Harvard Business Review

KEY LEARNING SUMMARY

Revolutionizing Health Care

How Savvy Employers Can Use Their Purchasing Power to Reduce Health Care Costs

A HARVARD BUSINESS REVIEW WEBINAR FEATURING

Robert Mecklenburg, MD

NOVEMBER 17, 2016

Sponsored by

Medtronic

Harvard Business Review

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Revolutionizing Health Care

HOW SAVVY EMPLOYERS CAN USE THEIR PURCHASING POWER TO REDUCE HEALTH CARE COSTS

OVERVIEW

As health care costs continue to soar, employers are presented with a dilemma: pay more for employees' care, which decreases profits, or shift more financial responsibility to employees, which damages morale and hurts the ability to retain top talent.

But there is another option. Employers can use their purchasing power and supply chain expertise to change the game. That is exactly what has occurred in Washington and Oregon, as proactive employers have taken charge by forming purchasing collaboratives, setting clear purchasing requirements, collaborating with providers in the creation of evidence-based care pathways for common medical conditions, and holding providers accountable by aligning payment with care. Results have included improving quality, decreasing waste and cost, and accelerating change in how care is delivered.

CONTEXT

In a webinar presentation, Robert Mecklenburg described the barriers and systemic defects that make health care unaffordable, and detailed how proactive employers have taken charge by forming marketplace collaboratives.

KEY LEARNINGS

For employers, the major problem with health care is affordability.

As health care costs have continued to rise, many employers have felt powerless and have been forced to either pay more or shift more costs to employees. Four key barriers to the affordability of health care have been:

1. **Lack of transparency.** Employers and employees have lacked information about the quality and the price of the services being provided. Purchasers of care don't know what they are paying and what they are getting.
2. **Unnecessary care.** There is a significant amount of care being provided that is unnecessary, and that is harmful to patients both physically and financially. Some estimates put the amount of unnecessary and wasteful care at 20-30% of all care delivered; this could mean that almost $1 trillion of the $3 trillion spent on health care is not adding value.
3. **Waits and delays.** Patients often have to wait many days or even weeks to get an appointment, which results in lost productivity for employees. Paul Kruger estimated that in 2007 Americans spent 847 million hours waiting for medical services to be provided, and the time spent waiting for care has increased since then.

CONTRIBUTORS

Robert Mecklenburg, MD
Medical Director, Center for Health Care Solutions, Virginia Mason

Steve Prokesch (Moderator)
Senior Editor, *Harvard Business Review*

4. **Lack of accountability.** Providers are not accountable for delivering high-quality care, as they get paid the same regardless of whether the care provided is of high or low quality. In fact, a recent study in the *Journal of the American Medical Association* found that surgical complications were associated with higher margins for hospitals. Financially, this provides a disincentive to decrease complications.

Three systemic challenges are combining to plague the health care system:

- A failed process for **producing** quality
- A failed process for **paying** for quality
- A failed process for **purchasing** quality

Addressing affordability requires correcting all three of these systemic defects.

Employers have a choice: be proactive or reactive.

Historically, employers have been reactive in dealing with health care affordability concerns. They have outsourced health care purchasing to health plans or brokers that have no incentive to improve quality or affordability. They have excused suppliers of health care from being accountable for the care provided. And, they have shifted costs to employees, who have no purchasing leverage.

The alternative for employers is to be proactive in using purchasing power to create a market for quality. That involves specifying medical priorities (exactly what the employer wants to buy) and specifying quality standards. Being proactive also means managing the performance of providers and health plans.

Through marketplace collaboratives, proactive employers are taking charge of health care.

A marketplace collaborative can be an employer-driven engine for change. In a collaborative:

1. Employers in a market use their purchasing power in the market to define products they want to buy and quality specifications for each.
2. Based on the employer specs that are established, providers produce products or services to meet these quality specs.
3. Health plans pay for the delivery of quality specs.
4. Employers purchase the products.

Virginia Mason Collaborative (2005)

This collaborative was created when four major employers in Seattle (Starbucks, Costco, Nordstrom, and King County) came together to leverage their collective purchasing power and interest in improving the quality and affordability of care for employees. This collaborative:

1. **Identified priority conditions.** The collaborative participants analyzed claims data (which was difficult) to see which medical conditions represented the highest aggregate

> "Companies wouldn't excuse suppliers for late deliveries of defective products, but they do it in health care all the time."
>
> **– ROBERT MECKLENBURG**

costs for the employed population. They found that high-priority conditions included relatively uncomplicated but prevalent conditions like back pain, headaches, asthma, hypertension, and bladder infections. Identifying the highest-cost conditions helped to determine the priorities on which to focus.

2. **Set purchasing requirements based on quality.** The collaborative aimed to buy health care like other items that were purchased, and, in doing so, set purchasing requirements and specifications. These requirements focused on:
   - *Better*. Care should be based on evidence about what works, and the goal is 100% patient satisfaction.
   - *Faster*. Employers want same-day access to care to minimize lost productivity and rapid return to function, so employees can get back to work.
   - *More affordable*. Employers want an affordable price, which is still reasonable for providers.
3. **Collaborate in designing care.** For all key medical conditions, multiple stakeholders—including physicians—came together to design care from the patient's perspective. This involved directing patients to the most appropriate provider, which is not necessarily a doctor. For example, for back pain it might be a physical therapist.

   This design process involved creating care pathways, based on evidence, with hard stops that prevent non-value-added use of resources such as imaging. For several medical conditions, this resulted in a significant decrease in MRIs and CT scans.

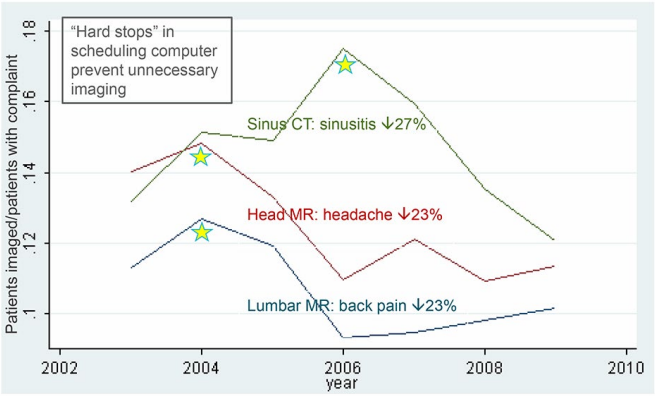

Figure 1
How Hard Stops in Care Processes Decreased Unnecessary Imaging

Journal of the American College of Radiology 2011;8:19-25

4. **Aligned payment with value.** In the back pain example, reduction of MRIs and greater use of physical therapy decreased costs for payers and employers, but Virginia Mason realized it had not charged adequately for physical therapy. The collaborative agreed to increase the reimbursement for physical therapy to ensure the provider didn't lose money. Aligning payment with value is essential.

Intel Collaborative (2009)

This collaborative took place in Portland, Oregon, which was a different market with different providers than the Virginia Mason collaborative. This collaborative used similar philosophies and practices to identify priority medical conditions for Intel employees, set purchasing requirements based on quality, design evidence-based care pathways, and align payment with value. This process yielded impressive results.

Metrics: Back pain	Same-day access	Rapid return to function	Evidence-based care	Patient satisfaction	Reduction in direct cost
Result	93% 1 business day or less	99% met target	92% indicated	98% would refer	24% less than baseline

Figure 2
Results of Intel Collaborative for Back Pain

A disruptive innovation from this collaborative was the involvement of procurement experts. The team initially involved Human Resources in the benefit design, but then engaged procurement experts. Intel wanted a quality product that was delivered on time. The involvement of procurement and supply chain experts led to well-defined and standardized products that eliminated waste.

State of Washington Collaborative (2011)

This is a statewide purchasing collaborative that involves:

1. **Moving the model to the public domain.** Following the success of the initial collaborative by private sector employers, the Washington State legislature created a collaborative for the public sector that set voluntary state-wide contracting standards based on quality. It focuses on bundled payment models for common surgeries like joint replacement, spine surgery, CABG, and bariatric surgery. Pathways were developed by design teams including all stakeholders.
2. **Designing value-based surgical bundles.** In designing the value-based bundles, four requirements were established:
   - *Appropriateness*: Does the patient need it?
   - *Safety*: Does the patient understand the procedure and is it safe for him or her?
   - *Reliable*: Is the surgery reliable?
   - *Effectiveness*: Did it work? This involves reporting on patient-centered outcomes.

   Experience showed that 58% of referrals did not meet one of the first two criteria of appropriateness or safety. As a result, the surgeries were not performed and costs were avoided.
3. **Specifying fixed price and warranty.** For these surgeries, providers are required to furnish a fixed price and to offer a warranty. This helps prevent providers from receiving reimbursement for preventable readmissions.

> "This [the warranty] provides the accountability that has been lacking."
>
> – **ROBERT MECKLENBURG**

4. **Using an RFP to select quality providers.** In the past, selecting quality providers was outsourced to the health plan, but it is now done by the collaborative through an RFP. The RFP asks providers if they want to compete for the collaborative's business based on the criteria that have been established.

As the experiences in Washington and Oregon demonstrate, when proactive employers form collaboratives with other key health care stakeholders, they can transform the delivery system and the payment system. Results include increased accountability, decreased costs, and improved outcomes.

BIOGRAPHIES

Robert Mecklenburg, MD

Medical Director, Center for Health Care Solutions, Virginia Mason

Robert Mecklenburg trained at Northwestern University Medical School, the University of Washington, and at the National Institutes of Health. At Virginia Mason he has served as Chief of Medicine and as a Board member.

His scientific papers include lead articles in the *New England Journal of Medicine*. His work with employers has been featured in the *Wall Street Journal*, *LA Times*, *Health Affairs*, *Harvard Business Review*, by the Institute of Medicine, and by the Institute for Healthcare Improvement.

As a member of Washington's Robert Bree Collaborative, he has led teams producing bundled payment models and warranties for high cost surgeries.

Steve Prokesch (Moderator)

***Senior Editor,* Harvard Business Review**

Steven E. Prokesch is a senior editor of the *Harvard Business Review*, where he acquires and edits articles on a variety of topics, including health care, strategy, operations, and innovation. An award-winning journalist, he has worked as a reporter and editor at *The New York Times*, *Business Week* magazine, and *The Arizona Republic* and also was an editorial director at the Boston Consulting Group.

Sponsor's Perspective

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; 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 value-based health care experts to develop new arrangements so that we can be active participants in this transformation. Across our company—in different groups and geographies—we're using an internally developed 7-step value-based framework to establish new models in which we share direct accountability for system costs and patient outcomes with our customers. To date, we are working within shared accountability arrangements with like-minded organizations 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 are collaborating with other organizations—*Harvard Business Review*, the International Consortium of Health Outcomes Measurement (ICHOM), the Economist Group, and the World Economic Forum, to name a few—to build consensus on how to push value-based health care even further.

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.

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