WEBINAR SUMMARY

The Value-Based Health Care Business Model

Featuring Thomas H. Lee, M.D.
The Value-Based Health Care Business Model

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Overview
The shift to value-based health care has been slow to gain momentum. Yet, maintaining the status quo is not advisable for health care providers. The government payer market share is growing, costs are increasing, and profitable commercial outpatient services are vulnerable to competition.

To successfully shift to a value-based health care business model, organizations must leverage leaders that understand strategy, competition that brings strategy to life, and organizational elements that support strategy execution. Progressive health care providers are taking steps to create teams focused on patients with similar needs, measure results, and develop incentives.

Context
Thomas H. Lee discussed how innovative health care providers are redesigning patient care, implementing value-based care models, and achieving long-term success.

Key Takeaways
Progressive health care providers have moved to a value-based model ahead of the market.

In recent years, there has been considerable discussion about the move to value-based health care (VBHC). Although many providers have been slow to make this shift, several progressive organizations have been organizing around value. Three examples are:

1. Virginia Mason. This Seattle provider uses Lean management principles to improve episodes of care and reduce waste.
2. **Intermountain Healthcare.** This organization has a health care delivery system and a health insurance group. Intermountain places psychiatric social workers in its primary care practices. This improves patient care and saves money. Although much of the savings goes to other insurers, Intermountain has adopted this model as its default.

3. **Geisinger.** This and other Walmart Center of Excellence sites are tracking appropriateness of care. As a result, these organizations turn down 30% of referrals for back, joint, and cardiac surgery and document this information.

Value-based health care is also attracting new market entrants. Two examples are:

- **Oak Street Health.** This organization opened its first clinic in 2013. Its business model is, “Delivering the world's best primary care to the poorest and sickest elderly.” Oak Street Health now has 24 clinics and plans to open additional locations.

- **Omada Health.** This organization is around seven years old. It utilizes digital and other modalities for behavior change and weight loss. The goal is to reduce the risk of chronic diseases in overweight patients. Omada Health operates outside the health care delivery system and isn’t paid if patients don't lose weight.

Providers that have adopted a value-based model recognize it’s the right thing to do from a business perspective. Employees take pride in delivering value-based care. This increases their engagement and improves retention. Value-based health care also helps build a high-reliability culture, which reduces waste and patient harm.

Organizations with value-based initiatives see that cost reductions are helpful in fee-for-service. They expect that payment models will change and fee-for-service payments will decrease. Value-based health care also helps these providers win market share.

**The prospect of “business as usual” is generating panic among providers.**

Providers make higher margins on patients with commercial insurance, with approximately 70% of providers’ margins coming from commercial outpatient services. Providers make lower margins (or lose money) on patients where the government is the payer.

But the government payer market share is increasing around 1.5% per year, and the profitable commercial outpatient services are most vulnerable to competition. The implications for providers are:

1. Providers can’t rely on revenue from commercial contracts to offset losses from patients paid for by the government (termed “cost-shifting”).

2. Providers must find ways to make Medicare and Medicaid work.

3. Providers must compete to hold onto market share for all payer populations.
Value is an idea whose time has come, but the remodeling process is occurring more slowly than expected.

Push and pull dynamics suggest that the time is right for VBHC. On the push side, fee-for-service care is both exhausted and exhausting. Cost-shifting among payers and among service lines is losing viability. In addition, clinicians are burning out playing the relative value unit (RVU) maximization game.

On the pull side, new payment models improve outcomes and efficiency by stimulating coordination and innovation. Organizations are rewarded with greater market share and higher financial margins. Providers also see the strategic value associated with teamwork and employee engagement.

While VBHC makes sense on many levels, health care reform is happening more slowly than the nation needs. Health care reform is composed of:

1. **Insurance reform.** This addresses who is covered.

2. **Payment reform.** This focuses on how care is paid. An example is bundled payments.

3. **Delivery system reform.** This addresses how care is delivered.

Traditional health care providers are facing increased pressure. Traditional business models are becoming less viable and new players are entering the market. High-profile examples of new players include the CVS/Aetna partnership, as well as the recently announced initiative by Amazon, J.P. Morgan, and Berkshire Hathaway.

“Progress with health care reform is happening, but more slowly than the nation needs. We must recognize that health care reform isn’t a ‘one-act play.’ It has three major phases related to insurance, payment, and delivery system reform.”

— Thomas H. Lee

**The key ingredients needed for change are leadership, competition, and organizations.**

To successfully shift to a value-based model, organizations must leverage three “ingredients”:

1. **Leaders that understand strategy.** Leaders must be clear about who their customers are, how they are creating value for them, and how their organizations differ from competitors.

2. **Competition that brings strategy to life.** In the absence of competition, it is easy for organizations to preserve the status quo. With competition, transparency about outcomes becomes the norm.

3. **Organizations that support strategy execution.** This includes good middle management, sufficient “social capital,” and the right “social norms.”
Moving to a high-value delivery system requires interdependent activities.

In October 2013, Lee and Michael Porter co-authored the HBR article, “The Strategy That Will Fix Health Care.” This article suggested that high-value health care delivery systems are dependent on six interdependent elements (shown below).

Since this HBR article was published, health care organizations have started to adopt this framework. Evidence suggests that if providers adopt at least three components (organize into integrated practice units, measure outcomes and costs for every patient, and move to bundled payments for care cycles), significant changes occur.

Health care today is where business was a century ago.

A century ago, American business experienced an organizational change that led to epic improvements in performance. The old model was organized around functions, such as manufacturing, sales, and marketing. However, technical advances changed small, focused businesses into large, multi-product, multi-customer organizations. In addition, products were becoming more complicated. Marketing products to consumers was dramatically different from marketing industrial products.

In response, a new organizational model called Strategic Business Units (SBUs) emerged at General Electric. SBUs were organized around groups of customers.

The American health care sector finds itself in a similar situation as the business world of 100 years ago. Health care providers are typically organized around functions, like surgery, medicine, etc. This reflects medical science, rather than patient needs. The structure is reinforced by the fee-for-service system. Teams of clinicians are often formed on an ad hoc basis, rather than assembled with the patient's specific care requirements in mind.
The structure of health care is changing, however, in ways analogous to the evolution of business. High-volume institutions are co-locating key personnel. In addition, some health care providers are measuring outcomes and negotiating bundles. But these delivery system changes are occurring before contracting models have changed.

Two leading health care organizations taking key steps are:

1. **Mayo Clinic.** This institution has a clear goal hierarchy. Its primary value is, “The needs of the patient come first.”

2. **Cleveland Clinic.** This organization is organizing to compete on value for condition-based care. Cleveland Clinic has moved deeply into bundled payments and has created integrated practice units (IPUs) that focus on different conditions and that value transparency about outcomes. Cleveland Clinic conducts planning using geography. For example, patients shouldn’t have to drive more than 15 minutes to access non-surgical back care specialists or more than 30 minutes for surgery.

**Providers must pursue change proactively, rather than waiting for payment models to evolve.**

It isn’t productive for health care providers to maintain the status quo while waiting for payment models to change. Fee-for-service will most likely always play some role in the American health care system.

But Lee recommends developing robust strategies that transcend the payment model. Effective remodeling means organizing teams around groups of patients with similar needs. It also requires measurement and development of incentives. Rewards in the form of market share are increasingly real.

“Of course, there are unknowns when health care providers change models. However, we know that if we offer greater value and meet patient needs, that effort will be rewarded. We can also confirm that if organizations don’t increase the value they provide, it will mean trouble for them.”

— Thomas H. Lee

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**Thomas Lee** joined Press Ganey as Chief Medical Officer in 2013, bringing more than 30 years of health care experience as a practicing physician and administrator. As CMO, he is responsible for developing clinical and operational strategies to help providers across the nation improve the patient experience. In addition to his role with Press Ganey, Lee, an internist and cardiologist, practices primary care at Brigham and Women’s Hospital in Boston.
Prior to joining Press Ganey, Lee served as Network President for Partners Healthcare System and CEO for Partners Community HealthCare, Inc., the integrated delivery system founded by Brigham and Women’s Hospital and Massachusetts General Hospital. In this capacity, he oversaw efforts to improve the quality and efficiency of care.

Lee is a member of the Boards of Directors of Geisinger Health System, the Special Medical Advisory Committee (SMAC) of the Veterans Administration and the Panel of Health Advisors of the Congressional Budget Office, and a member of the Editorial Board of The New England Journal of Medicine. He is a Professor of Medicine (part time) at Harvard Medical School and Professor of Health Policy and Management at the Harvard School of Public Health.

**Gardiner Morse** is a senior editor at Harvard Business Review where he focuses on marketing, innovation, and technology. He has developed articles on a wide range of topics including marketing technologies, data privacy, health care management, and smart products strategy. Before coming to HBR, Morse served for 15 years in a range of editorial and business roles with the publishers of The New England Journal of Medicine. There he developed and launched numerous publications for physicians and the general public, and served as executive editor of Hippocrates, a journal for primary care physicians.
Driving Innovation to Deliver Value

Innovations in Health Care Delivery and Technology Are Key for Advances in Value-Based Health Care

In many ways, the move toward value-based health care requires important innovations: a new product that enhances a therapy; high-functioning health IT systems that foster accessible data; the formation of new collaborations with physicians and caregivers; or organizational changes—from employers to systems to governments—that make processes more efficient. Together, these types of advances interact to improve long-term patient outcomes in health care.

Many health care systems are incentivized to focus on short-term medical outcomes where volume is rewarded over value. That’s changing to a value-based framework where the outcomes that matter most to patients are addressed throughout the continuum of care.

We are already seeing this concept being embraced by hospitals, payers, and governments around the world, but our often fragmented health care systems can slow the progress being made. Innovations that facilitate alignment among all stakeholders during the course of this shift will help produce a more effective and value-based health care environment.

At Medtronic, we define value-based health care as a business model where we share accountability with systems for the cost of care and patient outcomes—in other words, where the costs of the products, services and integrated solutions we provide are directly linked to the quantifiable clinical, patient, and economic outcomes. Most importantly, the value derived from the quality of care isn’t determined at a specific point in time that focuses on transactional value. Instead, value is measured holistically over a longer time horizon and in ways that are meaningful to the patient.

Our role in this new era will be to leverage the full power of our technologies, services, and people to work with others to help improve health care outcomes around the world. We are currently partnering with like-minded organizations in countries around the world to develop new arrangements so that we can be active participants in this transformation. To date, we are working within shared accountability arrangements in three distinct areas: chronic care management, episodic care bundles, and therapy based value offerings.

But this is not an effort we are embarking on alone. We believe collaboration with like-minded organizations is key, and we would enjoy discussing value-based programs with you. Learn more about Medtronic’s perspective on value-based health care and the ways we can work together to align more value by visiting medtronic.com.