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Perspective

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Why Strategy Matters Now

Michael E. Porter, Ph.D., and Thomas H. Lee, M.D.

Until recently, most health care organizations could get by without a real strategy, as most businesses understand that term. They didn't need to worry about how to be different or make painful

decisions about what not to do. As long as patients came in the door, they did fine, since fee-for-service contracts covered their costs and a little more.

Success came from operational effectiveness: working hard, embracing best practices, and burnishing reputations that attracted both patients and talent. Virtually every provider was included in most payers' networks, and patients could generally seek care wherever they pleased at modest or no extra cost. Most organizations maximized revenue by offering every possible service in volumes as large as possible and expanding the same well-reimbursed services to cross-subsidize

less profitable ones. Typically, "strategy" defaulted to having the scale and market presence to secure good rates and be included in networks.


But that era is ending. Good operational performance remains important, but reimbursement is decreasing and will often not cover full costs, as care for patients covered by public insurance accounts for a growing proportion of revenue, and private insurers are less willing to cross-subsidize care. Many health care organizations today are running near full capacity but have flat or declining revenues.

Bargaining power has shifted away from providers. Patients are choosing insurance products with narrowed networks and high deductibles, which make them more

sensitive to service quality and cost. Employers are increasing the pressure by demanding provider transparency regarding costs and quality and even by contracting directly with competitive providers. Having a good brand is no longer enough: patients and payers are looking for good value, service by service.

The time has come for health care organizations to rethink the meaning of strategy. Strategy is about making the choices necessary to distinguish an organization in meeting customers' needs. Those choices revolve around six key questions (see table).

First, "What is our goal?" Answering this question requires considering the organization's fundamental purpose and definition of success. In most businesses, profits closely reflect the value created for customers, so maximizing profits is a robust goal. But health care is more complex, and financial success and

 An audio interview with Dr. Lee is available at NEJM.org

Six Essential Strategic Questions for Health Care Organizations.		
Question	Why It's Essential	Examples of Choices
1. What is our fundamental goal?	Organizations need clarity on what they are trying to do for whom in order to make the important choices about how to compete. Value for patients must be the overarching goal.	The board of a health care organization focuses on progress in improving outcomes and reducing costs, rather than on recent financial margins.
2. What businesses are we in?	The unit in which patient value is actually created is the care for a specific clinical condition over the full care continuum.	Senior management receives regular reports on patient outcomes and costs for each major condition by site and provider, as well as plans for improvement.
3. What scope of businesses should we compete in?	Organizations must make choices about what they will and will not do, in terms of services offered — no organization can meet all the needs of every customer.	A community hospital decides it will not perform complex thoracic surgery.
4. How will we be different in each business?	For each condition they treat, organizations need a unique value proposition. Otherwise, they will face growing pressures and be able to compete only by lowering prices — a race to the bottom.	A provider organization decides that it will compete for orthopedic patient volume by creating a tightly organized team (integrated practice unit) to deliver coordinated care in a lower-cost setting and by negotiating bundled-payment contracts with major employers and payers.
5. What synergies can we create across business units and sites?	Value can be created at the delivery-system level if organizations can truly integrate care through consolidating volume by condition and location, performing services at the most cost-effective location, and coordinating care across sites.	A delivery system decides to concentrate lower-complexity procedures in particular community hospitals.
6. What should be our geographic density and scope?	Organizations must serve a large enough area to have the volume for each condition that is needed to enable value creation and the density of sites to allow services at appropriate locations. But growth is not a strategy; geographic or site expansion should be undertaken with a clear path for creating value.	A provider organization decides to pursue affiliations with community hospitals in nearby regions and states to attract more patients with complex conditions while shifting less complex care to more convenient and cost-effective partner sites.

success from the patient's perspective have not been tightly coupled. It is all too possible to be profitable without delivering good results for patients.

In the new era, strategy must reflect a health care organization's fundamental purpose: what it is trying to achieve and for whom. Financial margins and growth targets will be the results rather than the drivers of strategy. Historically, organizations could pursue multiple goals, such as meeting all their communities' health care needs, preserving physicians' autonomy, educating clinicians, and conducting research. Today, one goal must become paramount: improving value for patients.

Value is defined as the health

outcomes achieved for patients relative to the costs of achieving them. It is the only goal that can guide strategy in health care, the only "true north" that can resolve the difficult choices organizations will need to make. Providers that organize themselves to improve outcomes and become more efficient in doing so will be rewarded with patients, professional satisfaction, and financial success. They will prosper even if fee-for-service reimbursement lingers for years, because better outcomes will attract more patients and greater efficiency will reduce co-payments and improve financial margins. Those that fail to focus on value lack the essential foundation for strategy. Whatever their

reputation is today, they will become increasingly nonviable and irrelevant.

The second essential strategy question is, "What businesses are we in?" In health care, the traditional answers — that we run a hospital or a department — reflect the legacy structure, not where value is created. Value is created by improving the outcomes of patients with a particular condition over the full cycle of care, which usually involves multiple specialties and care sites (in primary care, value is created for groups of patients with similar needs, such as those with multiple chronic conditions). Value can be measured and managed only in terms of a defined need that

is being met, so that outcomes can be clearly identified and costs compared.

A health care organization, then, is a portfolio of businesses that treat specific clinical conditions or care for particular segments of patients. The risk of focusing on the traditional organizational units is that value is obscured (with highly heterogeneous patients, outcomes have little meaning and cost comparisons are irrelevant). The choices necessary to deliver value will be overlooked or avoided.

Once an organization has defined its current businesses, the third strategic question is whether its scope should be narrowed or broadened: “What set of conditions and patient populations should we compete in?” Attempting to serve every need of every customer is a recipe for failure, leaving organizations vulnerable to rivals that choose to concentrate on specific conditions or complexity levels. For example, some academic medical centers no longer offer uncomplicated, low-risk services, and many community hospitals are giving up complex surgical care. Health care organizations once labored to avoid making such difficult choices, but the need to deliver value demands that choices be made.

The fourth strategic question then becomes, “In every business where we choose to compete, how will we be different?” Organizations need to create a unique value proposition in each business. Trying to compete for customers in the same way as one’s rivals often leads to price erosion and poorly utilized capacity. So organizations need to offer something distinctive for each condition and population that they serve.

Developing a unique value proposition means organizing

around value, not around specialties or services. That means reorganizing care around conditions into integrated practice units (IPUs) — multidisciplinary teams with the deep expertise, skill range, and facilities necessary to achieve good outcomes efficiently and expeditiously throughout the care cycle. IPUs need to differentiate themselves from competitors by emphasizing care for certain types of patients — those for whom they can achieve better outcomes and have particular expertise, or those for whom they have similar outcomes as competitors but can deliver care at a lower cost, more quickly, or more conveniently.

To be competitive, an IPU needs to have sufficient patient volume to support teams of appropriate subspecialists, the best equipment, and the patient support services necessary to get good results. Partnerships and affiliations can be ways to enhance volume or extend care throughout the care cycle without the need for new bricks and mortar.

IPUs should also embrace bundled-payment contracts and other value-based payment models that reward value improvement. These, plus transparency regarding outcomes, will attract more patients and create a virtuous cycle of improving value.

The fifth strategic question is then, “What synergies can we create across our existing business units and sites?” All complex organizations require strategies at two levels — for each business unit and for the overall corporation. In health care, larger multisite organizations can amplify patient value through system integration. Condition-level strategies and system-level strategy should go hand in glove.

Delivery systems with multiple hospitals and practice loca-

tions have a potential advantage in their ability to both concentrate and distribute care — for example, a health system could consolidate care for abdominal aortic aneurysms at its tertiary care facilities but perform routine procedures more cost-effectively at ambulatory care centers off the main campus. Reaping system advantages, however, requires tough choices about which units are not going to deliver which types of care. Eliminating duplication and excess capacity, shutting down inappropriate sites, and shifting care to lower-cost locations all require confronting thorny issues of ego and politics. But such structural cost reduction will go far beyond the incremental cuts, across-the-board layoffs, and corporate overhead reductions that are typical today.

The final strategic question then becomes, “What is our appropriate geographic density and scope?” Does the system have the appropriate concentration and types of services and sites? Would establishing off-site ambulatory care locations enhance value? Does the organization’s geographic footprint maximize value? How broad a region is needed to assemble the volume in a particular condition required to achieve superior value for patients? Are mergers necessary to build the needed volume, or should the organization expand through partnerships and affiliations? Such decisions must always revolve around increasing value, rather than revenue alone. Expanding, merging, and partnering are not strategies, but potential tools for improving value at the condition and system level.

These six questions are interdependent, and the choices must reinforce each other. They will often disrupt the lives of good,

hard-working people, including physicians. But a strategy anchored in value is inherently good for both patients and the professional satisfaction of those who care for them.

Strategy demands leaders willing to make these choices, drive their execution, and bring the organization along. Leadership in health care organizations has

tended to be more about stewardship than choices, and leader selection has often been based on research credentials, leaving the clinical enterprise reliant on momentum and reputation. But future success depends on the ability of organizations to create value for patients. Leaders must ensure that all activities are aligned around this goal. In the emerging

competitive marketplace, only organizations that truly understand strategy will thrive.

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From Harvard Business School (M.E.P.) and Harvard Medical School (T.H.L.), Boston, and Press Ganey, Wakefield (T.H.L.) — all in Massachusetts.

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Virtual Visits — Confronting the Challenges of Telemedicine

Jeremy M. Kahn, M.D.

Traditionally defined, telemedicine is the provision of medical care remotely by means of audiovisual technology. Using such technology, clinicians can examine patients and make treatment recommendations across long distances. Telemedicine is by no means a new concept — varieties such as teleradiology and telepathology that rely on “store-and-forward” techniques, in which images are captured and sent to a different location for later evaluation, have been around for more than 30 years. But technological advances including high-resolution video cameras and stable broadband Internet have helped make real-time telemedicine an increasingly common mode of health care delivery in such diverse fields as dermatology, neurology, and intensive care.¹ The fact that in 2012 nearly half of U.S. hospitals reported having active telemedicine programs indicates that telemedicine is now fully within the mainstream.²

This dramatic expansion has profound implications for the health care system. Most important, telemedicine has the potential to substantially expand access to high-quality health care, overcoming not only geographic but

also socioeconomic barriers to care. Just as neurologists can use telemedicine to treat a patient for stroke in the emergency department of a far-off rural hospital, primary care physicians can use it to treat nearby patients who have difficulty visiting a clinic, such as nursing home residents or patients with disabilities. In all these cases, telemedicine does more than just enable health care delivery across distances: it facilitates a kind of community-based care, improving access by making health care more convenient for both patients and providers.

Telemedicine also has the potential to substantially reduce health care costs. For providers, using telemedicine may be more efficient than seeing patients in brick-and-mortar offices, since it reduces the time and space needed to run a medical practice. For patients, telemedicine can reduce travel expenses and the opportunity costs associated with obtaining care, such as missed hours or days of work. For payers, it has the potential to reduce reimbursements because of reductions in overall utilization. For example, in the emergency-department setting, telemedicine may allow specialists in regional referral centers to remotely treat acutely ill patients

with complex conditions in rural hospitals, saving the costs of transport and a second emergency-department visit.

Despite the many ways in which telemedicine may transform health care for the better, it faces a number of major challenges along the way. First, there are enduring concerns about its effectiveness and cost-effectiveness. The aforementioned benefits are theoretical, and the actual data to date are far from convincing. Most studies of telemedicine are methodologically weak before-and-after studies that rarely examine patient-centered outcomes, instead focusing on feasibility and acceptability to patients.³ Although these aspects are important, they are not the same as — and may not correlate with — patient-centered outcomes such as mortality and functional status. Given these limitations, the existing literature does not settle the issue of whether telemedicine delivers the same outcomes as face-to-face encounters at either the same or lower costs.

Second, even in areas where effectiveness data are available, the influence of telemedicine varies greatly depending on where and how the technology is applied. For example, studies have shown that intensive care unit (ICU) telemedi-