

# How “Big Med” Trade-Offs Can Transform Healthcare

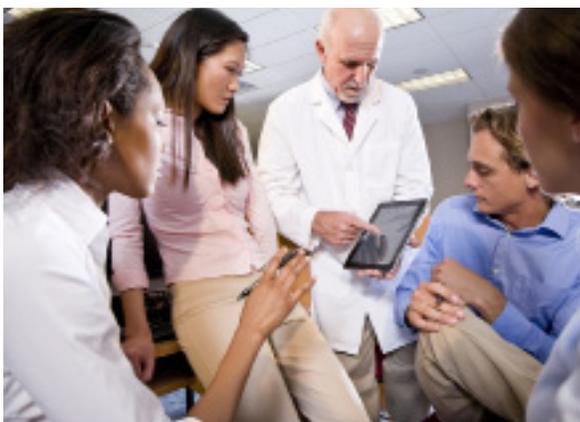
By Tim Gustafson, M.D.

In most markets, it is easy to accept that higher quality means higher prices. In healthcare, however, voices from every angle are calling for better care in terms of improved patient experiences, fewer errors, and superior outcomes at a *lower* cost—ideally at a *radically* lower cost. Despite the fact that healthcare is crippling major portions of the U.S. economy with skyrocketing costs, overall quality and customer satisfaction are pitiful compared to most other industries. Decades of effort have resulted in little progress in solving this seemingly paradoxical equation.

In a recent issue of *The New Yorker*<sup>1</sup>, surgeon and Harvard Medical School professor Atul Gawande offers part of the solution in a future vision of healthcare delivery that is modeled after the rigorous processes and management techniques employed by The Cheesecake Factory. The 150-restaurant chain manages to serve 80 million reasonably priced and carefully designed meals annually. Yet, as Gawande observes, it is able to change its 300-plus item menu every quarter while adhering to a standard of quality, efficiency, and customer satisfaction that our health system finds unattainable.

## Making unconventional trade-offs

Gawande’s perspective echoes those expressed in *The Innovator’s Prescription*, Innosight co-founder Clayton Christensen’s 2009 book



1. Gawande, Atul. “Big Med.” *The New Yorker* 13 Aug 2012 < [http://www.newyorker.com/reporting/2012/08/13/120813fa\\_fact\\_gawande](http://www.newyorker.com/reporting/2012/08/13/120813fa_fact_gawande)>

on healthcare innovation. Christensen and his physician co-authors, Jason Hwang and the late Jerome Grossman, assert that the answer to the healthcare crisis will come, in part, from adopting innovative approaches that make unconventional trade-offs—a type of innovation Christensen termed “disruptive” over a decade before—and then standardizing the business model that delivers these innovations wherever possible. Relative to “fine dining” options, customers of The Cheesecake Factory are making unconventional trade-offs whether they realize it or not. They give up the ambiance of an intimate restaurant, the cache of a reservation at a trendier establishment, and the romantic notion that, back in the kitchen, culinary artisans are carefully customizing their meals. What they gain in return is consistently delicious food designed by an award-winning chef with over twenty-five years’ experience—namely Cheesecake Factory’s Executive Chef Bob Okura—at an average price per entree of \$14.95.

## Knowing when to make trade-offs... and when not to

Applying this approach to healthcare is not ideal in all patient-care scenarios, Christensen argues, but is the best choice whenever a clear diagnosis can be paired with the specific treatment protocol that has been proven most efficacious, especially when enabled by technology in the right ways. Most infectious diseases, for example, long ago transitioned into this category; in cases of pneumonia, for instance, a simple microbiology test can often reveal the exact strain of bacteria and the specific drugs that will kill it. In these situations, the accuracy and relative ease with which the correct treatment can be determined means that care pathways will generally benefit from standardization and can be delivered in less expensive settings by practitioners with fewer years of training.

In a second type of scenario, however, attempting to inject disruptive innovation or stringently standardize the care pathway is unlikely to have the same benefits and may even be counterproductive. Situations in which the diagnosis is ambiguous, or when the ideal treatment is determined through interpreting a complex set of patient-specific variables, require the application of deep expertise, pattern recognition, and even “gut-feel,” not necessarily a set recipe.

For example, treating autoimmune diseases, which are rarely straightforward, or “acute on chronic” conditions, in which a patient with an underlying chronic condition develops a separate acute illness, often need all the customization and expertise that the system can bring to bear.

If, in the first of these scenarios, the ideal healthcare system is akin to The Cheesecake Factory, in the second one it is analogous to a gourmet catering service, a team of experts working in close coordination to satisfy the specific and unique needs of their client. A huge part of the reason healthcare is in crisis is because we have a system that attempts to treat almost all conditions with the customized attentiveness of a gourmet caterer, even when The Cheesecake Factory may be good enough, or even preferable. Patients generally have become accustomed to view anything less than carefully nuanced treatment from a doctor who knows them like family as sub-standard care. To further complicate matters, many doctors view standardized protocols as a threat to their decision-making autonomy and regard the phrase “cookbook medicine” as a derisive term, an attitude that is, at least in part, driven by quite reasonable concerns for their livelihood. Lastly, health insurers, seeking to ensure they offer policies employers want to buy, tend to cover the gourmet caterer-level care, even when more effective, lower cost alternatives exist, and pass the costs along in the form of higher premiums.

## Shifting Incentives

Until recently there were few incentives for providers to change the care delivery model. In the past few years however, numerous new payment models are starting to take hold and force considerations of new approaches. Fee-for-value payment models, such as “pay-for-performance,” “patient-centered medical homes,” “bundled payments,” “shared savings/shared risk,” and “accountable care organizations” have the potential to change the approaches to healthcare delivery fundamentally, as providers are increasingly rewarded for adopting higher-value approaches to patient care.

## Getting the best of both worlds

In the setting of these new incentives, the answer will be not to swing to one extreme or the other but to pursue customized and standardized models simultaneously. We need to create healthcare systems that identify as many care scenarios as possible in which “Cheesecake Factory medicine” is the best option, but then not hesitate to deploy the gourmet catering team when it is really necessary. By pursuing these two models side-by-side, providers will be able to optimize each approach independently—yet when two are combined they will create an overall care system that cares for patients as effectively and efficiently as possible.

This new approach will require patients and physicians alike to make unconventional trade-offs. It will force them to consider which dimensions of performance they are willing to give up, to obtain the outcomes, experiences, and prices that everyone seems to want. For example, if you are a relatively healthy patient, are you willing to be seen by a nurse practitioner instead of an M.D. for your primary care



appointments in return for the assurance you’ll never wait longer than five minutes and will have all your questions answered before you leave the office? Or a bit further along the disruptive spectrum, how about forgoing clinic visits altogether if you can connect with a nurse via FaceTime whenever you wish and have every preventative test scheduled in your home or workplace at your convenience? As a physician, are you willing to give up most of your decision-making autonomy for your routine patients if you could spend as much time as it takes to crack your most complex cases? How about not seeing the vast majority of your patients *at all* if you can gain complete confidence that “the system,” with its integrated technology and powerful data processing engines, will provide them with higher quality and significantly cheaper care than you could ever hope to offer on your own?

## Change is challenging

Healthcare leaders who wish to encourage a shift toward more disruptive, standardized care are not likely to find it an easy path. The reason is that even the most successful, well-regarded organizations tend to resist fundamental changes to their business model as the processes, systems, culture, rules, norms and metrics that have made them successful in the first place often aggressively support the status quo, even when the change in question seems highly compelling or inevitable. All too often, the most promising and potentially transformative ideas are shut down well before they have a chance to prove themselves—sometimes before they even get started.

The good news is that several major healthcare companies that Innosight has worked with have demonstrated that transformative innovations can be incubated and scaled successfully despite the many pitfalls that exist. We have found that the fate of new innovations often rests not in the strength of the idea itself, but in how the project is approached and structured relative to core operations. While a complex topic, there are three primary guidelines we would suggest to healthcare leaders based on a multitude of innovation case studies across a broad range of industries:



**1. Protect disruptive innovation.** First of all, hospital and healthcare system executives hoping to adopt the “innovator’s prescription” are most likely to succeed by keeping truly disruptive efforts largely separate from ongoing operations. Specifically, disruptive approaches should typically make use of distinct physical locations, staff, financial records, metrics, IT resources, processes and other key aspects of their unique business model. At the same time, the existing approach should be continued and refined over time to better manage those patient care scenarios not suited for Cheesecake Factory medicine. Managing these two co-existing approaches will require diplomatically moderating the interface between the two. In other rapidly changing industries such as newspapers, we’ve found it is necessary to establish a formal “capabilities exchange” to allow the disruptive business to borrow assets and capabilities from the core business without being “loved to death.” Time and time again, we have found this structure is superior to combining the “existing” and the “new” prematurely, as separateness allows the new business model to be tested in isolation and supported with valuable resources, while protected from the “antibodies of the core.”

**2. Develop a portfolio of innovations.** Secondly, healthcare leaders will need to realize that it is critical to pursue a diverse portfolio of new innovations instead of hoping for a single panacea. By making many small bets, they will be able to iteratively find those that are both effective and worth the trade-offs. Doing this well typically means establishing formal processes and systems for selecting, managing, funding, and governing the innovation portfolio. Numerous Fortune 100 companies have found that setting up formal processes and systems for innovation portfolio management is a critical step in pursuing innovation aggressively, yet our guess is few healthcare systems have yet to take this foundational step.

**3. Test and learn.** Finally, it will be essential to apply a “test and learn” mindset and approach to innovative efforts rather than moving directly “from idea to launch.” Truly transformative innovation is often elusive at first. The typical entrepreneur changes his game-plan four to five times before meeting with success. That is why companies should adopt a systematic approach to identifying the individual assumptions that must be true for new innovations to be successful. Then it comes time to test those assumptions as quickly and cheaply as possible. In doing so, healthcare leaders “de-risk” the efforts and allow the ideas to evolve as learning occurs.

Whether or not Gawande’s Cheesecake Factory vision ultimately comes to fruition, it is clear that a systems-approach to innovation in healthcare delivery is badly needed. Healthcare leaders should start by identifying those innovations that make the right trade-offs. Only then can they apply the best practices of leading innovators to ensure potentially transformative innovations are given every chance of success.

## Innosight’s Healthcare Expertise

In the global healthcare marketplace, the need for innovation is a chronic condition. To make healthcare more affordable and accessible, innovation must go beyond new technologies and treatments. Healthcare companies need to create new business models that generate value in sustainable, new ways.

Innosight works with providers, pharmaceutical companies, device manufacturers, and payers to move toward a different future through new business models and solutions that redefine healthcare delivery in markets around the world.

Find out more at [Innosight.com](http://Innosight.com).



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