Redefining Health Care: Creating Value-Based Competition on Results

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Forces of Change Harvard School of Public Health April 5, 2006

This presentation draws on a forthcoming book with Elizabeth Olmsted Teisberg (<u>Redefining Health Care: Creating Value-Based Competition on Results</u>, Harvard Business School Press). Earlier publications about the work include the *Harvard Business Review* article "Redefining Competition in Health Care" and the associated *Harvard Business Review* Research Report "Fixing Competition in U.S. Health Care" (June 2004). 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.

Comments on Other Speakers

David Cutler

- Value, not cost
- Research at medical condition level
- Universal coverage is efficient too

Regina Herzlinger

- Opened up application of business thinking to health care
- Patients as consumers
- Ideas around some time: why not catch on or solve the problem?

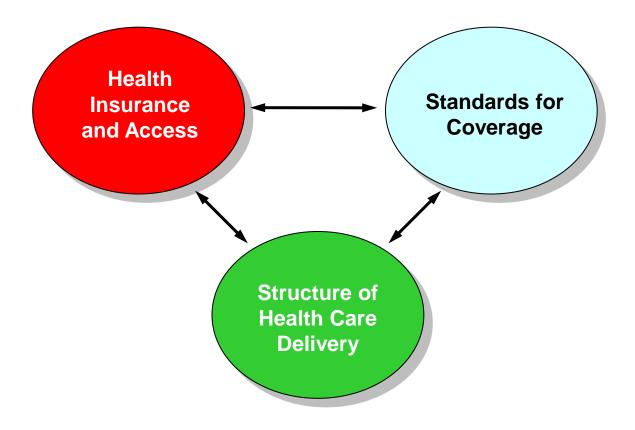
Arnold Epstein

- We need to focus on quality
- PFP puts providers at the center of the system

But

- Micromanagement won't work
- PFP is pay for compliance/often at the wrong level too
- Builds in cost-escalation
 - Margin v. price
 - Patients much more of an incentive
- Results info will work: previous lack of consumer response was because poor info, health plans not involved, no consequences.

Issues in Health Care Reform



The Paradox of Health Care

- Costs are high and rising
- Services are restricted and 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 Health Care

- Competition to shift costs
- Competition to increase bargaining power
- Competition to capture patients and restrict choice
- Competition to restrict services in order to reduce costs



None of these forms of competition increases value for patients

Root Causes

 Competition in the health care system takes place at the wrong levels on the wrong things

Too Broad

 Between broad line hospitals, networks, and health plans

Too Narrow

 Performing discrete services or interventions

Too Local

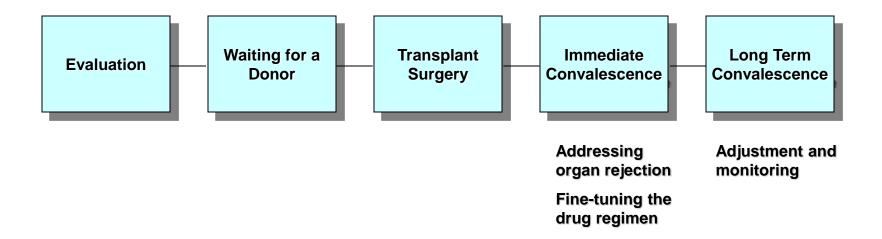
Focused on the local community

1. The focus should be on value for patients, not just lowering costs.

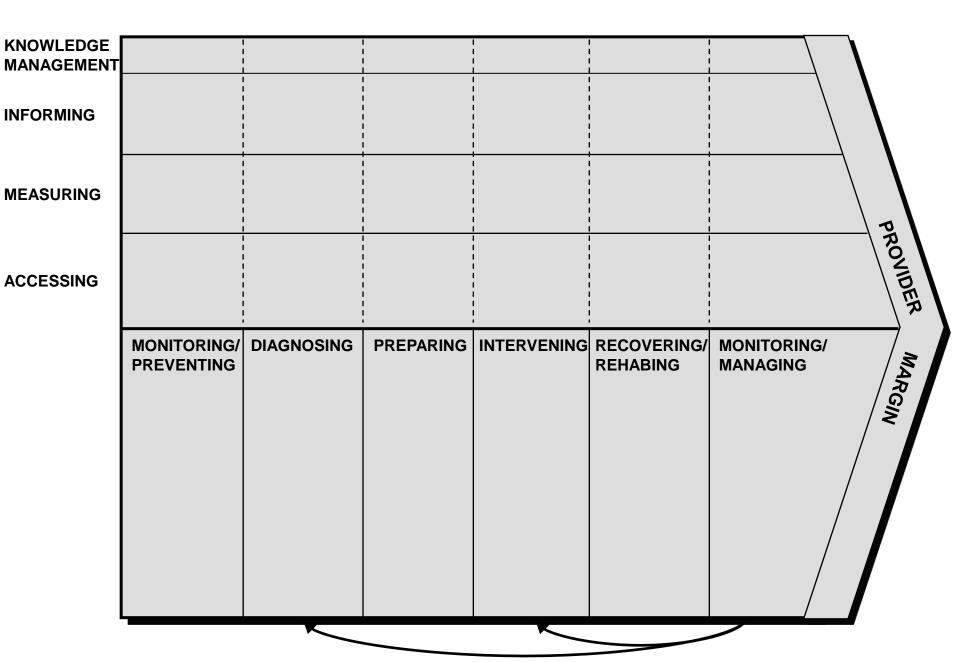
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- Competition should center on medical conditions over the full cycle of care.

Organ Transplant Care Cycle



The Care Delivery Value Chain



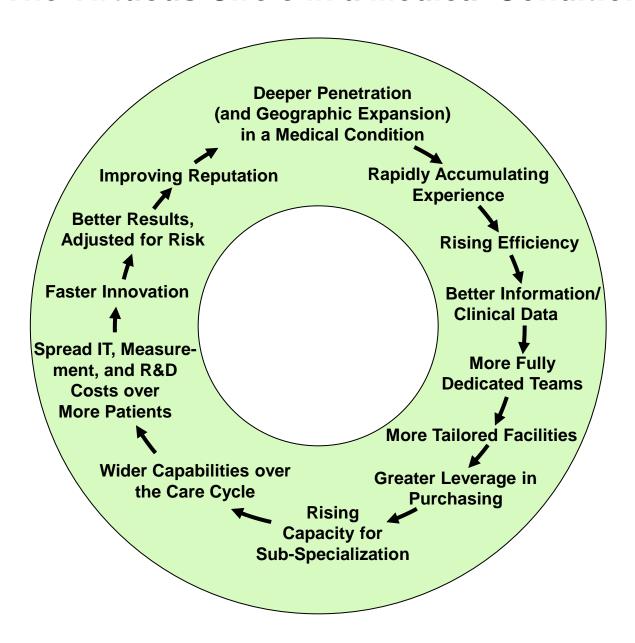
The Care Delivery Value Chain: Primary Activities
Breast Cancer Care

Breast Cancer Care											
(NOWLEDGE MANAGEMENT			 								
NFORMING	 Education and reminders about regular exams Lifestyle and diet counseling 	patient and family on the diagnostic process and the diagnosis		 Counseling patient and family on treatment and prognosis 	on rehabilitation options and process	• Counseling patient and family on long term risk management					
IEASURING	Self exams Mammograms	Mammograms Ultrasound MRI Biopsy BRACA 1, 2		Procedure- specific measurements	Range of movement Side effects measurement	• Recurring mammograms (every 6 months for the first 3 years)					
CCESSING	Office visits Mammography lab visits	Office visits Lab visits High-risk clinic visits	• Office visits • Hospital visits	Hospital stay Visits to outpatient or radiation chemotherapy units	Office visits Rehabilitation facility visits	Office visits Lab visits Mammographic labs and imaging center visits					
	MONITORING/ PREVENTING	DIAGNOSING	PREPARING	INTERVENING	RECOVERING/ REHABING	MONITORING/ MANAGING					
	Medical history Monitoring for lumps Control of risk factors (obesity, high fat diet) Clinical exams Genetic screening	Medical history Determining the specific nature of the disease Genetic evaluation Choosing a treatment plan	Medical counseling Surgery prep (anesthetic risk assessment, EKG) Patient and family psychological counseling Plastic or oncoplastic surgery evaluation	Surgery (breast preservation or mastectomy, oncoplastic alternative) Adjuvant therapies (hormonal medication, radiation, and/or chemotherapy)	In-hospital and outpatient wound healing Psychological counseling Treatment of side effects (skin damage, neurotoxic, cardiac, nausea, lymphodema and chronic fatigue) Physical therapy	MANAGING • Periodic mammography • Other imaging • Follow-up clinical exams for next 2 years • Treatment for any continued side effects					

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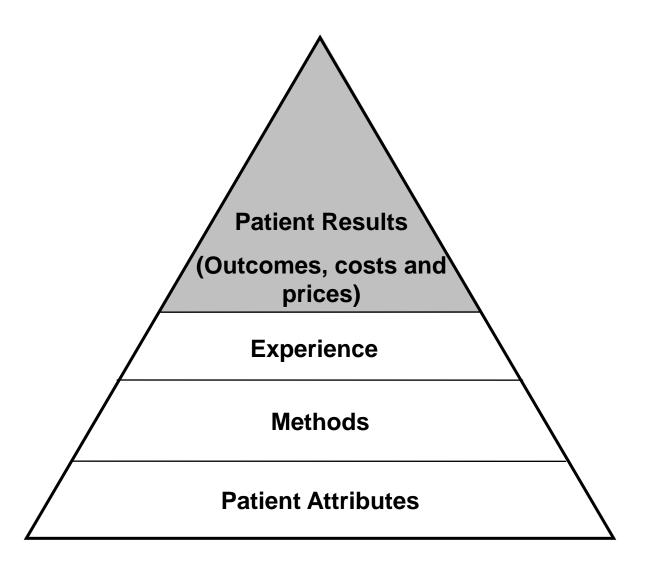
The Virtuous Circle in a Medical Condition



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- 6. Competition should be regional and national, not just local.
- 7. **Information** on results and prices needed for value-based competition must be widely available.

The Information Hierarchy



Boston Spine Group

Clinical and Outcome Information Collected and Analyzed

OUTCOMES

METHODS

Patient Outcomes

(before and after treatment, multiple times)

Visual Analog Scale (pain)

Owestry Disability Index, 10 questions (functional ability)

SF-36 Questionnaire, 36 questions (burden of disease)

Length of hospital stay

Time to return to work or normal activity

Medical Complications

Cardiac

Myocardial infarction

Arrhythmias

Congestive heart failure

Vascular deep venous thrombosis

Urinary infections

Pneumonia

Post-operative delirium

Drug interactions

Surgery Process Metrics

Operative time

Blood loss

Devices or products used

Service Satisfaction

(periodic)

Office visit satisfaction metrics (10 questions)

Overall medical satisfaction

("Would you have surgery again for the same problem?")

Surgery Complications

Patient returns to the operating room

Infection

Nerve injury

Sentinel events (wrong site surgeries)

Hardware failure

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- 8. **Innovations** that increase value must be strongly rewarded.

Moving to Value-Based Competition <u>Providers</u>

Defining the Right Goals

Superior patient value

Strategic and Organizational Imperatives

Redefine the business around medical conditions

What Businesses Are We In?

Chronic Kidney Disease

Nephrology practice



- End-Stage Renal Disease
- Kidney Transplants
- Hypertension Management

Moving to Value-Based Competition Providers

Defining the Right Goals

Superior patient value

Strategic and Organizational Imperatives

- Redefine the business around medical conditions
- Choose the range and types of services provided
- Organize around medically integrated practice units
- Create a distinctive strategy in each practice unit
- Measure results, experience, methods, and patient attributes by practice unit
- Move to single bills and new approaches to pricing
- Market services based on excellence, uniqueness, and results
- Grow locally and geographically in areas of strength

Enabling Conditions

- Analyzing the care delivery value chain
- Harnessing the power of Information Technology
- Systematizing knowledge development

Implementing Value-Based Strategies

Stroke Care: Major Vessel

Stroke Care: Major Vessel										
KNOWLEDGE MANAGEMENT										
INFORMING	Counseling prior stroke patients about future risk	patient and family on the diagnostic process and the diagnosis	Gaining informed patient consent to treatment	treatment	Counseling patient and family on rehabilitation options and process	Counseling patient and family on long term management				
MEASURING		Emergency non- contrast brain CT Emergency CTA (angiography CT) Emergency diffusion and perfusion MRIs		Procedure- specific measurements (e.g. success of reperfusion therapy)	Neurological/ neuropsychological assessments Follow-up neuro-imaging	Neurological assessment Neuropsychological/behavioral evaluations Clinic and office visits				
ACCESSING		Transport to ER In-hospital transport	In-hospital transport to the treatment site	In-hospital transport	In-hospital transportAmbulance transport	• Clinic and office visits				
	• Control of risk factors (e.g. Heart disease, peripheral vascular disease, and smoking • Observing patient	Medical history (including from friends or relatives)	• Assembling personnel, pharmaceuticals and materials	indicated •Emergency	RECOVERING/ REHABING •Intensive Care Unit (ICU) or neurological ICU •Recovery room •In-hospital observation and rehabilitation	MONITORING/ MANAGING •In-patient chronic care (nursing home) •Out-patient (home) chronic care •Follow-up visits •Stroke prevention				
	symptoms (e.g. speech, paralysis)	 Assessment of imaging Potential remote consultation with stroke experts Defining the treatment plan 		vessel re- canalization using endovascular methods		plan				
SKILLS	• Primary or specialist physicians • EMTs ge - 040420(al Non-H	-	• EMTs • ER physician • Neurology • Radiology • Internal Mediciঞ	>	 ICU Staff Neurology Physical therapy Psychology Psychiatry Social Work 	ght 2006 © Michael E. Porter and Elizabeth Olmsted Teisberg				

Analyzing the Care Delivery Value Chain

- 1. Is the **set and sequence** of activities in the CDVC aligned with value?
- 2. Is the appropriate **mix of skills** brought to bear on each activity and across activities, and do individuals work as a **team**?
- 3. Is there **appropriate coordination** across the discrete activities in the care cycle, and are handoffs seamless?
- 4. Is care structured to **harness linkages** across different parts of the care cycle?
- 5. Is the **right information** collected, integrated, and utilized across the care cycle?
- 6. Are the activities in the CDVC performed in appropriate facilities and locations?
- 7. What provider departments, units and groups are involved in the care cycle? Is the provider's **organizational structure** aligned with value?
- 8. What are the independent entities involved in the care cycle, and what are the relationships among them? Should a provider's **scope of services** in the care cycle be expanded or contracted?

Moving to Value-Based Competition Suppliers

- Compete on delivering unique value over the full care cycle
- Demonstrate value based on careful study of long term costs and results versus alternative therapies
- Ensure that the products are used by the right patients
- Ensure that drugs/devices are embedded in the right care delivery processes
- Market based on value, information, and customer support
- Offer support services that contribute to value rather than reinforce cost shifting

Transforming the Roles of Health Plans

Old Role

New Role

 Restrict patient choice of providers and treatment

- Enable informed patient and physician choice and patient management of their health

 Micromanage provider processes and choices



 Measure and reward providers based on results

Minimize the cost of each service or treatment



 Maximize the value of care over the full care cycle

 Engage in complex paperwork and administrative transactions with providers and subscribers to control costs and settle bills



 Minimize the need for administrative transactions and simplify billing

 Compete on minimizing premium increases



Compete on subscriber health results

Moving to Value-Based Competition Health Plans

Provide Health Information and Support to Patients and Physicians

- 1. Organize around **medical conditions**, not geography or administrative functions
- 2. Develop measures and assemble results **information** on providers and treatments
- 3. Actively **support provider** and **treatment choice** with information and unbiased counseling
- 4. Organize information and patient support around the full cycle of care
- Provide comprehensive disease management and prevention services to all members, even healthy ones

Restructure the Health Plan-Provider Relationship

- 6. Shift the nature of **information sharing** with providers
- 7. Reward provider **excellence** and value-enhancing **innovation** for patients
- 8. Move to single bills for episodes and cycles of care, and single prices
- 9. Simplify, standardize, and eliminate paperwork and transactions

Redefine the Health Plan-Subscriber Relationship

- Move to multi-year subscriber contracts and shift the nature of plan contracting
- End cost shifting practices, such as re-underwriting, that erode trust in health plans and breed cynicism
- 12. Assist in managing members' medical records

Moving to Value-Based Competition **Employers**

- Set the goal of increasing health value, not minimizing health benefit costs
- Set new expectations for health plans, including self-insured plans
- Provide for health plan continuity for employees, rather than plan churning
- Enhance provider competition on results
- Support and motivate employees to make good health care choices and manage their own health
- 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

Moving to Value-Based Competition Consumers

- Participate actively in managing personal health
- Expect relevant information and seek advice
- Make treatment and provider choices based on excellent results and personal values, not convenience or amenities
- Choose a health plan based on value added
- Build a long-term relationship with an excellent health plan
- Act responsibly

Roles of Government in Value-Based Competition

- Require the collection and dissemination of the risk-adjusted outcome information
- Open up value-based competition at the right level
- Provide for price transparency
- Limit or eliminate price discrimination
- Develop information technology standards and rules to enable interoperability and information sharing
- Invest in medical and clinical research

What Government Can Do: Policies to Improve Health Insurance, Access, and Coverage

Insurance and Access

- Enact mandatory health coverage
- Provide subsidies or vouchers for low-income individuals and families
- Create risk pools for high-risk individuals
- Enable affordable insurance plans
- Eliminate unproductive insurance rules and billing practices
 - Ban re-underwriting
 - Clarify legal responsibility for medical bills
 - Eliminate balance billing

Coverage

- Establish a national standard for required coverage
- The Federal Employees Health Benefit Plan (FEHBP) as a starting point

What Government Can Do: Policies to Improve the Structure of Health Care Delivery

- Enable universal results information
 - Establish a process of defining outcome measures
 - Enact mandatory results reporting
 - Establish information collection and dissemination infrastructure
- Improve pricing practices
 - Establish episode and care cycle pricing
 - Set limits on price discrimination
- Open up competition at the right level
 - Reduce artificial barriers to practice area integration
 - Modify Stark laws
 - Phase-out corporate practice of medicine laws
 - Require a value justification for captive referrals or treatment involving an economic interest
 - Eliminate artificial restrictions on new entry
 - Institute results-based license renewal
 - Strictly enforce antitrust policies
 - Curtail anticompetitive buying group practices
 - Eliminate barriers to competition across geography
 - Establish reciprocity in state-level licensing
 - Modify tax treatment of medical travel

What Government Can Do: Policies to Improve the Structure of Health Care Delivery (continued)

- Establish standards and rules that enable information technology and information sharing
 - Develop standards for interoperability of hardware and software
 - Develop standards for medical data
 - Enhance identification and security procedures
 - Provide incentives for IT adoption
- Reform the malpractice system
- Redesign Medicare policies and practices
 - Make Medicare a health plan, not a payer or a regulator
- Modify counterproductive pricing practices
- Improve Medicare Pay-for-Performance
- Align Medicaid with Medicare
- Invest in medical and clinical research

Health Care for Low Income Americans

- Mandatory, universal health coverage is essential, with subsidies for those who need – for reasons of economics as well as equity.
- Two class care works against the fundamental dynamic of using quality improvement to reduce costs
- Competition does not mean substandard care for low income Americans.
- Results reporting makes substandard care for any patient reflect poorly on the provider of that care, so quality and value will improve for all.
 - Results reporting will unmask disparities in care, making them intolerable.
- The price of a service should not depend on who is paying (as it does today), but on the care needed and on the provider.

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.