

## **The Disruption Mandate**

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The health care industry has been on a half-century-long trajectory of innovation and growth. Despite solving the seemingly unsolvable and letting people live longer, healthier lives, the industry is popularly perceived to be in intractable crisis.

The steadily increasing cost of health care services is the issue that usually garners the most press. Indeed, premiums paid by employers to cover health care costs for their employees have increased by about 10% a year over the past several years.

While there is no silver-bullet solution to the perceived problems, one of the strongest weapons in the collective arsenal of managers and policymakers—disruption—has yet to enter the national discourse. Yet today more than ever, there is an industry wide mandate for disruption.

*Seeking solutions for the rising health care tab*

One thing is generally agreed upon: something needs to be done. Health care–related spending already takes up roughly one-sixth of the gross domestic product. As the population ages and costs continue to escalate, pundits argue that the system will burst at the seams, since it is just inconceivable that we would spend 30% or 40% of our gross domestic product on health care.

Employers have responded by steadily shifting the cost burden to individuals. The latest move in this direction: Health Savings Accounts (HSAs), trumpeted loudly in a recent cover story in *BusinessWeek* titled “Your New Health Plan.”

HSAs (and related Health Retirement Accounts, or HRAs) are somewhat analogous to the popular 401(k) retirement plans. Each year, employees contribute a portion of their pretax earnings to their account. Employers can match employee contributions or add a lump sum to the account. It's up to employees, then, to either spend that money on health care or invest it in stocks, bonds, or mutual funds. Whatever an employee doesn't spend in a given year stays in the account for the employee to use in future years.

HSAs, with their focus on having employees understand the ramifications of their health care decisions, are designed to address one perceived root cause of rising health care costs: the separation between the ultimate payer and the consumer of health care services. When consumers have to offer only a modest copayment to consume services, they rarely seek a less expensive means of care, even if it is “good enough” for their particular health care need.

The thinking behind HSAs is that when consumers are exposed to the true costs and benefits of any given service, they will be more sensitive to the relationship between price and value. Additionally, consumers might curtail their use of marginally useful health care, such as

unnecessary diagnostic exams, which some experts estimate makes up almost a quarter of all health care spending.

Companies seeking to cap their health care costs have moved quickly to offer these programs. A survey by Mercer Human Resource Consulting estimated that almost three-quarters of U.S. employers will offer HSAs by 2006.

### *The disruption mandate*

The logic behind the program seems sensible enough, but unless innovators come up with new, lower-cost solutions, particularly those that address the diagnosis and treatment of relatively common maladies, the move will simply pass the health care buck from employer to employee. In other words, if consumers have to pay more out of pocket to consume existing solutions, HSAs will control costs only by rationing the amount of solutions that people are willing or able to consume.

This issue exposes an uncomfortable reality: costs have risen not just because services and treatments are getting more expensive, but because industry innovators are solving ever more complicated challenges for an ever smaller portion of the population. In the meantime, a gap has emerged. The pursuit of providing sharply better care has come at the expense of the creation of reasonably priced, simple, convenient solutions.

Without a doubt, disruptive innovation provides the tools to tackle this problem. After all, disruption has provided consumers with high-quality, affordable alternatives in such disparate industries as airlines, education, computing, retailing, steel, electronics, excavators, telecommunications, automobiles, consumer packaged goods, and chemicals.

For health care giants such as Johnson & Johnson, Abbot Labs, and Medtronic (among others), the charge is to develop options that enable care to be consumed in ever more convenient, less centralized locations at increasingly lower prices. In addition to innovating upward to create products and services for the most specialized physicians, these health care titans need to innovate downward in order to enable physicians with less specialized training to deliver top-flight care.

Entrepreneurs—whether individuals or startups—should follow the path being blazed by companies such as the Minnesota-based MinuteClinic (which offers simple, convenient ways to diagnose common ailments), the Washington-based Sonosite (which offers a portable ultrasound machine that affordably brings ultrasound technology into completely new settings), the California startup Quantum Dot (which is developing technology to enable self-diagnosis of complicated conditions such as prostate cancer), and the India-based Aravind Eye Care (which has developed clever ways to dramatically lower the cost of eye surgery).

For the Food & Drug Administration and other industry regulators, the charge is to ensure that efforts to protect consumers don't unintentionally shield them from the very innovations that have the most potential to create consumer welfare. Regulators need to recognize that an innovation that has fewer features is not "bad," especially if it makes it easy and affordable to consume care.

For example, MinuteClinic diagnoses and treats fewer than 20 conditions, such as strep throat and ear infections. But because MinuteClinic's menu covers the majority of conditions in

people's lives in a convenient and affordable way, consumers are delighted with a seemingly limited product.

Whenever science has progressed to the point where the diagnosis and treatment of a condition is a rules-based endeavor—so that knowing a series of tenets can point to specific and safe prescriptions—regulators should quickly approve simple solutions.

The disruption mandate demands other forms of innovation as well, particularly those related to providing comprehensive information about the benefits and costs of different health care solutions, since a market can't function without information. For disruption to flourish, the online information resource WebMD and other emerging players in the health care information field must learn from Morningstar and Consumer Reports and provide the high-quality data that helps consumers make informed choices.

*Beyond disruption: A national conversation*

And yet, even as disruptive innovations solve some problems, they will create new ones, unless we can reframe the way we think about consumption in the health care industry. For example, disruption will not be a panacea for the industry's cost problems. Why? Although disruptive innovations are almost always lower-priced, they tend to expand access. When a disruptive method of treatment replaces an existing form of treatment, it reduces cost, but when a disruptive means of treatment expands treatment, it increases costs systemwide.

Angioplasty and home pregnancy tests serve as telling examples. Angioplasty, a relatively noninvasive procedure to remove plaque that blocks blood flow to the heart, is significantly cheaper than coronary artery bypass graft surgery (known as CABG). A home pregnancy test is significantly cheaper than having a test performed by a skilled practitioner in a centralized hospital.

In both cases, instead of simply displacing existing treatment regimes, the innovations have allowed far more people to benefit from the solution. For example, in 1985 there were roughly 250,000 CABGs a year. Today, not only has the number of CABGs in the United States increased to about 700,000 a year, there are more than a million angioplasty procedures a year. Consumers spend more than \$100 million on home pregnancy tests each year and still go to the doctor to confirm they are "officially" pregnant.

Nonetheless, overall disruption will be a boon to consumers. Our health care system has limitations that go well beyond costs. All these years of high-end innovation have left us with a system that excels at treating the most complicated conditions but still lags at providing convenient, affordable solutions for less complicated cases (and everyday maladies). The root cause of this problem is that the industry has been shielded from the forces of disruption.

The real conversation still to be had is whether we as a society are comfortable with health care making up 30% of our economy. Right now the concept of spending more on health care seems unthinkable, but that's just because of the way our system is currently set up. If disruption flourishes, and people happily choose convenient, affordable solutions that let them lead longer, healthier lives, how could this be anything other than a good thing?

For more information:

“Cheaper, Faster, Easier: Disruption in the Service Sector,” by Clayton M. Christensen and Scott D. Anthony. *Strategy & Innovation*. January–February 2004.

“Healing the 800-Pound Gorilla,” Chapter 8 of *Seeing What’s Next: Using the Theories of Innovation to Predict Industry Change*, by Clayton M. Christensen, Scott D. Anthony, and Erik A. Roth. Harvard Business School Press, 2004.

“Your New Health Plan,” by Howard Gleckman. *BusinessWeek*. 8 November 2004.

“Why Selling to the Poor Makes Good Business,” by C.K. Prahalad. *Fortune*. 3 November 2004.