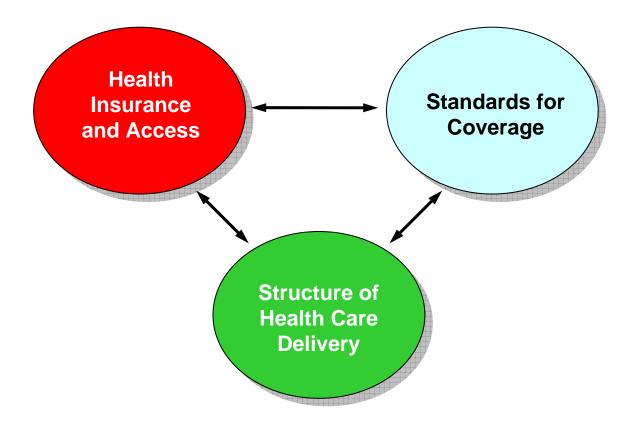
Value-Based Competition in Health Care

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Center for Economic Policy Studies Princeton, New Jersey November 17, 2006

This presentation draws on a book with Elizabeth Olmsted Teisberg (Redefining Health Care: Creating Value-Based Competition on Results, Harvard Business School Press, May 2006). Earlier publications about the work include the *Harvard Business Review* article "Redefining Competition in Health Care". 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.

Issues in Health Care Reform



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?

Competition on the Wrong Things **Zero-Sum Competition in U.S. 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

Competition at the Wrong Levels

Too Broad

 Between broad line hospitals, networks, and health plans

Too Narrow

 Performing discrete services or interventions

Too Local

 Focused on serving the local community



Market definition is misaligned with patient value

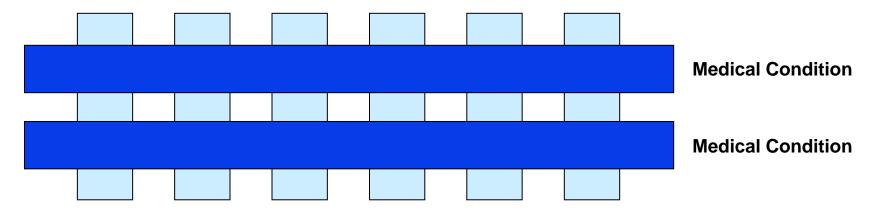
1. The focus should be on value for patients, not just lowering costs.

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- 2. There must be unrestricted competition based on results.
 - Results vs. supply control or process compliance
 - Get patients to excellent providers vs. "lift all boats"

- 1. The focus should be on value for patients, not just lowering costs.
- 2. There must be unrestricted competition based on results.
- 3. Competition should center on **medical conditions** over the **full cycle of care**.

What is a Medical Condition?

- A medical condition is an interrelated set of patient medical circumstances best addressed in an integrated way
 - Patient's perspective



Specialties / Functions

- Includes most common co-occurrences
- Served through Integrated Practice Units (IPUs)
- Providers can and should define the boundaries of a given medical condition differently based on patient populations
- Most providers will serve multiple medical conditions through multiple IPUs

What Businesses Are We In?

Hypertension Management

Nephrology practice

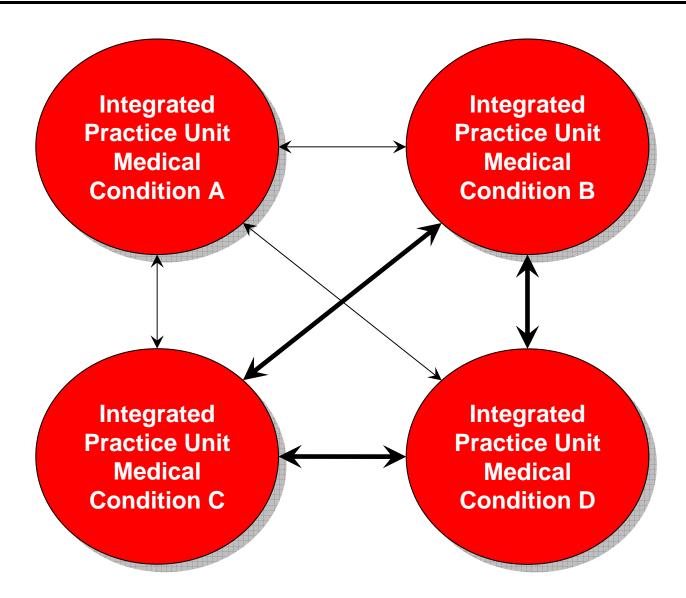


- Chronic Kidney Disease
- End-Stage Renal Disease
- Kidney Transplants

The Care Delivery Value Chain Breast Cancer Care

KNOWLEDGE MANAGEMENT INFORMING MEASURING	Education and reminders about regular exams Lifestyle and diet counseling Self exams Mammograms Office visits	Counseling patient and family on the diagnostic process and the diagnosis Mammograms Ultrasound MRI Biopsy BRACA 1, 2 Office visits	supporting patient choices of treatment	• Counseling patient and family on treatment and prognosis • Procedure-specific measurements	Counseling patient and family on rehabilitation options and process Range of movement Side effects measurement Office visits	• Counseling patient and family on long term risk management • Recurring mammograms (every 6 months for the first 3 years) • Office visits
ACCESSING	•Mammography lab visits MONITORING/	Lab visits High-risk clinic visits	Hospital visits PREPARING	Visits to outpatient or radiation chemotherapy units INTERVENING	Rehabilitation facility visits	Lab visits Mammographic labs and imaging center visits MONITORING
	PREVENTING 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
20061117 Princeton – 20061	1447			11		Breast Cancer Specialist Other Provider Entities

Levels of Medical Integration <u>Within Medical Conditions versus Across Medical Conditions</u>



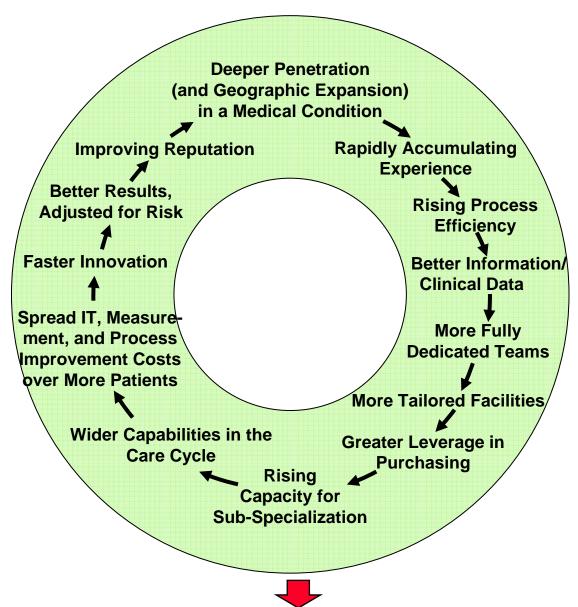
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- Competition should center on medical conditions over the full cycle of care.
- 4. High quality care should be less costly.
 - Prevention
 - Early detection
 - Right diagnosis
 - Early treatment
 - Right treatment to the right patients
 - Treatment earlier in the causal chain
 - Fewer mistakes and repeats in treatment
 - Fewer delays in care delivery
 - Less invasive treatment methods
 - Faster recovery
 - Less disability
 - Slower disease progression
 - Less need for long term care



• Better health is inherently less expensive than worse health

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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

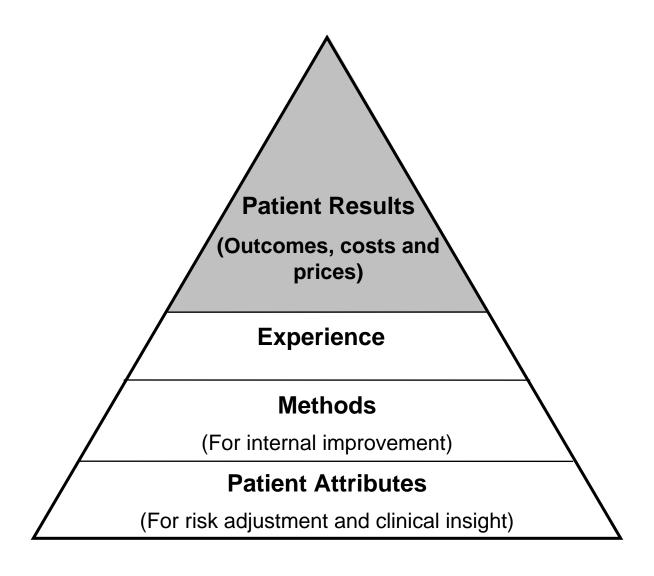


• Feed virtuous circles vs. fragmentation of care

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- 4. High quality care should be less costly.
- 5. Value is driven by **provider experience**, **scale**, and **learning** at the medical condition level.
- 6. Competition should be regional and national, not just local.
 - Virtuous circles extend across geography
 - Management of care cycles across geography
 - Partnerships and inter-organizational integration

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- 7. **Information** on results, costs, 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

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

Service Satisfaction

(periodic)

Office visit satisfaction metrics (10 questions)

Overall medical satisfaction

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

Medical Complications

Cardiac

Myocardial infarction

Arrhythmias

Congestive heart failure

Vascular deep venous

thrombosis

Urinary infections

Pneumonia

Post-operative delirium

Drug interactions

Surgery Complications

Patient returns to the operating room

Infection

Nerve injury

Sentinel events (wrong site surgeries)

Hardware failure

METHODS

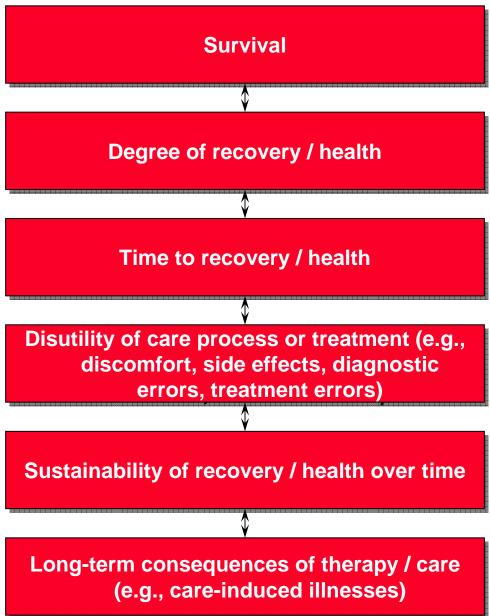
Surgery Process Metrics

Operative time

Blood loss

Devices or products used

Measuring Value The Outcome Measures Hierarchy



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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.
- 8. **Innovations** that increase value must be strongly rewarded.
 - Measure value
 - Care cycle reimbursement

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 across geography in areas of strength

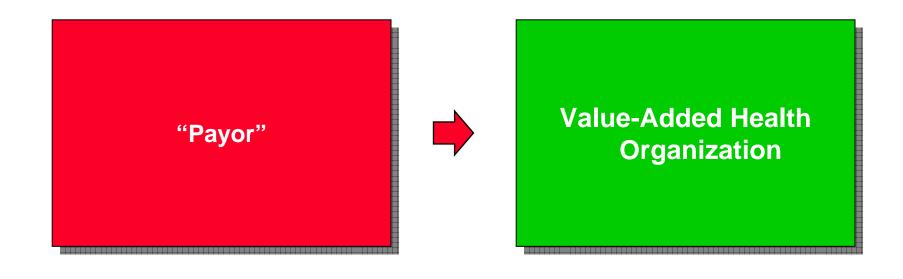


Employ partnerships and alliances to achieve these aims

The Care Delivery Value Chain Chronic Kidney Disease

INFORMING MEASURING	 Glomerular filtration rate 	the diagnosis and implications	• Procedure- specific pre- testing	Medication counseling and compliance follow-up Lifestyle and diet counseling Procedure-specific measurements	seling and com- pliance follow-up Lifestyle and diet	Medication compliance follow-up Lifestyle & diet counseling RRT therapy options counseling Kidney function tests Bone metabolism Anemia Office/lab visits Telephone/Internet interaction
ACCESSING	Office visits Lab visits MONITORING/ PREVENTING Monitoring renal function (at least annually) Monitoring and addressing risk factors (e.g. blood pressure) Early nephrologist referral for abnormal kidney function	DIAGNOSING Medical and family history Directed advanced testing Consultation with other specialists Data integration	PREPARING Formulate a treatment plan Procedure-specific preparation (e.g. diet, medication) Tight blood pressure control Tight diabetes control	Hospital visits	Office/lab visits Telephone/ Internet interaction RECOVERING/ REHABING Fine-tuning drug regimen Determining supporting nutritional modifications	
		Feedback Lo	pops			Nephrology PracticeOther Provider Entities

Moving to Value-Based Competition Health Plans



Transforming the Roles of Health Plans

Old Role: culture of denial

 Restrict patient choice of providers and treatment



- New Role: enable value-based competition on results
- 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



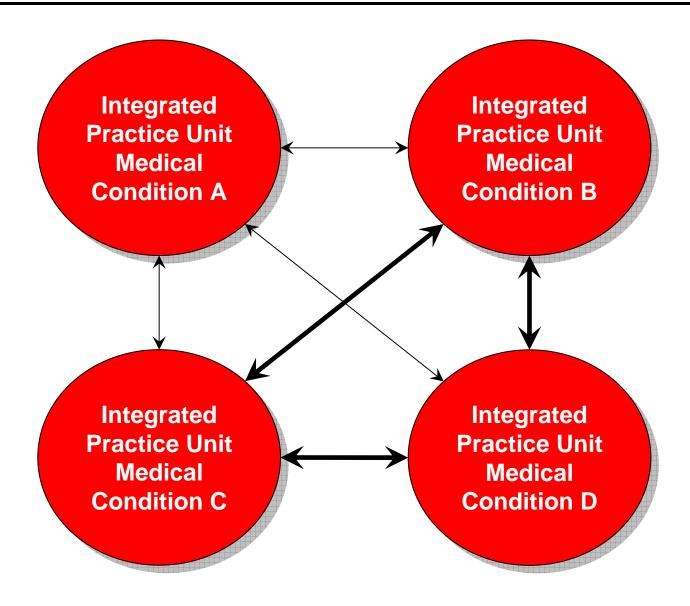
 Minimize the need for administrative transactions and simplify billing

 Compete on minimizing premium increases



Compete on subscriber health results

Levels of Medical Integration <u>Within Medical Conditions versus Across Medical Conditions</u>



Moving to Value-Based Competition Roles of Health Plans

Provide Health Information and Support to Patients and Physicians

- 1. Organize around medical conditions, not geography or administrative functions
- Develop measures and assemble results information on providers and treatments
- Actively support provider and treatment choice with information and unbiased counseling
- 4. Organize information and patient support around the full cycle of care
- 5. 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
- 11. 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

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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



Consumers cannot (and should not) be the only drivers

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
- Enable bundled prices and 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



Medicare can be a driver

The Critics

- Practicality
 - "Utopian vision"; "Innocence"
 - These ideas "might occur to anyone possessed of a modicum of common sense but not too familiar with the real world of health care."
 - Uwe Reinhardt
- Medical Conditions / Provider Strategy
 - "Patients have a nasty habit of having more than one thing wrong with them."
 - Gail Wilensky
 - "If each provider focuses on only one medical condition, they will not be able to treat the patient's real problem..."
 - Various commentators
- Integrated Health Systems
 - "Integrated delivery systems can organize and arrange comprehensive health services for members."
 - Alain Enthoven

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.