

Value-Based Health Care Delivery

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This presentation draws on 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 on 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, recording, or otherwise — without the permission of Michael E. Porter and Elizabeth O. Teisberg.

Principles of Value-Based Health Care Delivery

- The overarching goal in health care must be **value for patients**, not access, cost containment, convenience, or customer service

$$\text{Value} = \frac{\text{Health outcomes}}{\text{Costs of delivering the outcomes}}$$

- 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

Principles of Value-Based Health Care Delivery

- **Quality improvement** is the most powerful driver of cost containment and value improvement, where quality is **health outcomes**

- Prevention of illness
- Early detection
- Right diagnosis
- Right treatment to the right patient
- Rapid cycle time of diagnosis and treatment
- Treatment earlier in the causal chain of disease
- Less invasive treatment methods
- Fewer complications
- Fewer mistakes and repeats in treatment
- Faster recovery
- More complete recovery
- Greater functionality and less need for long term care
- Fewer recurrences, relapses, flare ups, or acute episodes
- Reduced need for ER visits
- Slower disease progression
- Less care induced illness



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

Creating a Value-Based Health Care Delivery System

The Strategic Agenda

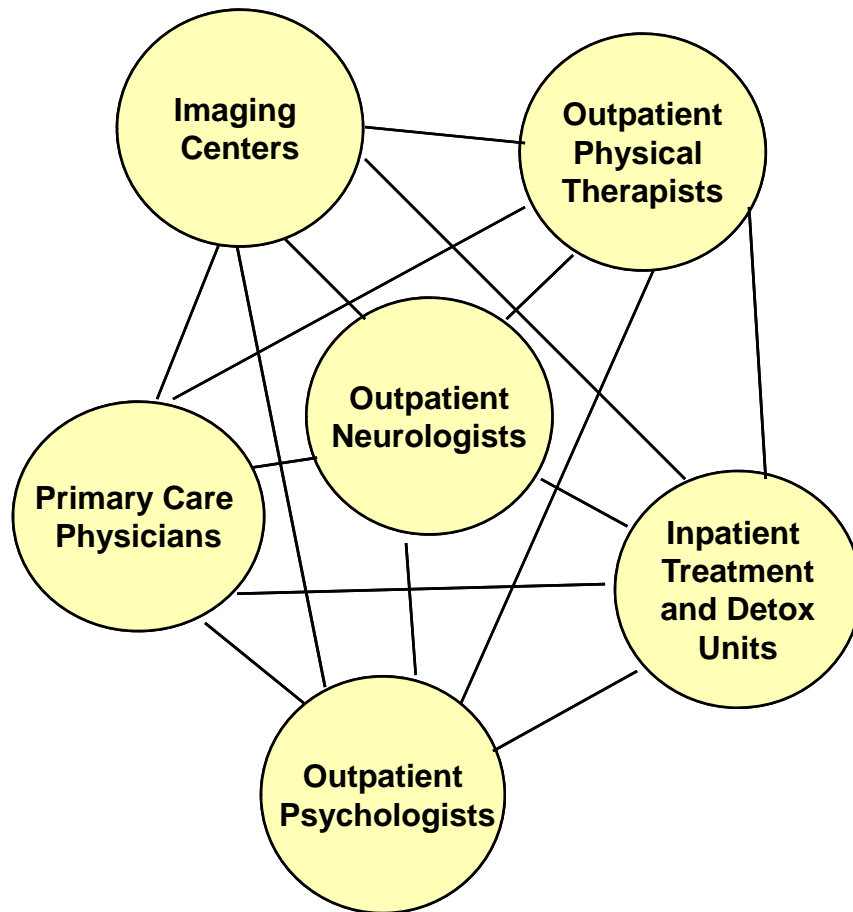
1. Organize Care into **Integrated Practice Units (IPUs)** around Patient Medical Conditions
 - Organize primary and preventive care to serve **distinct patient segments**
2. Measure **Outcomes** and **Cost** for Every Patient
3. Reimburse through **Bundled Prices** for Care Cycles
4. Integrate Care Delivery Across **Separate Facilities**
5. Expand Geographic Coverage by **Excellent Providers**
6. Build an Enabling **Information Technology Platform**

1. Organizing Care Around Patient Medical Conditions

Migraine Care in Germany

Existing Model:

Organize by Specialty and Discrete Services



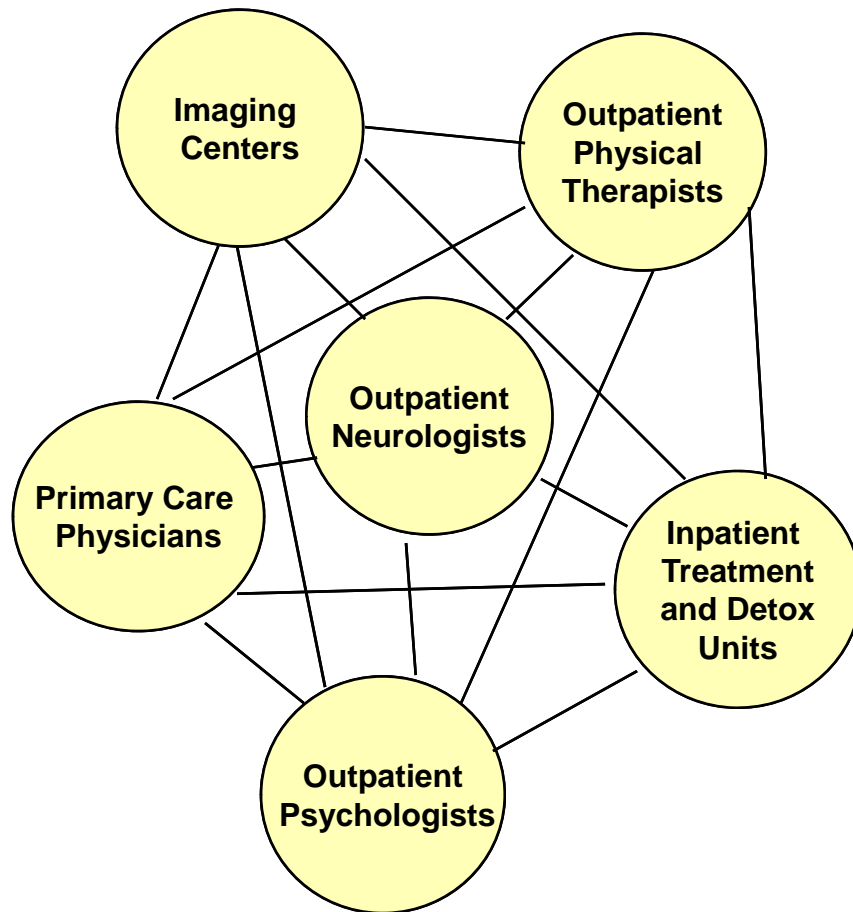
Source: Porter, Michael E., Clemens Guth, and Elisa Dannemiller, *The West German Headache Center: Integrated Migraine Care*, Harvard Business School Case 9-707-559, September 13, 2007

1. Organizing Care Around Patient Medical Conditions

Migraine Care in Germany

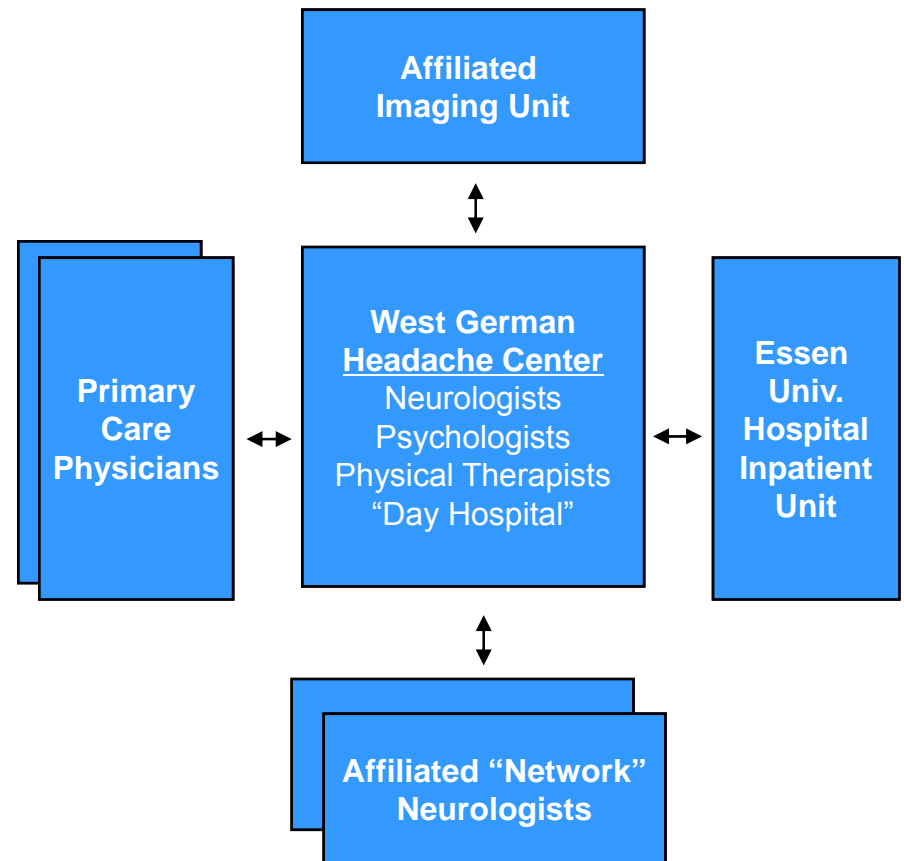
Existing Model:

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

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
 - Involving **multiple** specialties and services
 - **Including** common co-occurring conditions and complications
 - E.g., diabetes, breast cancer, knee osteoarthritis
- In primary / preventive care, the **unit of value creation** is **defined patient segments** with similar preventive, diagnostic, and primary treatment needs (e.g. healthy adults, frail elderly)



- The medical condition / patient segment is the proper **unit of value creation** and the **unit of value measurement** in health care delivery

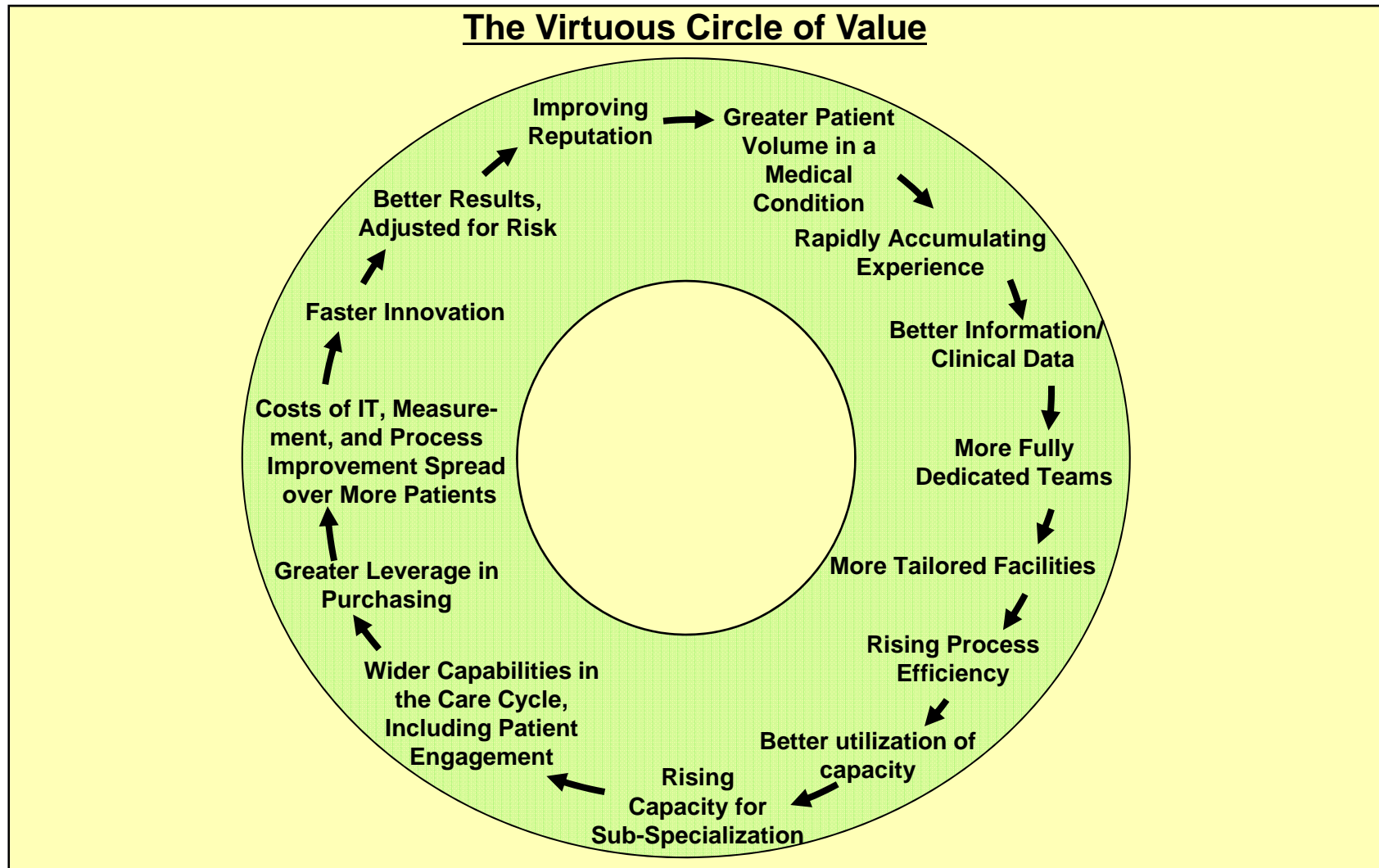
Integrating Across the Cycle of Care Breast Cancer

| | | | | | | |
|-------------------------------|--|---|---|--|---|---|
| INFORMING AND ENGAGING | <ul style="list-style-type: none"> • Advice on self screening • Consultations on risk factors | <ul style="list-style-type: none"> • Counseling patient and family on the diagnostic process and the diagnosis | <ul style="list-style-type: none"> • Explaining patient treatment options/ shared decision making • Patient and family psychological counseling | <ul style="list-style-type: none"> • Counseling on the treatment process • Education on managing side effects and avoiding complications • Achieving compliance | <ul style="list-style-type: none"> • Counseling on rehabilitation options, process • Achieving compliance • Psychological counseling | <ul style="list-style-type: none"> • Counseling on long term risk management • Achieving compliance |
| MEASURING | <ul style="list-style-type: none"> • Self exams • Mammograms | <ul style="list-style-type: none"> • Mammograms • Ultrasound • MRI • Labs (CBC, etc.) • Biopsy • BRACA 1, 2... • CT • Bone Scans | <ul style="list-style-type: none"> • Labs | <ul style="list-style-type: none"> • Procedure-specific measurements | <ul style="list-style-type: none"> • Range of movement • Side effects measurement | <ul style="list-style-type: none"> • MRI, CT • Recurring mammograms (every six months for the first 3 years) |
| ACCESSING THE PATIENT | <ul style="list-style-type: none"> • Office visits • Mammography unit • Lab visits | <ul style="list-style-type: none"> • Office visits • Lab visits • High risk clinic visits | <ul style="list-style-type: none"> • Office visits • Hospital visits • Lab visits | <ul style="list-style-type: none"> • Hospital stays • Visits to outpatient radiation or chemotherapy units • Pharmacy visits | <ul style="list-style-type: none"> • Office visits • Rehabilitation facility visits • Pharmacy visits | <ul style="list-style-type: none"> • Office visits • Lab visits • Mammographic labs and imaging center visits |
| | MONITORING/ PREVENTING | DIAGNOSING | PREPARING | INTERVENING | RECOVERING/ REHABING | MONITORING/ MANAGING |
| | <ul style="list-style-type: none"> • Medical history • Control of risk factors (obesity, high fat diet) • Genetic screening • Clinical exams • Monitoring for lumps | <ul style="list-style-type: none"> • Medical history • Determining the specific nature of the disease (mammograms, pathology, biopsy results) • Genetic evaluation • Labs | <ul style="list-style-type: none"> • Choosing a treatment plan • Surgery prep (anesthetic risk assessment, EKG) • Plastic or oncologic surgery evaluation • Neo-adjuvant chemotherapy | <ul style="list-style-type: none"> • Surgery (breast preservation or mastectomy, oncoplastic alternative) • Adjuvant therapies (hormonal medication, radiation, and/or chemotherapy) | <ul style="list-style-type: none"> • In-hospital and outpatient wound healing • Treatment of side effects (e.g. skin damage, cardiac complications, nausea, lymphedema and chronic fatigue) • Physical therapy | <ul style="list-style-type: none"> • Periodic mammography • Other imaging • Follow-up clinical exams • Treatment for any continued or later onset side effects or complications |

Attributes of an Integrated Practice Unit (IPU)

1. Organized around the **patient medical condition** or set of closely related conditions (or patient segment in primary care)
2. Involves a **dedicated, multidisciplinary team** who devotes a significant portion of their time to the condition
3. Providers involved are members of or affiliated with a **common organizational unit**
4. Takes responsibility for the **full cycle of care** for the condition
 - Encompassing **outpatient, inpatient, and rehabilitative** care as well as **supporting services** (e.g. nutrition, social work, behavioral health)
5. Incorporates **patient education, engagement, and follow-up** as integral to care
6. Utilizes a **single administrative and scheduling structure**
7. **Co-located** in **dedicated facilities**
8. Care is led by a **physician team captain** and a **care manager** who oversee each patient's care process
9. **Measures** outcomes, costs, and processes for each patient using a common **information platform**
10. Providers function as a team, **meeting formally and informally** on a regular basis to discuss patients, processes and results
11. Accepts **joint accountability** for outcomes and costs

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

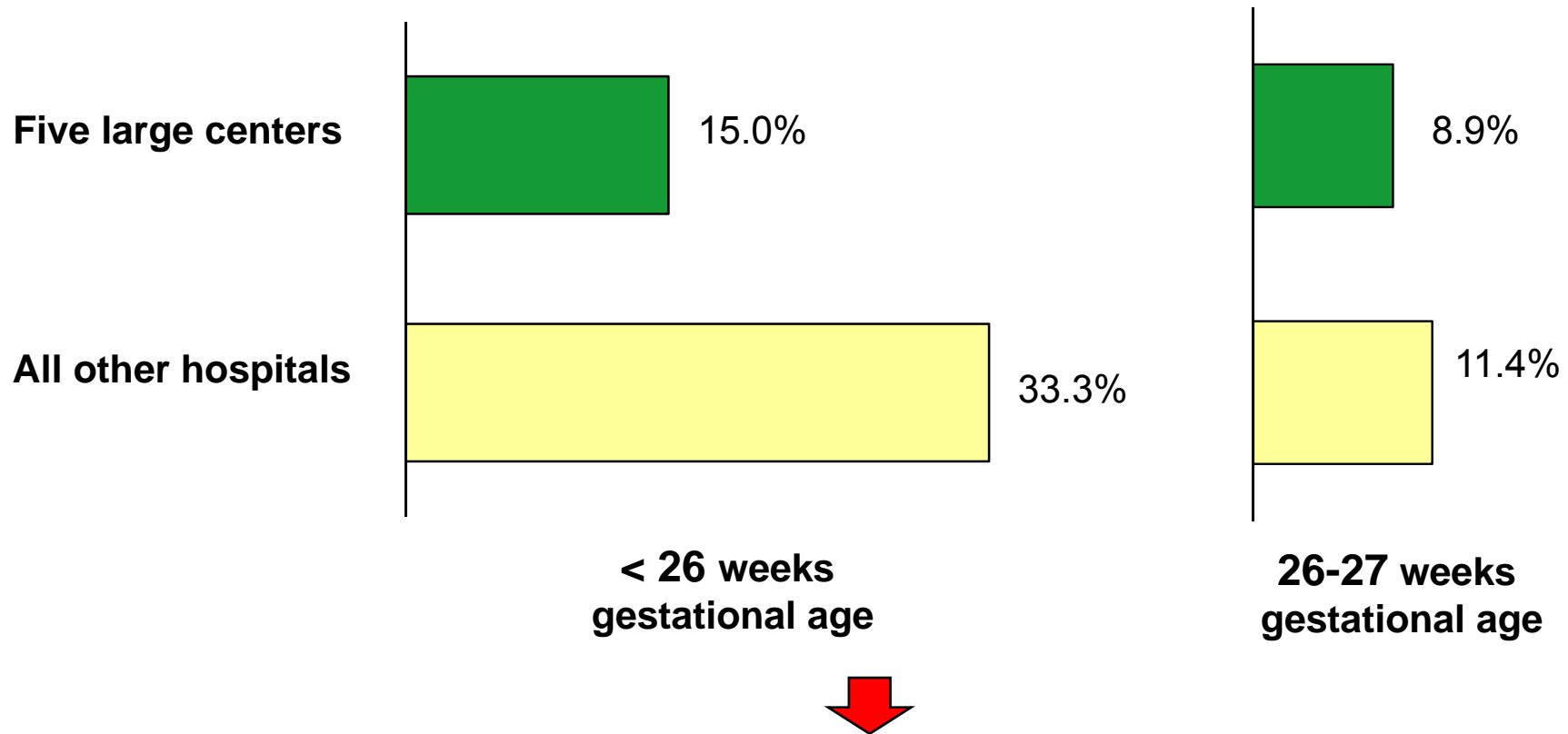
Fragmentation of Hospital Services in Sweden

| 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

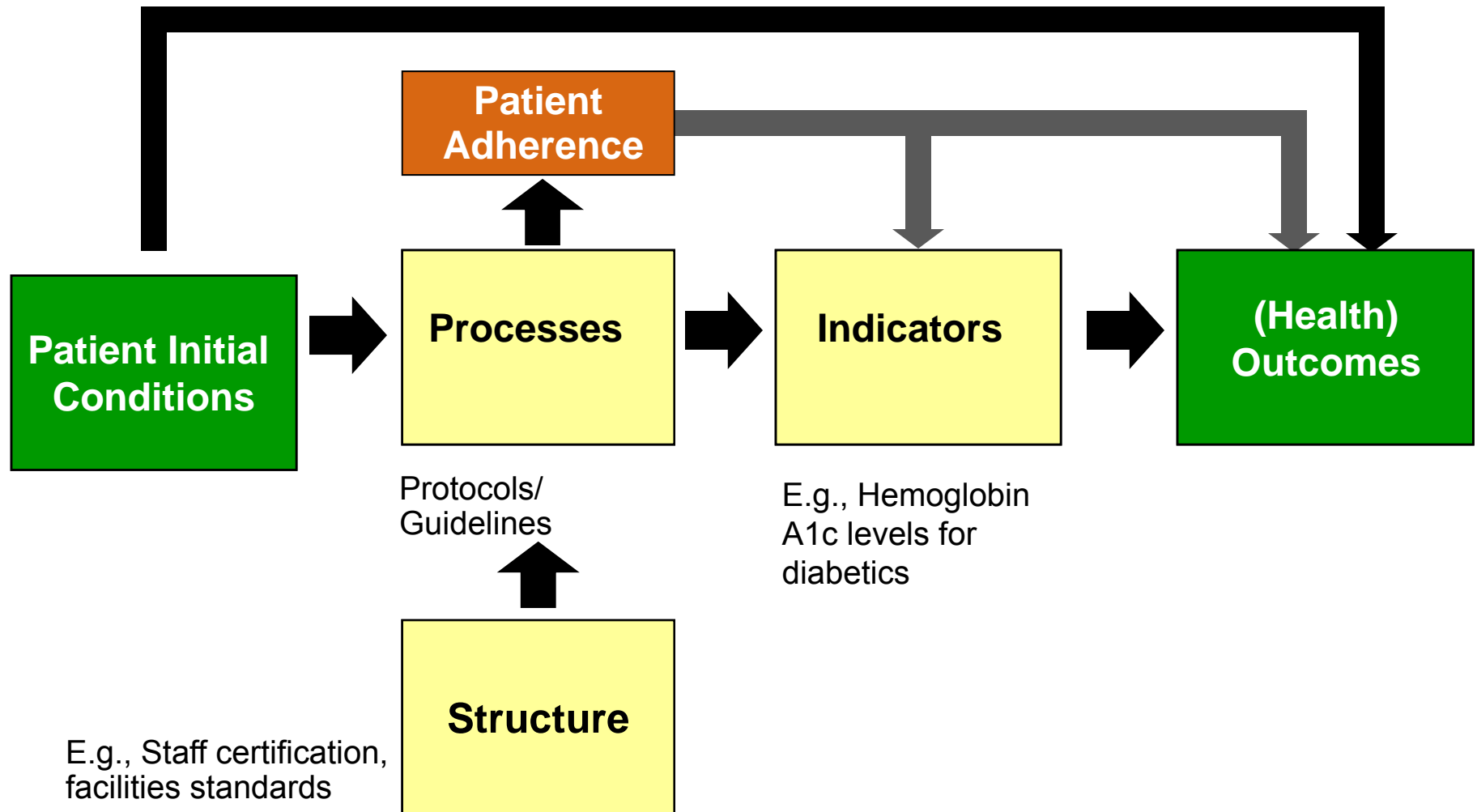
Mortality of Low-birth Weight Infants in Baden-Württemberg, Germany



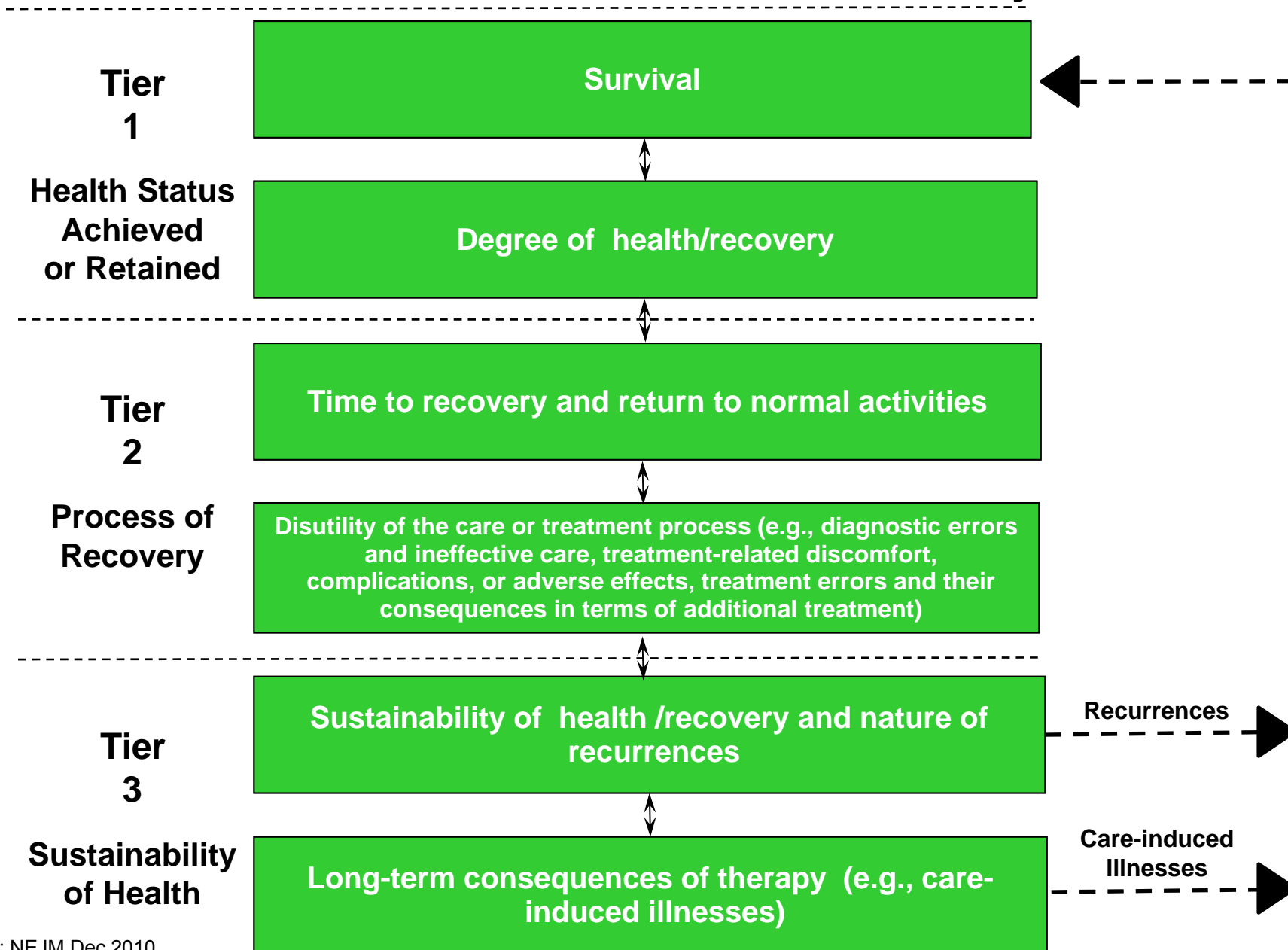
- **Minimum volume standards** are an interim step to drive value and service consolidation in the absence of rigorous outcome information

2. Measuring Outcomes and Cost for Every Patient

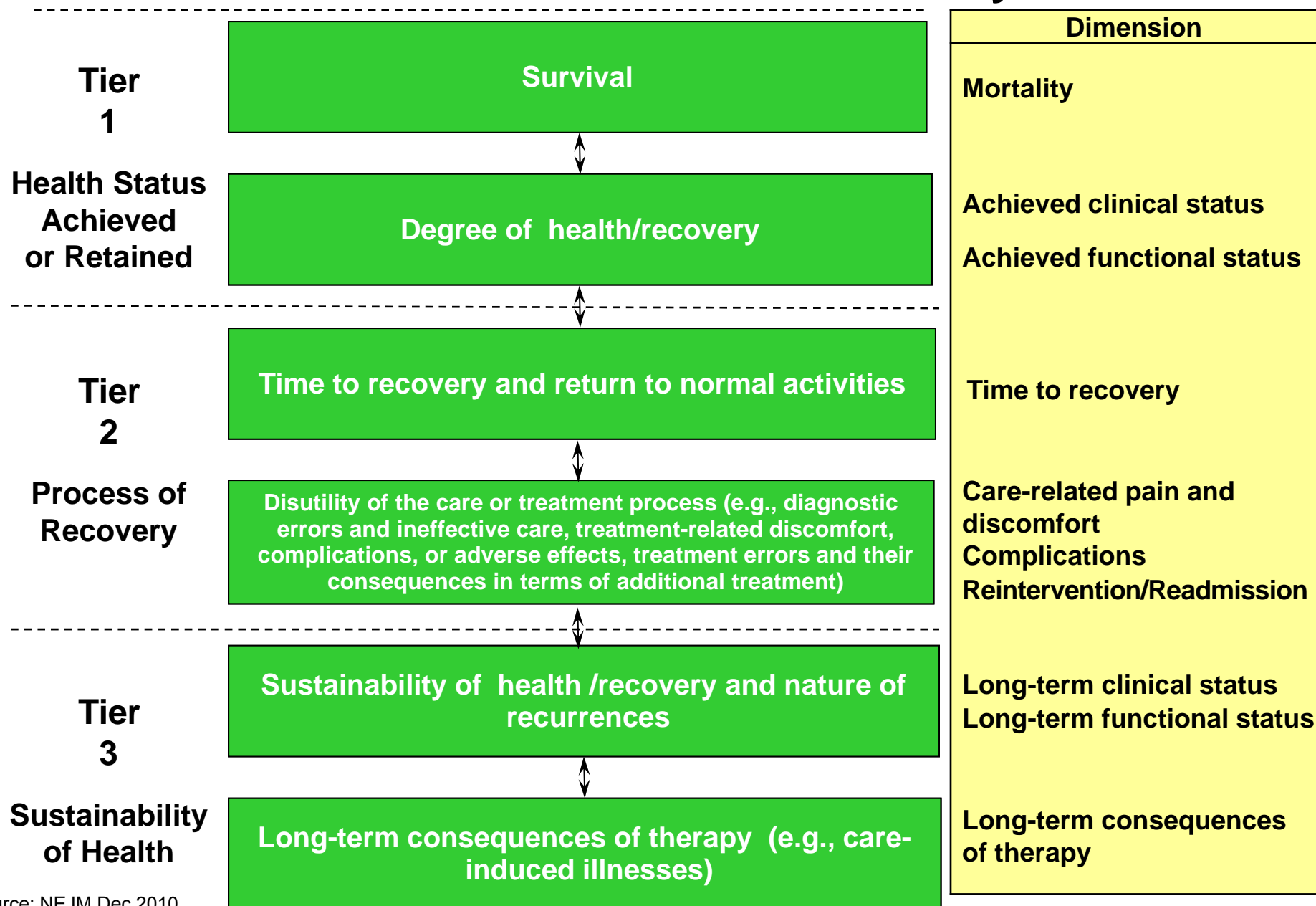
The Measurement Landscape



The Outcome Measures Hierarchy

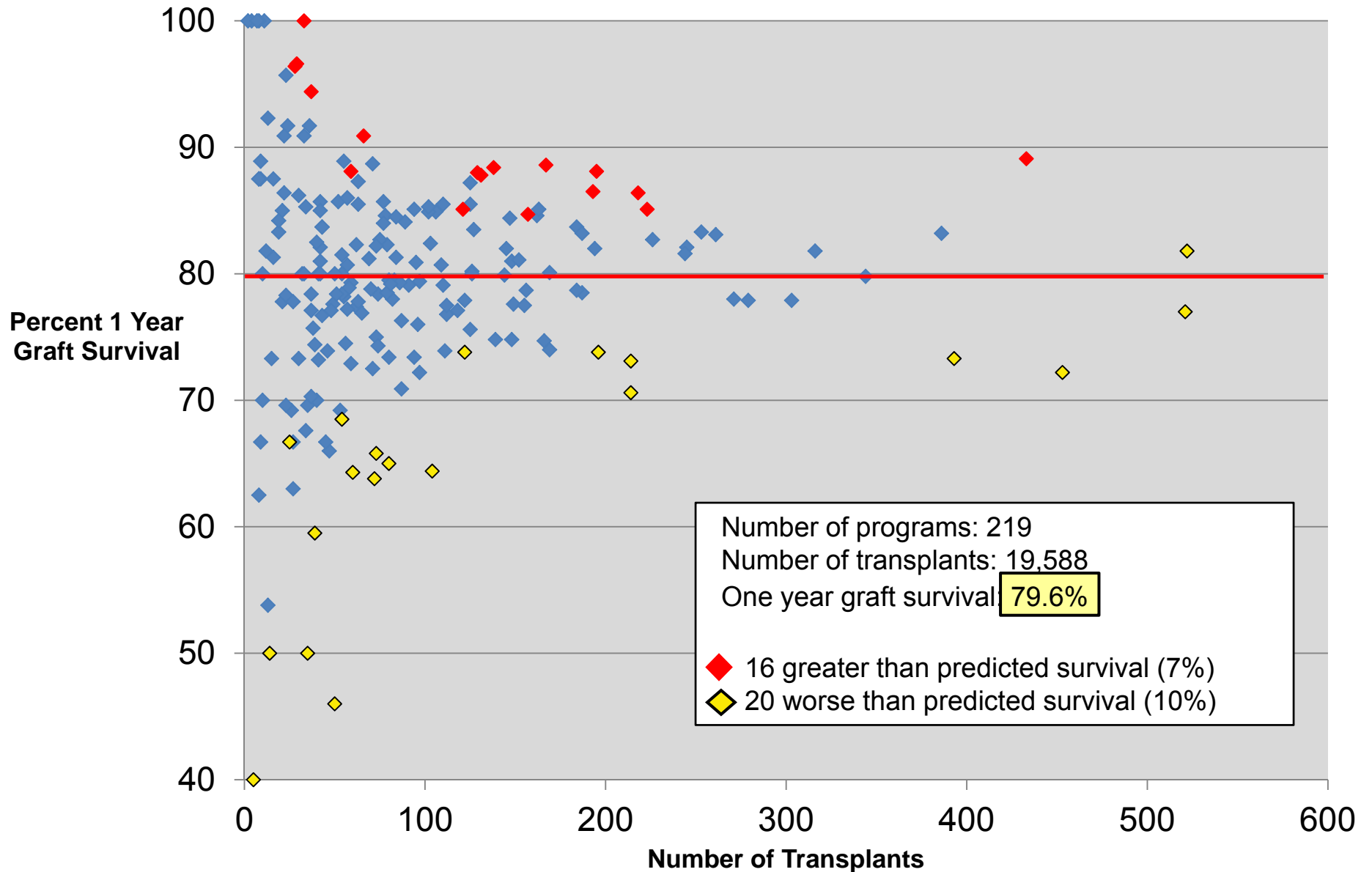


The Outcome Measures Hierarchy



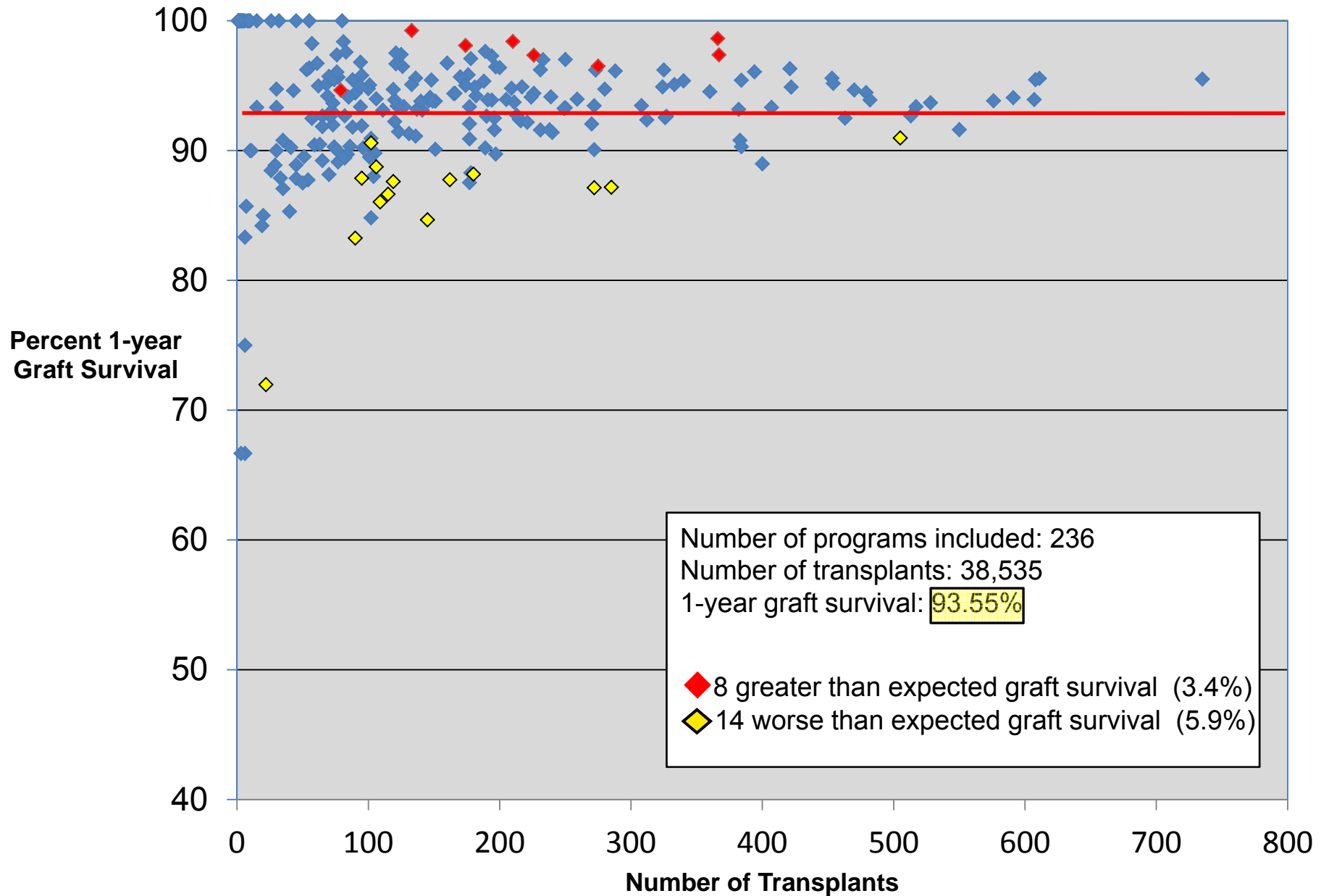
Adult Kidney Transplant Outcomes

U.S. Centers, 1987-1989

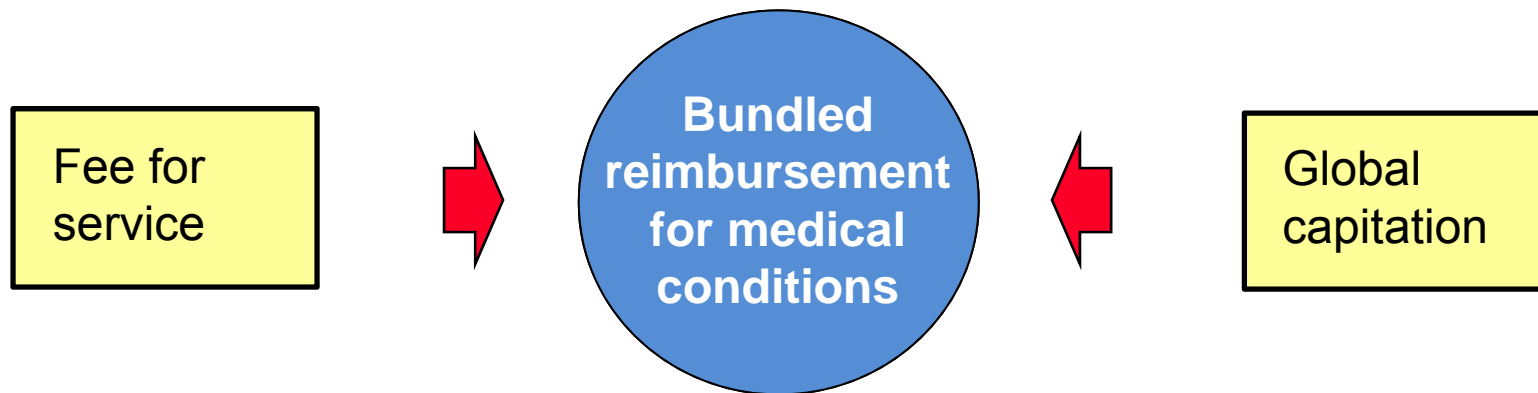


Adult Kidney Transplant Outcomes

U.S. Center Results, **2008-2010**



3. Reimbursing through Bundled Prices 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 | |

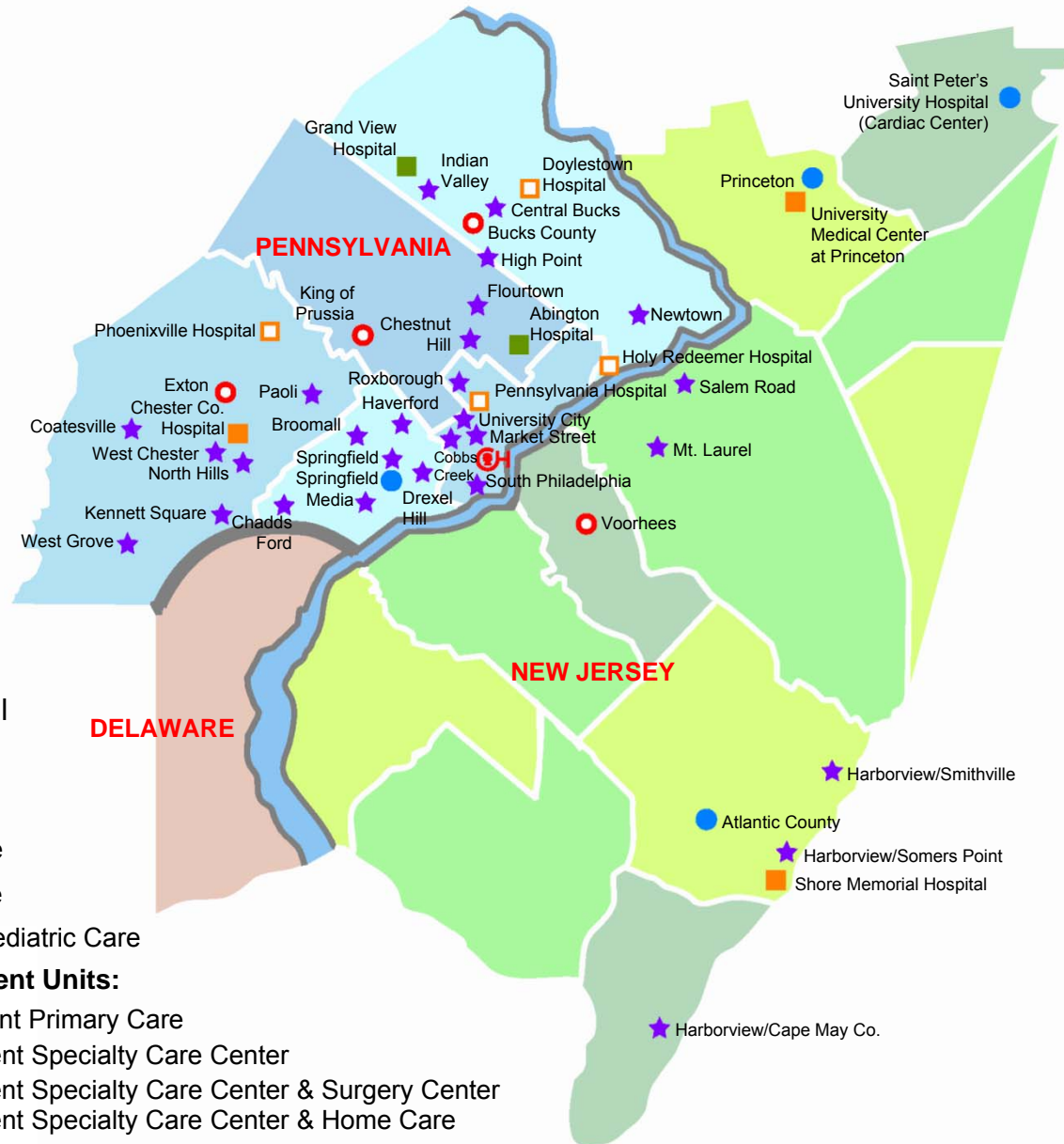
- Currently applies to all **relatively healthy patients** (i.e. ASA scores of 1 or 2)
- The same **referral process** from PCPs is utilized as the traditional system
- **Mandatory reporting** by providers to the joint registry plus supplementary reporting
- Applies to **all** qualifying patients. Provider 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. Integrating Care Delivery Across Separate Facilities

Children's Hospital of Philadelphia Care Network







 The Children's Hospital of Philadelphia®

Network Hospitals:

-  CHOP Newborn Care
-  CHOP Pediatric Care
-  CHOP Newborn & Pediatric Care

Wholly-Owned Outpatient Units:

-  Pediatric & Adolescent Primary Care
-  Pediatric & Adolescent Specialty Care Center
-  Pediatric & Adolescent Specialty Care Center & Surgery Center
-  Pediatric & Adolescent Specialty Care Center & Home Care

Four Levels of Provider System Integration

1. Choose an **overall scope of services** where the provider system can achieve excellence in value
2. **Rationalize service lines / IPUs across facilities** to improve volume, better utilize resources, and deepen teams
3. Offer specific services at the **appropriate facility**
 - Based on medical condition, acuity level, resource intensity, cost level, need for convenience
 - E.g., shifting routine surgeries to smaller, more specialized facilities
4. Clinically integrate care **across units and facilities** using an IPU structure
 - Integrate services across the care cycle
 - Integrate preventive/primary care units with specialty IPUs



There are major value improvements available from **concentrating volume** by medical condition and moving care **out of heavily resourced** hospital, tertiary and quaternary facilities

5. Expanding Geographic Coverage by Excellent Providers

Leading Providers

- Grow **areas of excellence across geography**:
 - **Hub and spoke** expansion of satellite pre- and post-acute services
 - **Affiliations** with community providers to extend the reach of IPUs
- Increase the **volume of patients** in medical conditions or primary care segments vs. **widening** service lines locally, or adding new **broad line** units

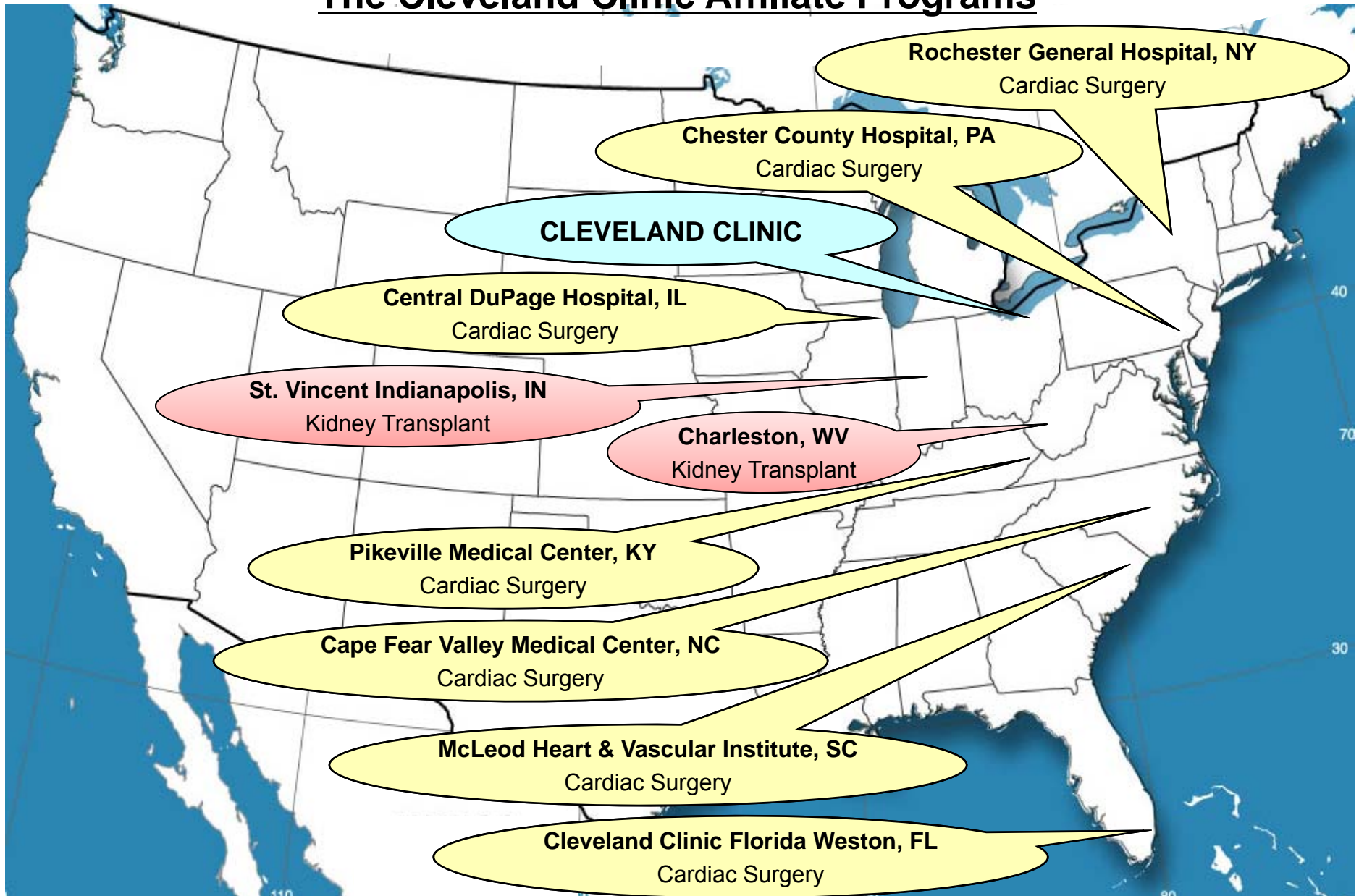


Community Providers

- **Affiliate with excellent providers** in more complex medical conditions and patient segments in order to access expertise, facilities and services to enable high value care
 - New roles for **rural** and **community** hospitals

Expanding Geographic Coverage by Excellent Providers

The Cleveland Clinic Affiliate Programs

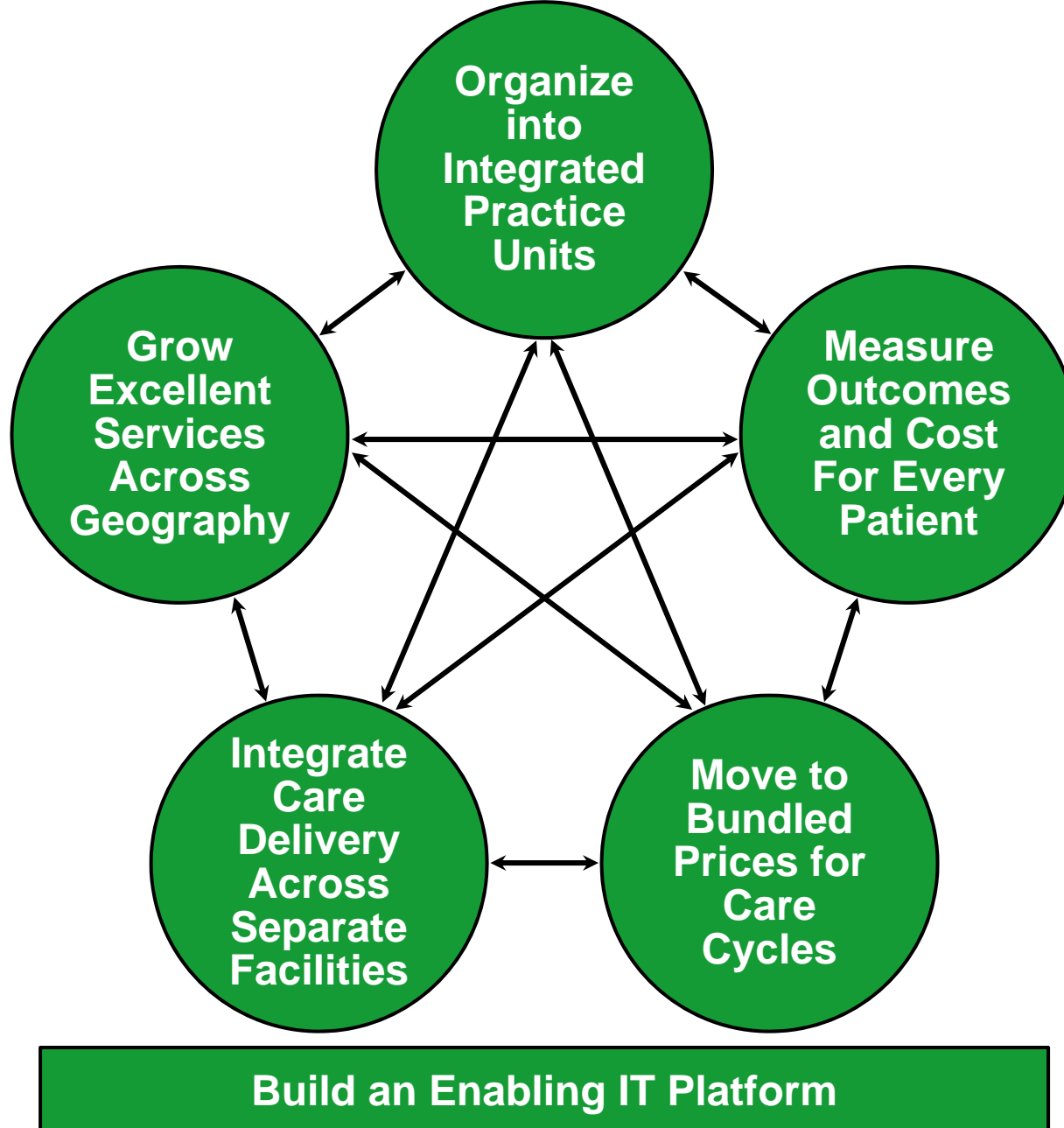


6. Building an Enabling Information Technology Platform

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

- Common **data definitions**
- Combine **all types of data** (e.g. notes, images) for each patient
- 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



Creating a Value-Based Health Care Delivery System

Implications for Physician Leaders

1. Integrated Practice Units (IPUs)

- Lead **multidisciplinary teams**, not specialty silos

2. Measure Cost and Outcomes

- Become an expert in **measurement** and **process improvement**

3. Move to Bundled Prices

- Proactively develop new **bundled reimbursement options** and **care guarantees**

4. Integrate Across Separate Facilities

- Champion **value enhancing rationalization, relocation, and integration** with sister hospitals, as well as between inpatient and outpatient units, instead of protecting turf

5. Expand Excellence Across Geography

- Create networks and affiliations to expand high-value care **outside the local area**

6. Enabling IT Platform

- Become a **champion for the right EMR** systems, not an obstacle to their adoption and use

Creating a Value-Based Health Care Delivery System

Implications for Payors

1. Integrated Practice Units (IPUs)

- Encourage and reward **integrated practice unit** models by providers

2. Measure Cost and Outcomes

- Encourage or mandate **provider outcome reporting through registries** by medical condition
- Create standards for meaningful provider **cost reporting**

3. Move to Bundled Prices

- Design **new bundled reimbursement structures** for care cycles instead of fees for discrete services
- Share information with providers to enable **improved outcomes and cost measurement**

4. Integrate Across Separate Facilities

- Assist in coordinating patient care **across the care cycle** and across medical conditions
- Direct care to **appropriate facilities** within provider systems

5. Expand Excellence Across Geography

- Provide advice to patients (and referring physicians) in selecting **excellent providers**
- Create relationships to increase the volume of care delivered by or affiliated with **centers of excellence**

6. Enabling IT Platform

- Assemble, analyze, manage members' **total medical records**
- Require introduction of compatible **medical records systems**