

Value-based Healthcare: a fad or miracle cure for systems globally?



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INSEAD alumni and guests gathered in Lausanne to discuss the progress towards value-based healthcare systems. More than a decade ago Professor Michael E. Porter and Professor Elizabeth Teisberg introduced the idea of Value-Based Healthcare (VBHC) in their book *Redefining Healthcare*. It was seen as the strategy to fix healthcare globally. (See an [HBR article](#) summarizing the model).

In the meantime, many healthcare providers, insurers, pharmaceutical and medtech companies, have taken steps on the journey towards VBHC with varying degrees of urgency and priority. The panel members shared their observations and experience in taking these steps. They brought their experience across many sectors, including healthcare providers, pharma and medtech. Their perspectives as entrepreneurs, executives, business leaders and consultants on medicine, healthcare systems and life sciences innovation, enabled a lively discussion about where we are at ten years down the road to VBHC, along with some thoughtful commentary about how the journey will unfold in the future.

The Panel



Antoine Hubert, Delegate of the Board, AEVIS VICTORIA SA & Swiss Medical Network
AEVIS VICTORIA SA is an investment company specialized in services to people. Its main participation is Swiss Medical Network SA, the second-largest network of private hospitals in Switzerland, which Antoine Hubert founded in 2004. With its 16 medical facilities, Swiss Medical Network offers first-class hospital care to patients from Switzerland and abroad. Prior to developing Swiss Medical Network, Antoine was mainly active in the property and real estate industry and has set up businesses and served as a director to several companies in various industries.



Hans Middelhoven, PhD, Head of Innovative Pricing, Global Pricing & Market Access, F. Hoffmann La Roche
Hans Middelhoven joined Roche early 2005 from The Lewin Group where he was a senior project manager in the field of pricing & market access. Since joining Roche, Hans has held various operational and strategic roles with increasing responsibility, both at local and global level. Today, Hans is Head of Innovative Pricing within the Global Pricing & Market Access department. Among the projects his group is leading are Personalized Reimbursement Models (PRM) and AccessLABs. More recently he co-initiated a project called Value-Based Health Care at Roche. He holds a PhD in Immunology from University of Amsterdam, and an MSc in Biotechnology from University of Groningen.



Dr. Laurent Tchang, MBA'14D, Managing Consultant, Integrated Health Solution, Medtronic EMEA
In his role as Managing Consultant, Laurent develops, pilots and scales services and solutions complementing Medtronic's cardiovascular portfolio, including data analytics and benchmarking, pathway optimizations, digital health and IT enablement. He engages with leading hospitals across Europe to drive the VBHC agenda and principles. Prior to joining Medtronic, Laurent acted as Project Leader at the Boston Consulting Group Zurich Office, leading projects within the Healthcare Practice Area. Laurent is a trained Medical Doctor in the fields of General, Plastic and Reconstructive Surgery and holds an MBA from INSEAD.



**Moderator Aleksandar Ruzicic, MBA'97
President Healthcare Club of INSEAD Alumni Association Switzerland
Partner Executive Insight**
Aleks graduated with an INSEAD MBA in 1997 and has been involved in the Swiss alumni community since 2005 as a member of the Swiss Committee and as President of the Swiss Healthcare Club. After graduation from University of Zürich with a Master of Science in Chemistry, he has worked more than 20 years in consulting, starting at McKinsey & Company in 1994. Since 2000, he focused exclusively on the healthcare/life sciences sector, currently as Partner at Executive Insight, a specialist healthcare consultancy that supports (bio)pharmaceutical companies to successfully prepare, launch and commercialize their products.

Read on for more about what we learned ...

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There is still some way to go to tailor reimbursement with focus on value to the patient. The provision of healthcare is set up as fee-for-service business. Practitioners are incentivized to achieve volume and high throughput of patients, not necessarily to achieve measurable outcomes and results that can be benchmarked.

One step in the journey is underway at some pharmaceutical companies. They are going through the product portfolios, studying the data in order to tag therapies that have the best results. They determine the indication for each product which brings the highest value to the patient, and then make price match its efficacy. In another round of analysis, different prices can be defined for other indications – ie. indications where the drug may be less effective.

It gets more difficult when a positive outcome requires the use of more than one drug, such as in the treatment of cancer. Products are used in combination in oncology to attack different pathways. In this case, attention must be paid to the fact the drugs are used together. A $1+1=2$ equation will make the treatment too expensive. It's the wrong equation and pharma executives must find the right equation.

Steps on the Journey One step on the journey is to have the right IT systems to measure outcomes. Would you buy a car if you didn't know if the doors would fall off after several months? And yet that is what happens in healthcare.

It is a tactical step for healthcare providers to measure post-treatment quality. Medtronic has experience with selling systems to hospitals to measure post-treatment success, tracking things like mortality rates, sepsis, relapses over various timelines. Currently, most healthcare providers are not required to measure outcomes. There has been no widespread regulatory requirement to follow-up. Only some Nordic countries are taking such steps.

Creating transparency on outcomes is very important but it is a huge change. Things would change more quickly if the patient demanded quality of care and performance data. Unlike the car buying scenario, the patient is not the consumer in the current system. The patient has little or no choice.

Integrated Healthcare When buying a car, the consumer has all the choice and all the power because they're the ones that are paying. In the existing healthcare model, the patient pays for “nothing” at first: they pay their insurance premiums, and only when they become ill or have an accident, is there some value delivered for the premiums but at that point it is the insurance company that makes the choices. The “consumer” is the insurance company and not the patient.

Integrated healthcare redistributes the power. The insured consumer belongs to a network that includes health care and prevention (hospitals, physicians, and health insurance plan provider). The model is used by Kaiser Permanente and it is a good example. Its foundation of success is the geographically focused coverage, large customer base in their region, and alignment of interests. It's not that easy to emulate the model, according to the panelists, but there are some similar integrated payers/ providers in other regions of the world.

Establishing a standard of care is a necessary step in the journey. The panelists agreed on the lack of incentives and the current barriers to taking this step. Standard of care needs data on outcomes. Measuring outcomes creates yet another cost for hospitals and insurers. It is now slightly more complicated with the introduction of privacy laws under the GDPR regulations.

In some countries, including Switzerland, there are conflicts of interest and lack of financial incentive to change in the current system. There is not even a business-driven incentive to reduce costs in the non-private sector. In fact, there is a motive to *not* reduce-costs.

And yet there is strong evidence that costs can be dramatically reduced by specializing and creating chains or networks of clinics. Some examples include an international network of fertility clinics with a very high baby-take-home rate, a Dutch center with full service for children's diabetes (Type 1), Lasik Laser centers, dental services chains, and plastic surgery specialized chains.

How will value-based healthcare spread further in next 10 years?

Value-based competition in healthcare principles

1. The goal should be increasing value for patients, not just lowering costs
2. Competition must be based on results
3. Competition should center on medical conditions over the full cycle of care
4. High quality care can dramatically improve efficiency
5. Value must be driven by experience, scale and learning at the medical condition level
6. Competition to improve value should be regional, national and international, not just local
7. Results information must be widely available
8. Innovations that increase value must be strongly rewarded

Leapfrogging in low-/middle income countries

- Value as combination of outcome and affordability
- Outcomes transparency key
- Fixed-fees demanded by out-of-pocket patients' financing
- Limited capacity for any complications, e.g. ICUs
- Increasing specialization, particularly by private providers
- Accelerating supranational competition, e.g. teleradiology
- Continuous learning/ insights
- Frugal business models expanding over time

Source: Porter/ Teisberg "Value-based competition in healthcare", "Opportunities for Value-Based Competition"

New Models Emerging Fresenius Medical Care is an example of specialization and scale in dialysis solutions. Because of its specialization and ability to make strategic acquisitions, Fresenius Medical Care has become the dialysis expert. It has indeed been able to reduce costs and is starting to become proficient in understanding outcomes using its data, predictive analytics software, and other technologies. It is on the way to establishing pricing based on value. In the meantime, it has become powerful. To introduce a new drug or treatment for kidney disease, pharma and medtech are compelled to work with Fresenius Medical Care because it has the most powerful market insights through its database.

An example of specialization and proof that it leads to better outcomes is in oncology. The Martini Klinik in Hamburg, Germany proves that specialization and outcome tracking can be combined to create a successful and valued healthcare provider. The outcomes of prostate cancer treatments are meticulously recorded tracking not only survival rates but also potency and continence. The data collected is used in research, and it also assists the clinic's surgeons to assess personal operative results. This is atypical. Because patient aftercare is usually taken over by local practitioners, the information is not shared with surgeons.

To establish a single dataset of outcomes, the Martini Klinik collaborated with non-profit organizations and other hospitals. The Martini Clinic now has several dedicated employees for this purpose. The results are impressive, with much higher success rates than other hospitals and clinics, in some areas a 4-fold better rate of success.

One of the panelists spoke about the opportunity for the life science industry to drive the change by creating new business models. For example, a risk sharing model. For life science companies, it means forming partnerships with healthcare providers to establish standard of care and quality-based contractual agreements. Sliding scale of fees and prices (bonuses/penalties) would reward top performers and penalize lackluster performance on both sides of the contract.

Vision for the Future The journey to operationalize the VBHC principles is ongoing. The panel agreed on a slow fragmented evolution towards VBHC but there is also hope for a faster rate of change. It is unlikely that a step change will be driven by the incumbents, not even innovative technology companies like Apple and Google are perceived to be in a position to really drive change. There was consensus on the panel that the next viable models will likely emerge from low to middle income countries that are leapfrogging legacy healthcare systems. Frugal infrastructure and business models will evolve over time and may be transferred to other parts of the world.---