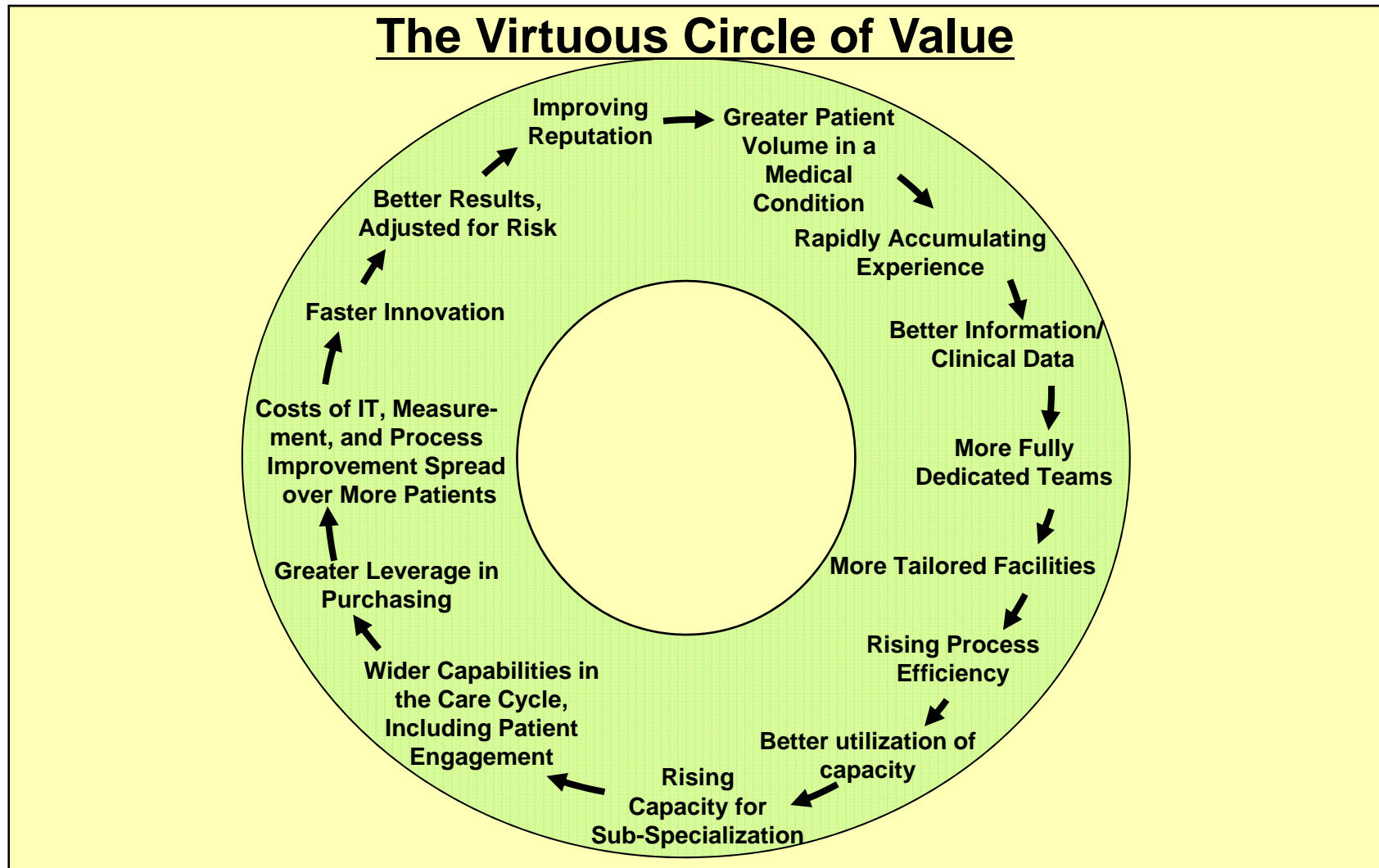
Specialty Care

- 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
 - **Including** common co-occurring conditions and complications**Examples:** diabetes, breast cancer, knee osteoarthritis

Primary/Preventive Care

- The corresponding unit of value creation is **defined patient segments** with similar preventive, diagnostic, and primary treatment needs (e.g. healthy adults, patients with complex chronic conditions, frail elderly)
- 
- The medical condition / patient segment is the proper **unit of value creation and value measurement** in health care delivery

Volume in a Medical Condition Enables Value



- Volume and experience will have an even greater impact on value **in an IPU structure** than in the current system

Role of Volume in Value Creation

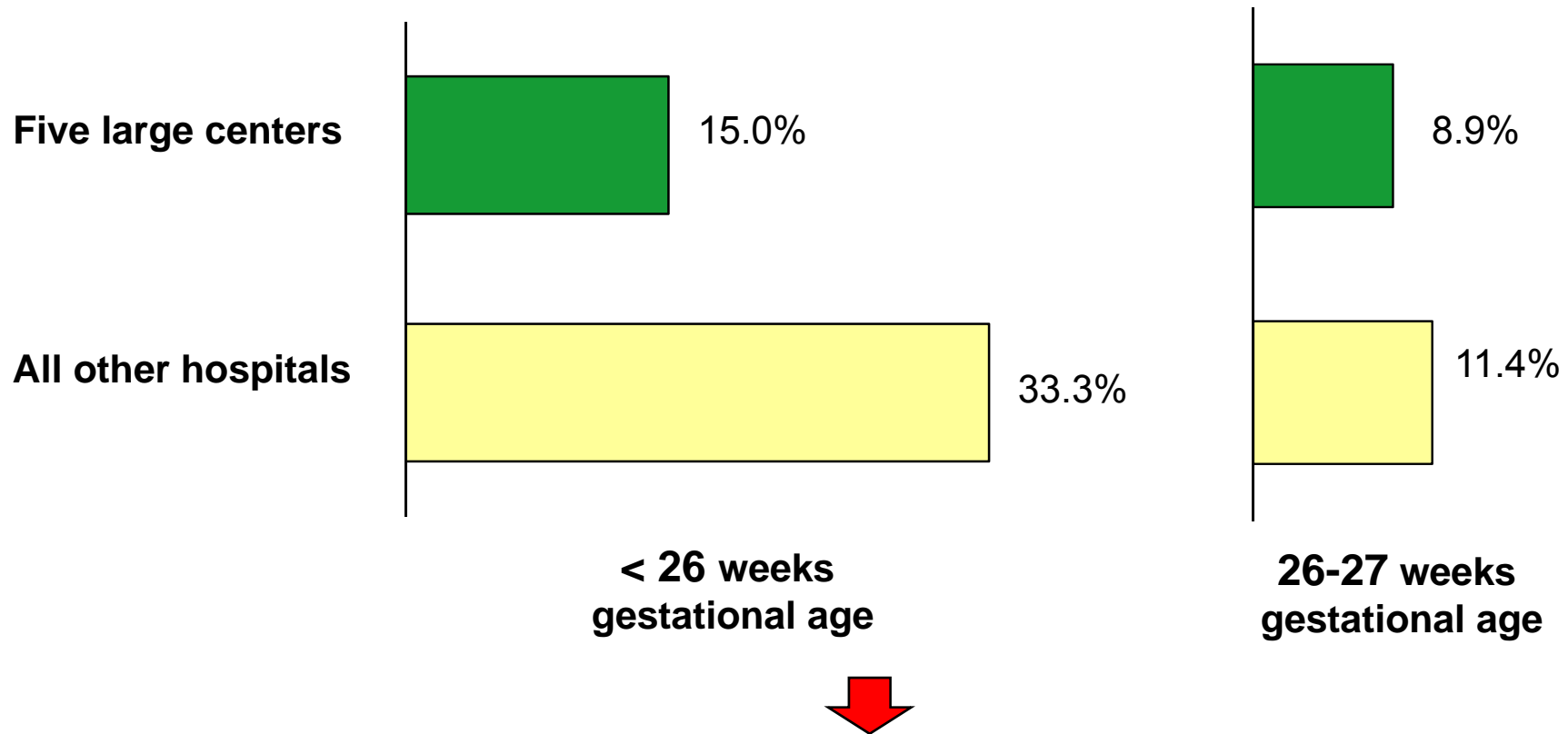
Fragmentation of Hospital Services in Sweden

DRG	Number of admitting providers	Average percent of total national admissions	Average admissions/ provider/ year	Average admissions/ provider/ week
Knee Procedure	68	1.5%	55	1
Diabetes age > 35	80	1.3%	96	2
Kidney failure	80	1.3%	97	2
Multiple sclerosis and cerebellar ataxia	78	1.3%	28	1
Inflammatory bowel disease	73	1.4%	66	1
Implantation of cardiac pacemaker	51	2.0%	124	2
Splenectomy age > 17	37	2.6%	3	<1
Cleft lip & palate repair	7	14.2%	83	2
Heart transplant	6	16.6%	12	<1

Source: Compiled from The National Board of Health and Welfare Statistical Databases – DRG Statistics, Accessed April 2, 2009.

Low Volume Undermines Value

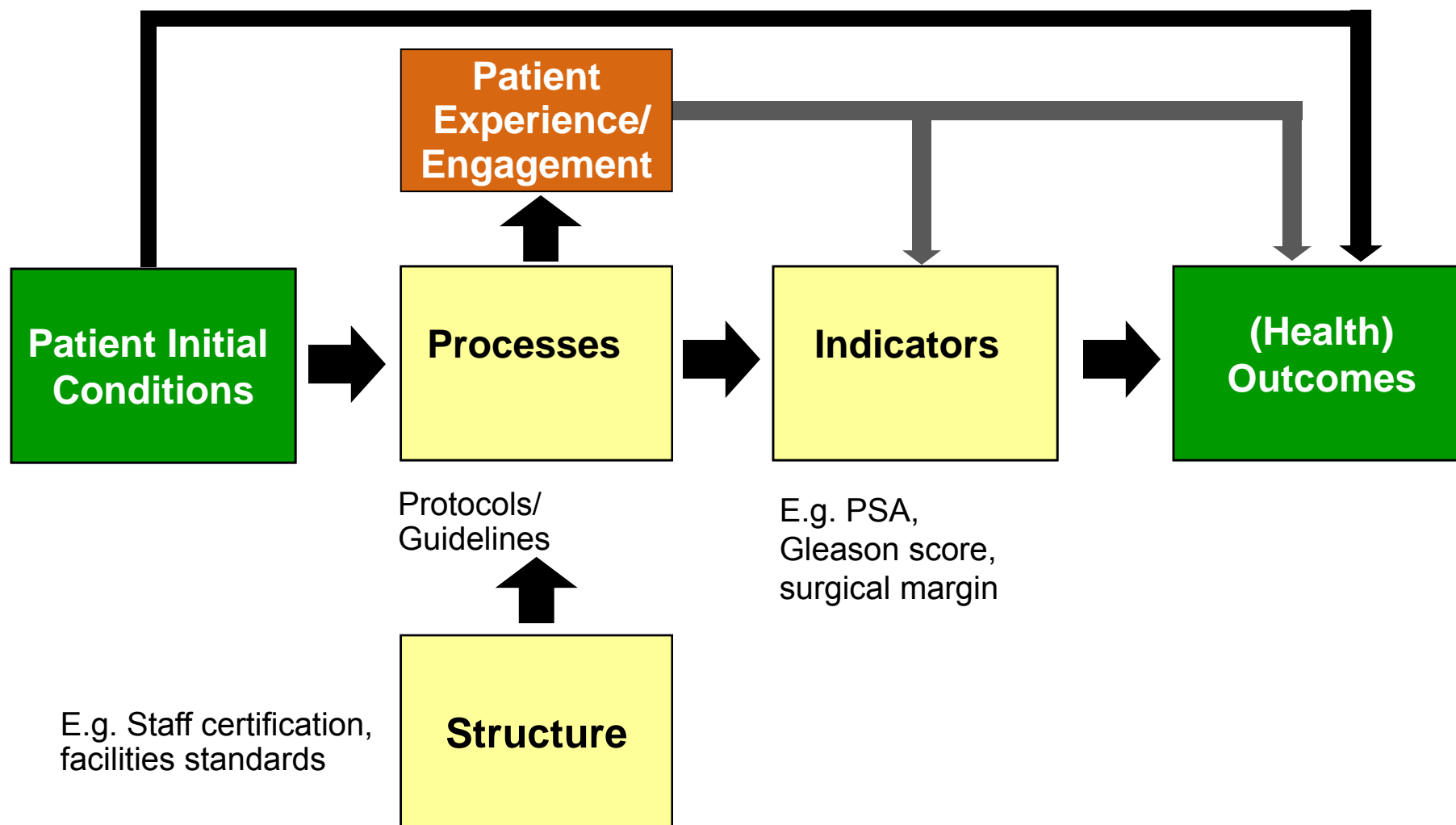
Mortality of Low-birth Weight Infants in Baden-Württemberg, Germany



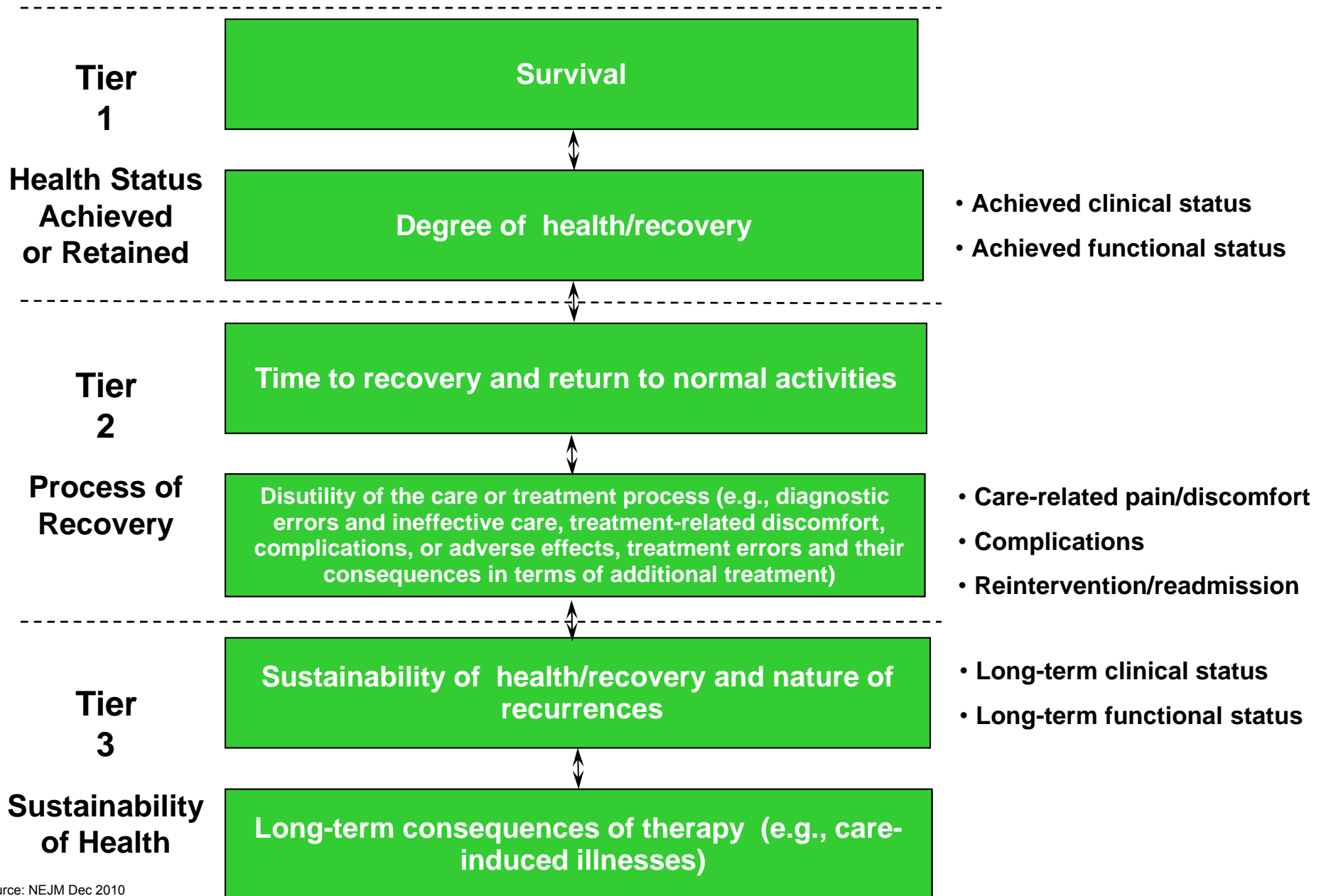
- **Minimum volume standards** are an interim step to drive value and service consolidation in the absence of rigorous outcome information

2. Measure Outcomes and Costs for Every Patient

The Measurement Landscape



The Outcome Measures Hierarchy



Measuring Multiple Outcomes

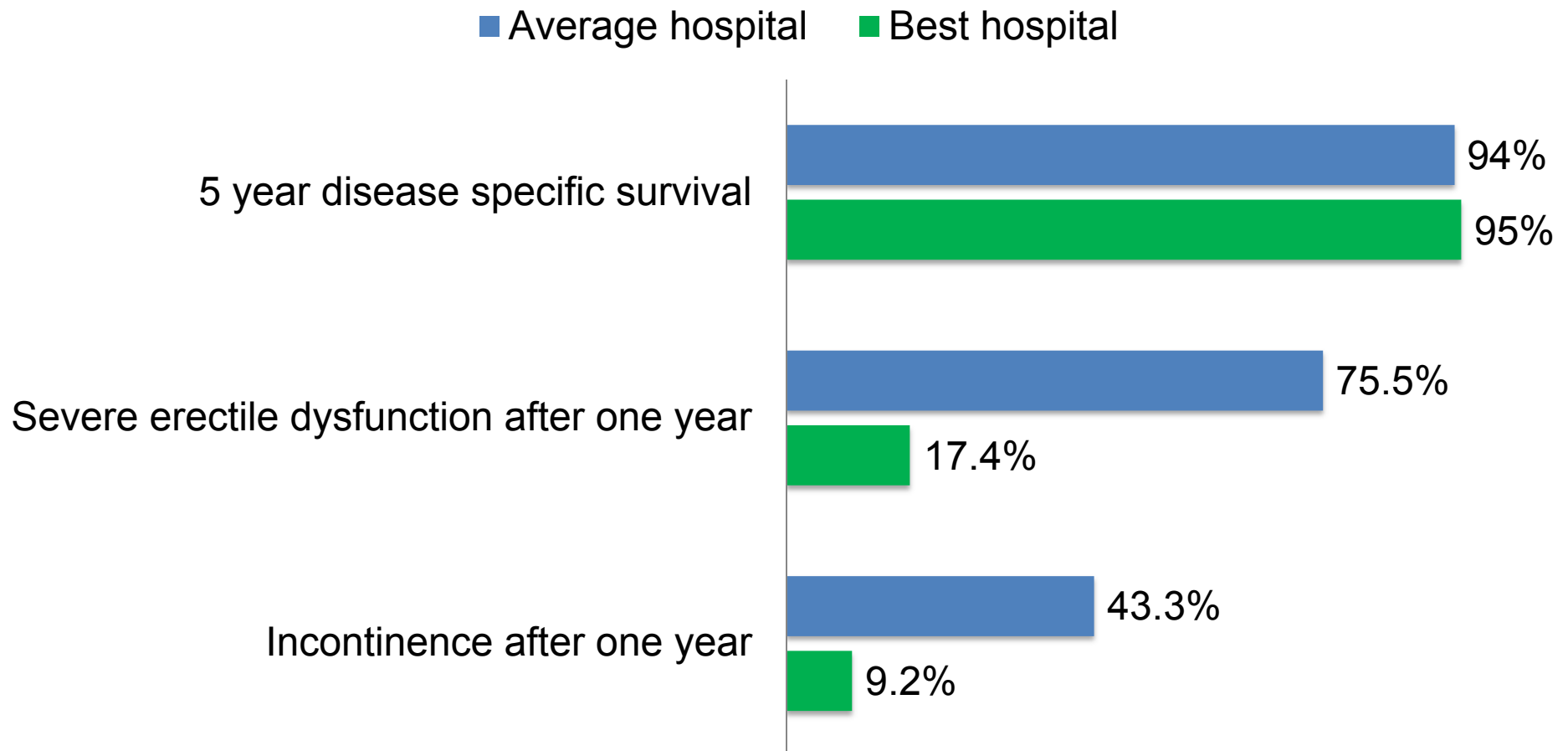
Prostate Cancer Care in Germany

■ Average hospital ■ Best hospital



Source: ICHOM

Measuring Multiple Outcomes -- Continued Prostate Cancer Care in Germany



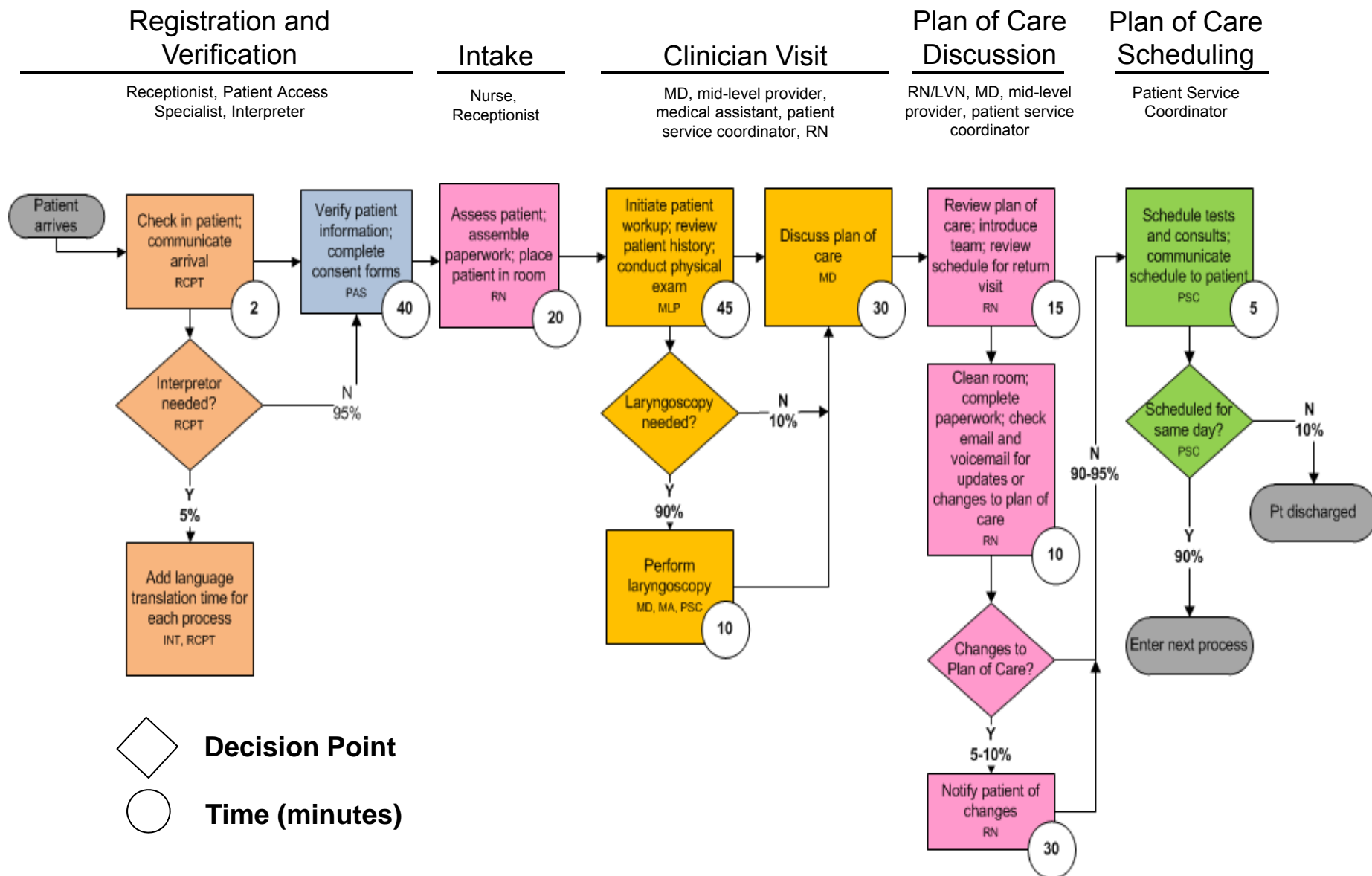
Source: ICHOM

Measuring the Cost of Care Delivery: Principles

- Cost is the **actual expense** of patient care, not the **tariff** billed or collected
- Cost should be measured around the **patient**, not just the department or provider organization
- Cost should be aggregated over the **full cycle of care for the patient's medical condition**
- Cost depends on the **actual use of resources** involved in a patient's care process (personnel, facilities, supplies)

Mapping Resource Utilization

MD Anderson Cancer Center – New Patient Visit

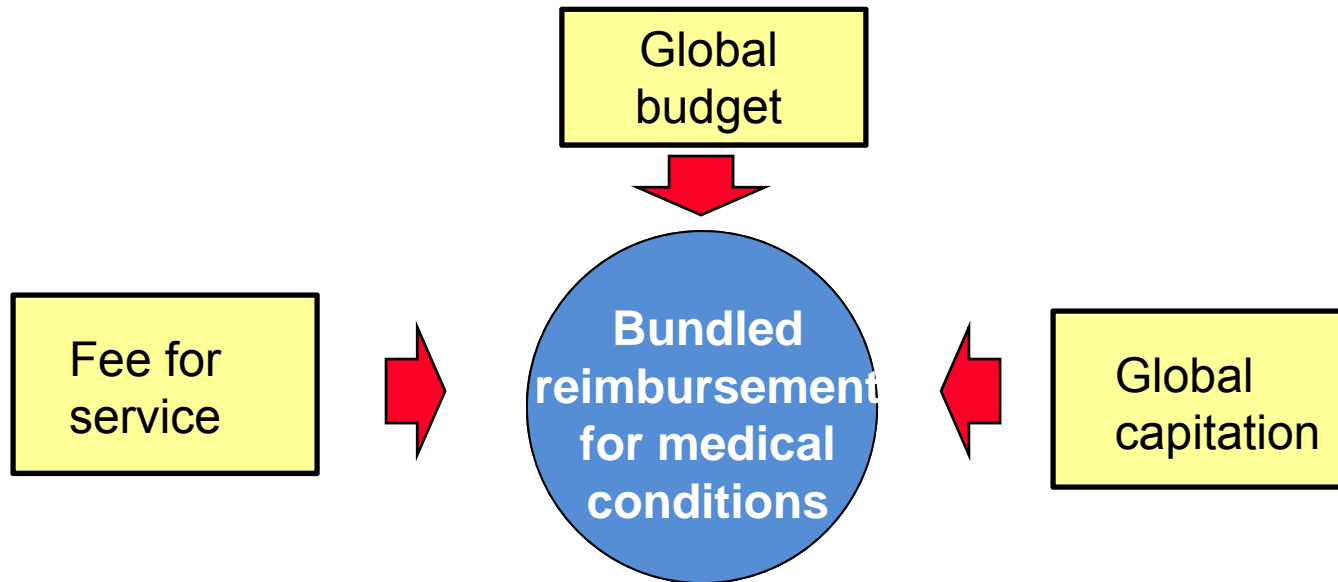


Major Cost Reduction Opportunities in Health Care

- Reduce **process variation** that lowers efficiency and raises inventory without improving outcomes
- Eliminate **low-** or **non-value added** services or tests
 - Sometimes driven by protocols or to justify billing
- Rationalize redundant **administrative** and **scheduling** units
- **Improve utilization** of expensive physicians, staff, clinical space, and facilities by reducing duplication and service fragmentation
- Minimize use of **physician and skilled staff** time for less skilled activities
- Reduce the provision of routine or uncomplicated services in **highly-resourced** facilities
- **Reduce cycle times** across the care cycle
- **Optimize total care cycle cost** versus minimizing cost of individual service
- Increase **cost awareness** in clinical teams
- Many cost reduction opportunities will actually **improve outcomes**



3. Move to Bundled Payments for Care Cycles



Bundled Price

- A single price covering the **full care cycle for an acute medical condition**
- Time-based reimbursement for overall care of a **chronic condition**
- Time-based reimbursement for **primary/preventive care** for a **defined patient segment**

Bundled Payment in Practice

Hip and Knee Replacement in Stockholm, Sweden

- **Components** of the bundle

- Pre-op evaluation	- All physician and staff fees and costs
- Lab tests	- 1 follow-up visit within 3 months
- Radiology	- Any additional surgery to the joint within 2 years
- Surgery & related admissions	- If post-op infection requiring antibiotics occurs, guarantee extends to 5 years
- Prosthesis	
- Drugs	
- Inpatient rehab, up to 6 days	

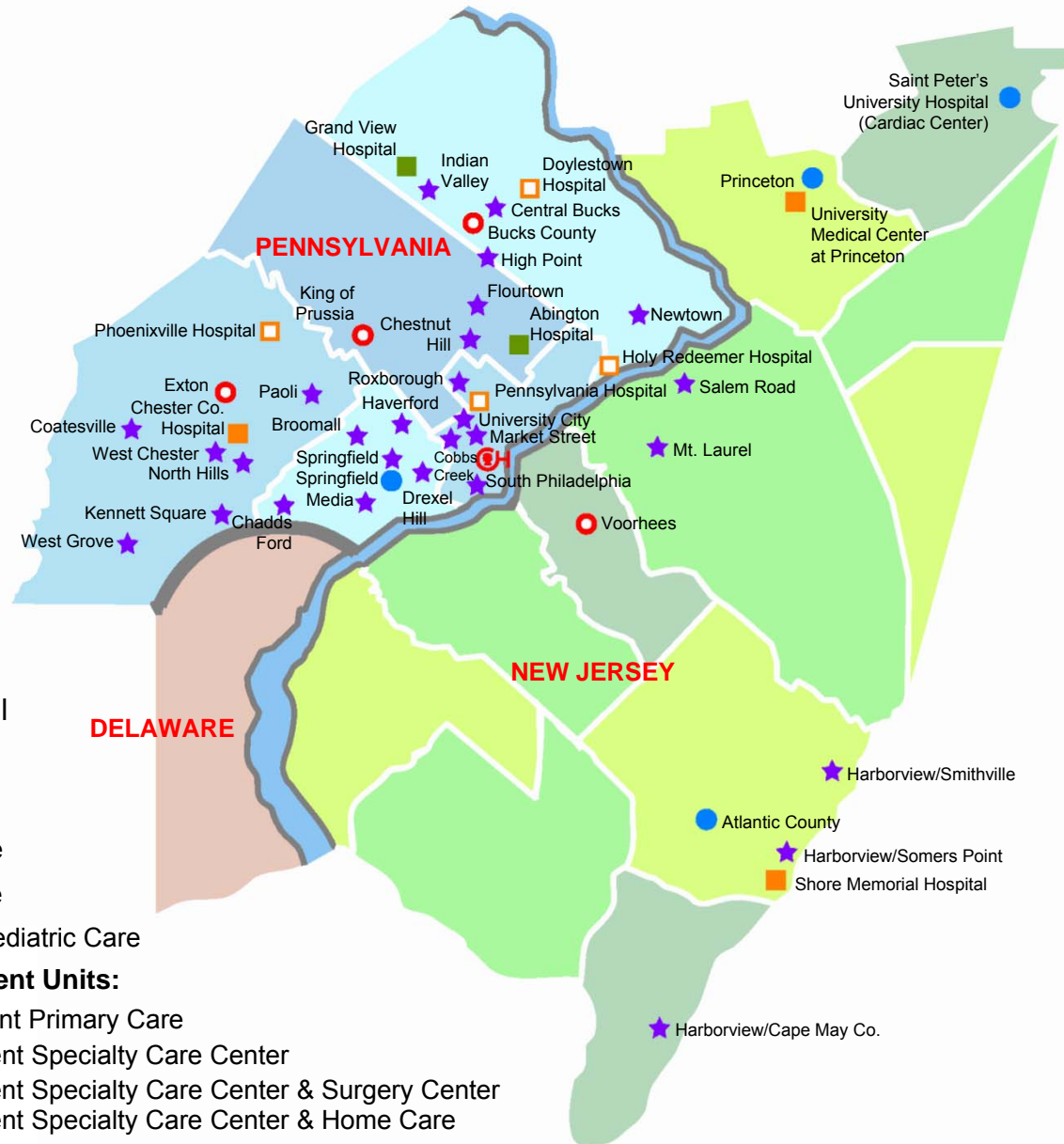
- Currently applies to all **relatively healthy patients** (i.e. ASA scores of 1 or 2)
- The same **referral process** from PCPs is utilized as the traditional system
- **Mandatory reporting** by providers to the joint registry plus supplementary reporting
- Applies to **all** qualifying patients. Provider participation is **voluntary**, but all providers are continuing to offer total joint replacements



- The Stockholm bundled price for a knee or hip replacement is about **US \$8,000 (4,800GBP)**

4. Integrate Care Delivery Systems

Children's Hospital of Philadelphia Care Network

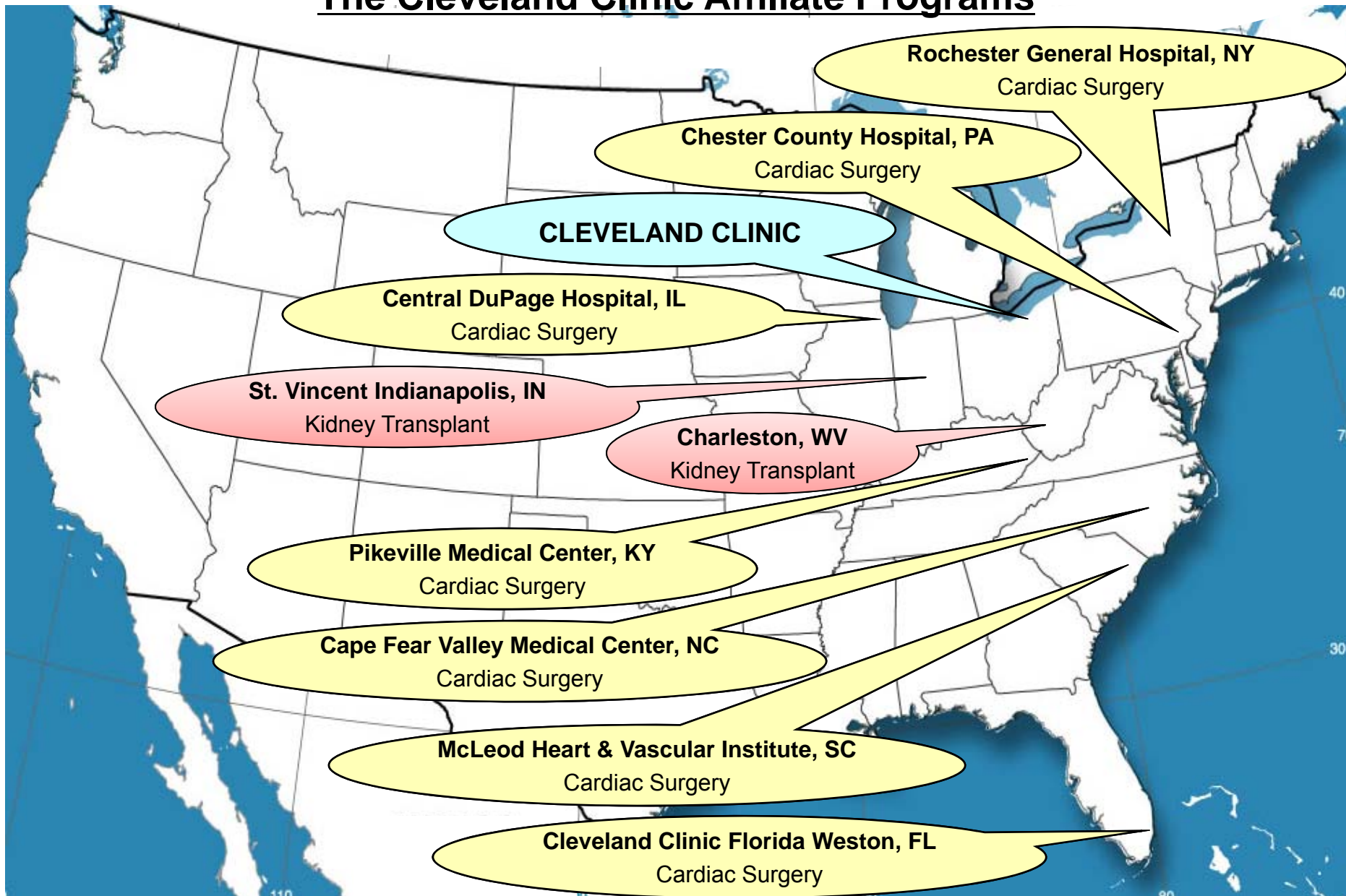


Four Levels of Provider System Integration

Four Levels of Provider System Integration

1. **Define the overall scope of services** where the provider can achieve high value
2. **Concentrate volume in fewer locations** in the conditions that providers treat
3. Choose the **right location for each service** based on medical condition, acuity level, resource intensity, cost level and need for convenience
 - E.g., shift routine surgeries out of tertiary hospitals to smaller, more specialized facilities
4. **Integrate care across appropriate locations** through IPU structures

5. Expand Geographic Reach The Cleveland Clinic Affiliate Programs



6. Build an Enabling Integrated IT Platform

Utilize information technology to enable **restructuring of care delivery** and **measuring results**, rather than treating it as a solution itself

- Combine **all types of data** (e.g. notes, images) for each patient
- Common **data definitions**
- Data encompasses the **full care cycle**, including care by referring entities
- Allow access and communication among **all involved parties**, including with patients
- **Templates** for medical conditions to enhance the user interface
- **“Structured”** data vs. free text
- Architecture that allows easy extraction of **outcome measures, process measures, and activity-based cost measures** for each patient and medical condition
- Interoperability standards enabling communication among **different provider (and payor) organizations**

A Mutually Reinforcing Strategic Agenda

