

Value-Based Competition in Health Care: Implications for Employers

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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, and “How Physicians Can Change the Future of Health Care,” *Journal of the American Medical Association*, 2007; 297:1103:1111. 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>.

Proposals for Reform

- Single Payer System
- Consumer-Driven Health Care
- Pay for Performance
- Electronic Medical Records
- Integrated Payer-Provider Systems

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
- Many patients receive therapies that **fail**
- 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?

Redefining Health Care

- Universal insurance **is not enough**
- The core issue in health care is the **value of health care delivered**

Value: Patient outcomes per dollar spent



- How to design a health care system that **dramatically improves value**
- How to create a **dynamic system** that keeps rapidly improving

Creating a Value-Based Health Care System

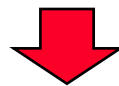
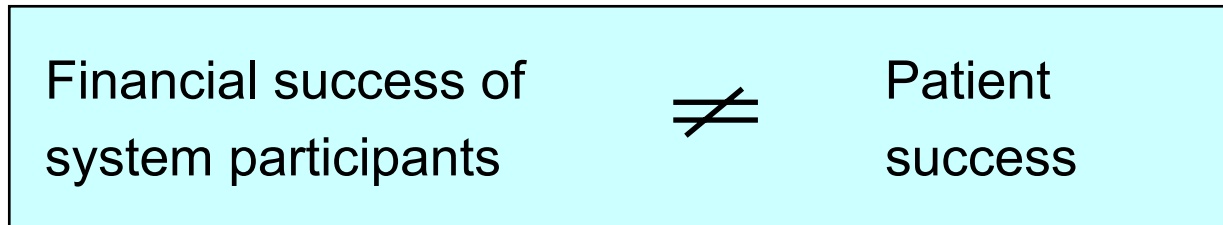
- Significant improvement in value will require **fundamental restructuring of health care delivery**, not incremental improvements

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**

Creating a Value-Based Health Care System

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



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

Zero-Sum Competition in U.S. Health Care

Bad Competition

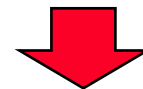
- Competition to **shift costs** or **capture a bigger share of revenue**
- Competition to **increase bargaining power**
- Competition to **capture patients** and **restrict choice**
- Competition to **restrict services** in order to maximize revenue per visit or reduce costs



Zero or Negative Sum

Good Competition

- Competition to **increase value for patients**



Positive Sum

Principles of Value-Based Competition

1. The goal should be **value for patients**, not **lowering costs**
 - This will require going **beyond waste reduction** and **administrative savings**

Principles of Value-Based Competition

1. The goal should be **value for patients**, not **lowering costs**
2. The best way to **contain costs** is to drive **improvement in quality**

Quality = Health outcomes

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



- Better health is **inherently less expensive** than poor health

Principles of Value-Based Competition

1. The goal should be **value for patients**, not **lowering costs**
2. The best way to contain costs is to drive improvement in **quality**
3. There must be **unrestricted competition** based on **results**

$$\text{Value: } \frac{\text{Patient health outcomes}}{\text{Total cost of achieving those outcomes}}$$

- Competition on results vs. supply control
- Reward results vs. process compliance
- Get patients to excellent providers vs. “lift all boats” or “pay for performance”
- Expand the proportion of patients cared for by the most effective teams
- Grow the excellent teams by reallocating capacity and expanding across locations

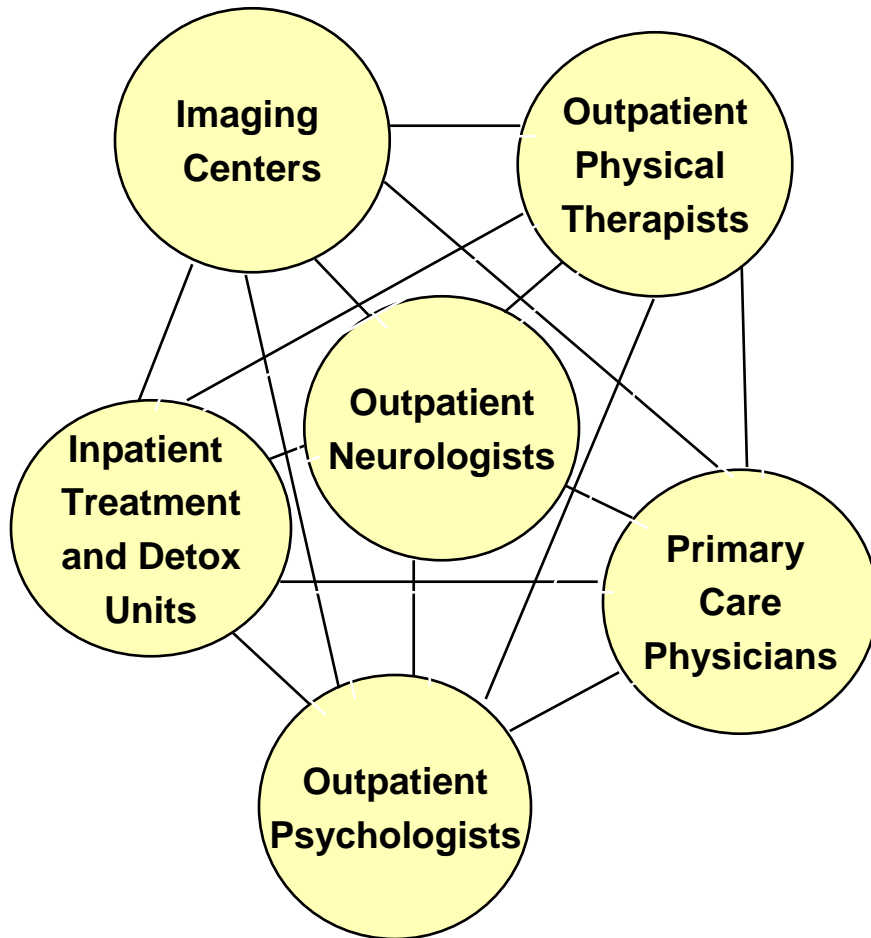
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4. Competition should center on **medical conditions** over the **full cycle of care**

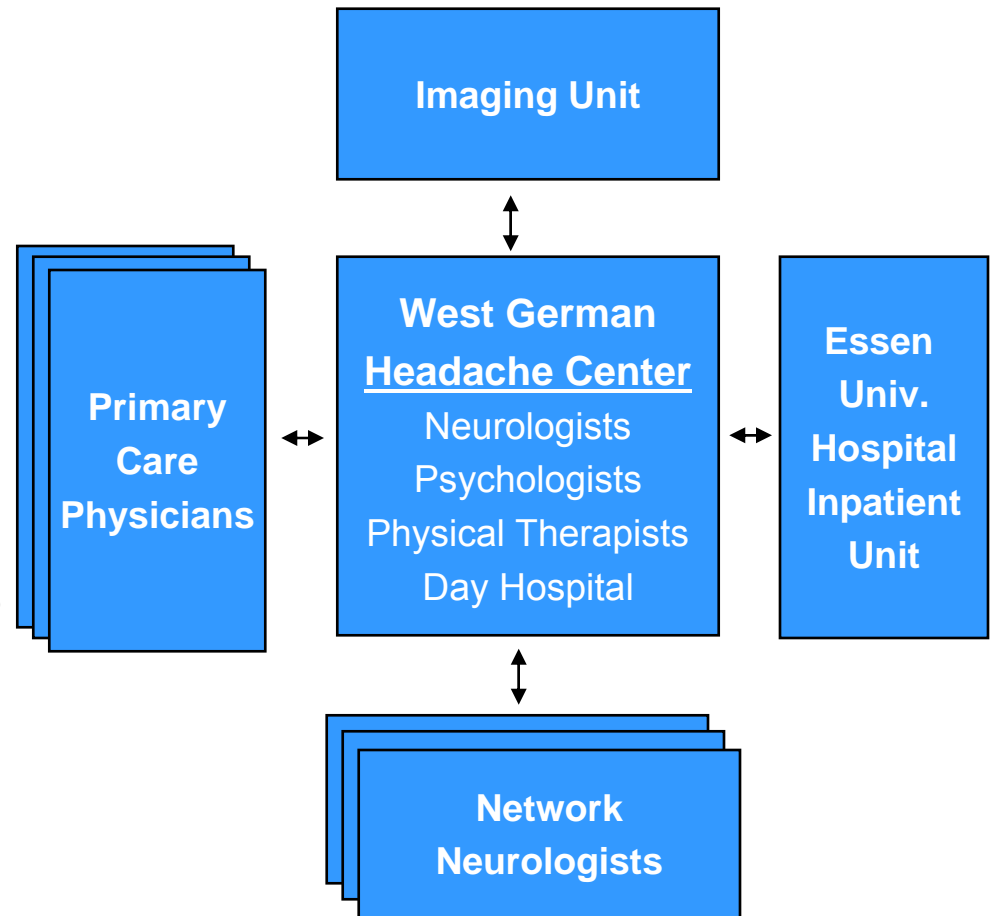
Restructuring Health Care Delivery

Migraine Care in Germany

Old Model: Organize by Specialty and Discrete Services




New Model: Organize into Integrated Practice Units (IPUs)



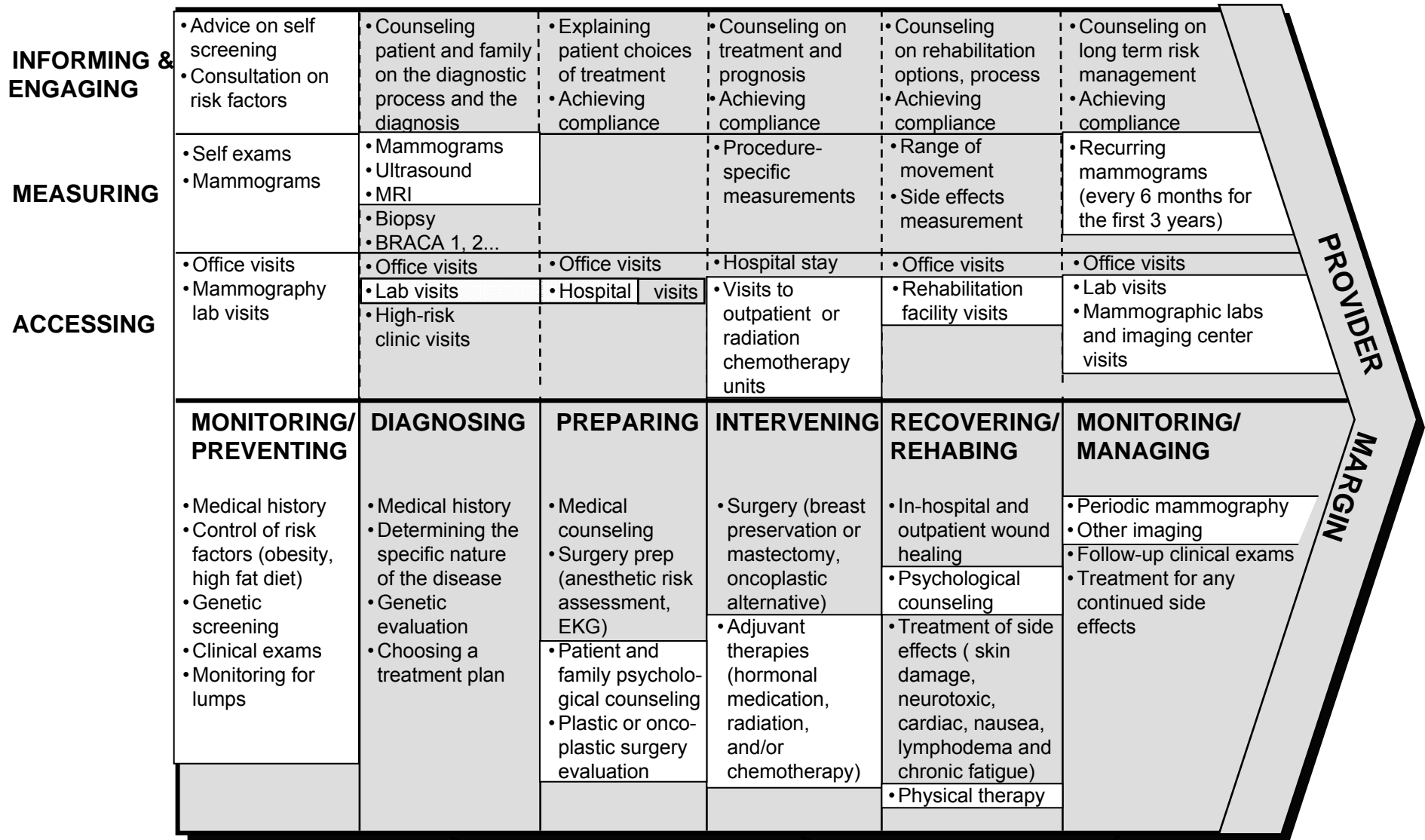
Source: KKH, Westdeutsches Kopfschmerzzentrum

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
 - Involves **multiple** specialties and services
 - **Includes** the most common co-occurring conditions
 - Examples
 - Diabetes (including vascular disease, hypertension, others)
 - Breast Cancer
 - Stroke
 - Migraine
 - Asthma
 - Congestive Heart Failure
- 
- The medical condition is the **unit of value creation** in health care delivery

The Cycle of Care

Care Delivery Value Chain for Breast Cancer



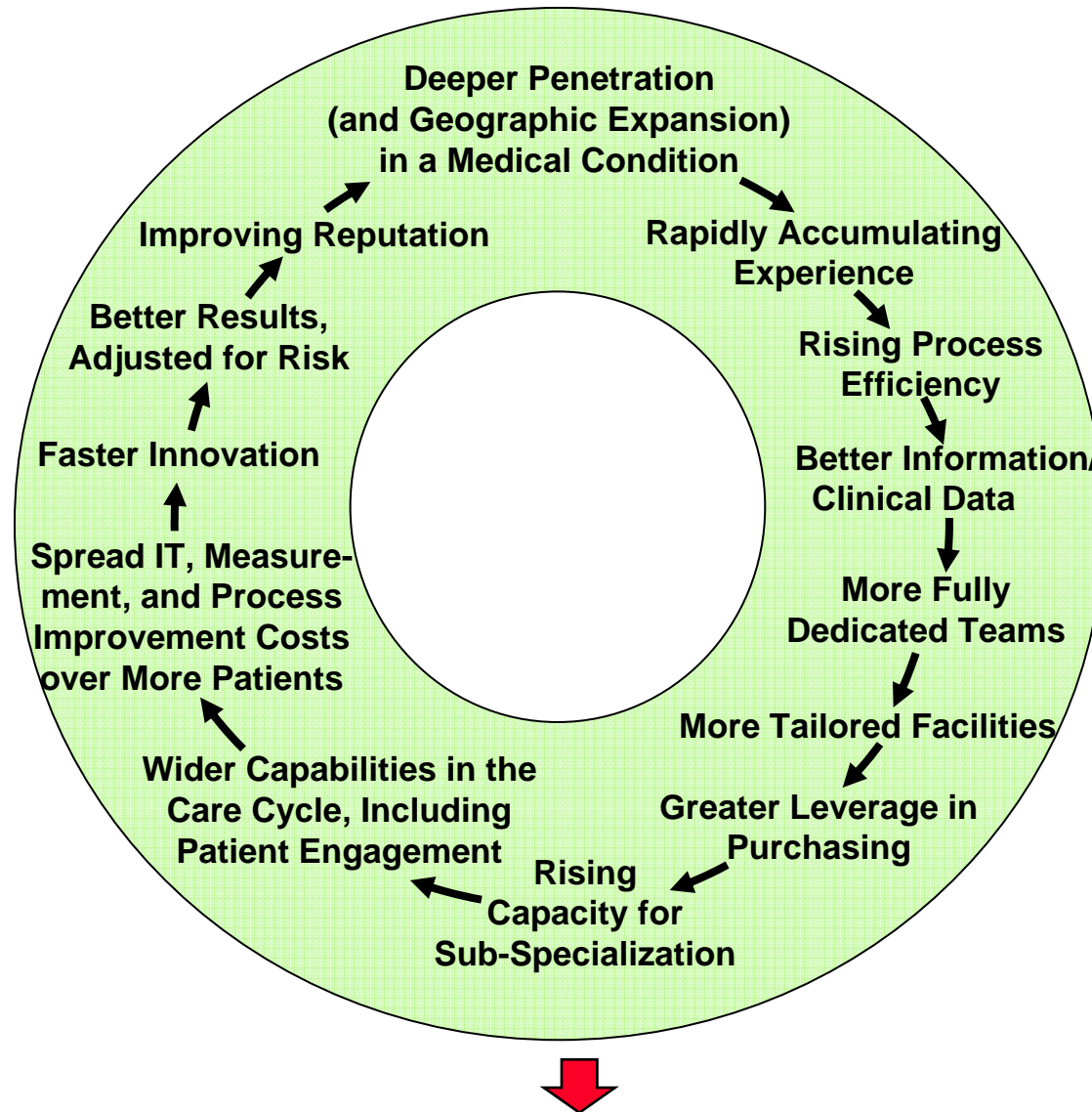
- **Primary care providers** are often the beginning and end of care cycles

- Breast Cancer Specialist
- Other Provider Entities

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The Virtuous Circle in a Medical Condition



- The virtuous cycle extends **across geography**
- Fragmentation of provider services **works against** patient value

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6. Competition should be **regional** and **national**, not just local
 - Manage integrated care **across geography**
 - Utilize partnerships to achieve inter-organizational integration among separate institutions

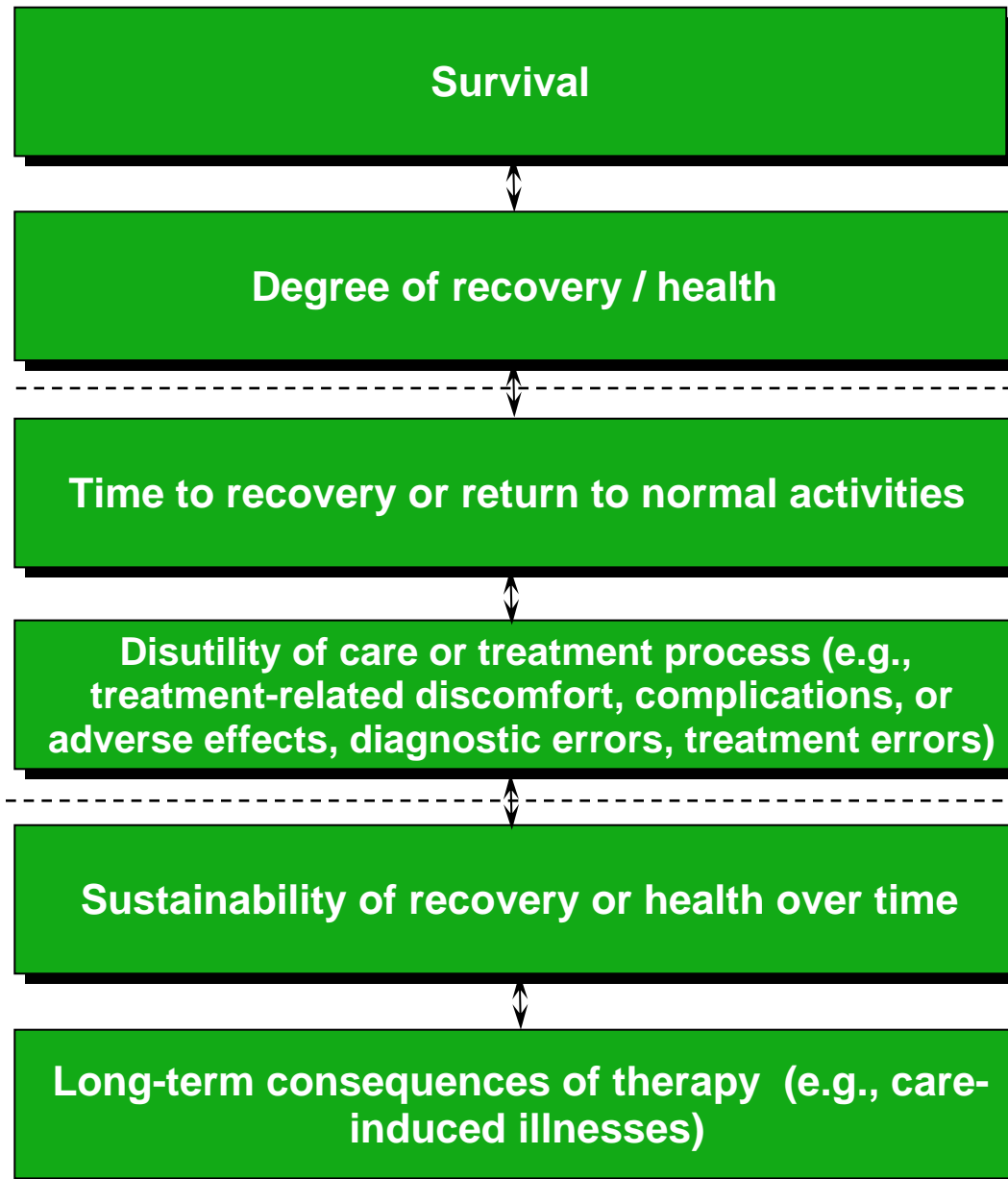
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7. **Results** must be universally measured and reported

Value:
$$\frac{\text{Patient health outcomes over the care cycle}}{\text{Total cost of achieving those outcomes}}$$

Measuring Outcomes

The Outcome Measures Hierarchy



Measuring Results

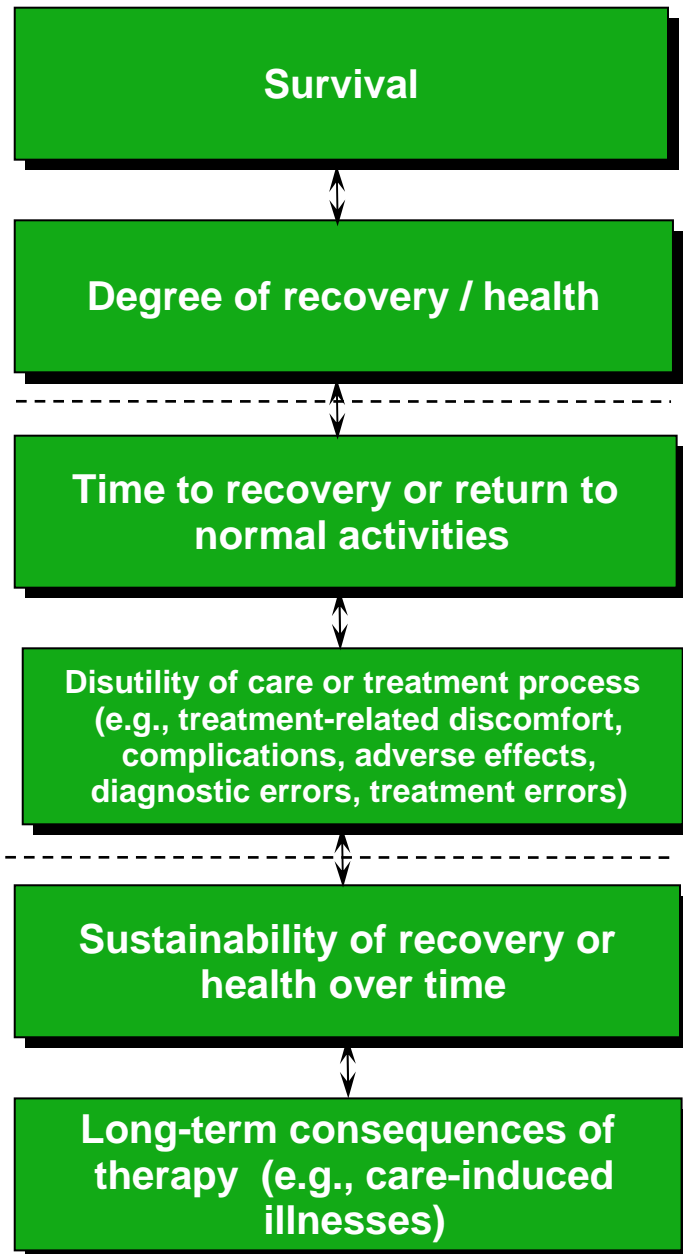
Principles

- Measure **outcomes** versus processes of care
- Outcome measurement should take place:
 - At the **medical condition** level
 - Over the **cycle of care**
- There are **multiple outcomes** for every medical condition
- Outcomes must be **adjusted for risk/patient initial circumstances**
- Outcomes are as important for **physicians** as for consumers and health plans



- The feasibility of universal outcome measurement at the medical condition level has been **conclusively demonstrated**
- Providers and health plans must **measure outcomes** (and costs) for every patient

Measuring Breast Cancer Outcomes



- **Survival rate**
(One year, three year, five year, longer)

- **Remission**
- **Functional status**

- **Breast conservation surgery 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**

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7. **Results** must be universally measured and reported
8. Reimbursement should be aligned with **value** and reward **innovation**
 - Reimbursement for **care cycles**, not discrete treatments or services
 - Reimbursement for **prevention and screening**, not just treatment
 - Reimbursement for **overall management of chronic conditions**
 - Most DRG systems are **too narrow**

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9. **Information technology** is an **enabler** of restructuring care delivery and measuring results, **not a solution itself**
 - Common data definitions
 - Interoperability standards
 - Patient-centered database
 - New financing models

Moving to Value-Based Competition

Implications for Providers

- Organize around **integrated practice units** (IPUs) for each medical condition
- Choose the appropriate **scope of services** in each facility based on excellence in **patient value**
- **Integrate services** for each medical condition **across geographic locations**
- Employ formal **partnerships** and **alliances** with other entities involved in the care cycle to integrate care and improve capabilities
- Measure **results** by medical condition
- Expand high-performance IPUs **across geography** using an integrated model
 - Instead of merging broad line, stand-alone facilities
- Lead the development of **new contracting models** with health plans based on care cycle delivery structures and bundled reimbursement

Creating a High-Value Health Care System: Roles and Responsibilities

Consumers

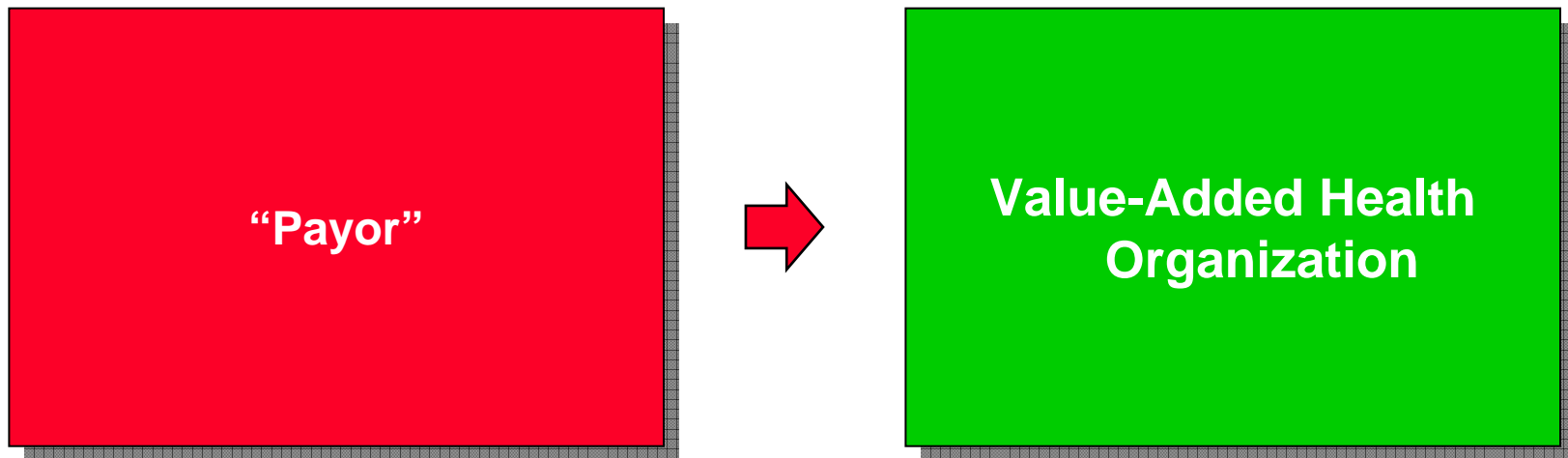
- Participate actively in **managing personal health**
- Expect **relevant information** and seek advice
- Make treatment and provider **choices** based on **outcomes**, not convenience, waiting time, or amenities
- **Comply** with care
- Develop a **long-term relationship** with a health plan



- But “consumer-driven health care” is the **wrong metaphor** for reforming the system

Moving to Value-Based Competition

Health Plans



Moving to Value-Based Competition

Value-Adding Roles of Health Plans

- Measure and report **health results** by medical condition for members



- Monitor and compare **provider results** by medical condition
- Provide advice to patients (and referring physicians) in selecting **excellent providers**
- Ensure coordinated care for members across the **full care cycle** for their **medical conditions**
- Provide for comprehensive **prevention, screening** and **chronic disease management** for all members
- Design new reimbursement models **for care cycles**
- Assemble and manage the **total medical records** of members

Transforming the Roles of Employers

Old Role

- Set the goal of **reducing health premium costs**
- Focus on **direct cost** of health benefits
- Use bargaining power to negotiate **discounts** from health plans and providers
- **Shift costs to employees** via premium payments, co-payments
- Evaluate plans and providers based on **process compliance** (P4P)
- **Limit or eliminate the employer role** in health insurance

New Role

- Set the goal of **employee health**
- Focus on the **overall cost of poor health** (e.g., productivity, lost days)
- Work with health plans and providers to improve overall **value** delivered
- Improve access to **high-value care** (e.g., wellness, prevention, screening, and disease management)
- Evaluate plans and providers based on **health outcomes**
- Take a leadership role in **expanding the insurance system** to encompass individually purchased plans on favorable terms

Creating a High-Value Health Care System: Roles and Responsibilities

Employers

- Set the goal of **employee health**, not minimizing costs
 - Two-thirds of employer health care cost is estimated to be due to the indirect costs of poor health
- Unify employee health benefits and workers' compensation into a **single integrated agenda**
- Assist employees in **healthy living** and encourage **active participation in their health care**
 - E.g., low or zero co-payments for chronic disease drugs and supplies
 - Health premium credits for participation in wellness programs and healthy behaviors
 - Healthy food choices in cafeterias
 - On-site or subsidized membership in exercise facilities
 - Smoke-free work environment along with free smoking cessation programs
 - Cultural change, not just programmatic change

Creating a High-Value Health Care System: Roles and Responsibilities

Employers, cont'd.

- Provide for convenient access to **prevention, screening, primary care,** and **disease management** services
 - On-site health clinics
 - Partnerships with local care delivery organizations
- Provide for **health plan continuity** for employees, rather than plan churning
- Select plans based on **health excellence** in their geographic areas, not administrative simplicity or national coverage

Creating a High-Value Health Care System: Roles and Responsibilities

Employers, cont'd.

- Set **new expectations for health plans** by aligning plan design and execution with value-based principles
 - **Measure health outcomes** of members
 - Assist members in identifying and **accessing excellent providers** for their medical conditions
 - Make **prevention, screening,** and **disease management** integral to health benefits
 - Contract for **integrated care cycles** for medical conditions rather than discrete services
 - Expect reimbursement models that **reward providers for improving value**
 - Eliminate **billing of employees** except for co-pays and deductibles
- Engage **directly with providers** to reinforce a focus on value and drive innovation
 - Encourage **integrated care delivery models** and **outcomes measurement**

Rewarding High-Value Care

Value-Based Pricing

- Starbucks identified back pain as a high-cost medical condition for the firm
- Virginia Mason Medical Center (Seattle) worked with Aetna, Starbucks, and other local employers to **streamline its spine clinic's care cycle for back pain**, eliminating delays and unnecessary steps
 - Wait times fell, the percentage of patients receiving MRIs dropped, and lost time from work decreased
 - Spine clinic capacity increased by five times with fewer staff
- Starbucks' benefits manager encouraged Aetna to **increase** the spine clinic's physical therapy reimbursement by 16%
 - Under the fee-for-service reimbursement model, improved value meant that the clinic's income fell from an average \$100/case profit to a \$200/case loss
 - Higher reimbursement for physical therapy was necessary to reward Virginia Mason for higher value in the overall care cycle
 - The spine clinic broke even, with a likely return to profitability as patient volume rose

Creating a High-Value Health Care System: Roles and Responsibilities

Employers, cont'd.

- Find ways to **expand insurance coverage** and advocate **reform of the insurance system**
 - **Tax neutrality** and **state risk pools** to enable individually-purchased health insurance
 - Make health insurance **mandatory** for all citizens
 - Increasing the proportion of insured lowers the costs for all
 - Leveling the playing field across employers enhances competitiveness
- Measure and hold internal employee benefit staff accountable for the company's **health value received**

Moving to Value-Based Competition

Government

- Measure and report health **results**
- Create IT standard **data definitions** and **interoperability standards** to enable the collection and exchange of medical information for every patient
- Reform laws and regulations to enable the **restructuring of health care delivery** around the integrated care of medical conditions
- Shift reimbursement to **bundled prices for cycles of care** instead of payments for discrete treatments or services
- Eliminate cross-subsidies in Medicare reimbursement rates that fragment care delivery
- End **provider price discrimination** across patients based on group membership
- **Open up competition** among providers and across geography

Moving to Value-Based Competition

Government, cont'd.

- Require health plans to measure and report **health outcomes** for members
- Encourage the **responsibility of individuals** for their health and their health care
- Enable **universal insurance** consistent with value-based principles
 - Create **neutrality** between employer-provided and individually-purchased health insurance
 - Establish **risk pooling adjustment vehicles** that eliminate incentives for cherry picking healthier patients
 - Move towards an **individual mandate** to purchase health insurance
 - All health insurance plans should include **screening and preventive care** in addition to **disease management** for chronic conditions