

# Disruptive Innovation in Education and Health Care

October 27, 2008

American Enterprise Institute

[www.aei.org/event1812](http://www.aei.org/event1812)

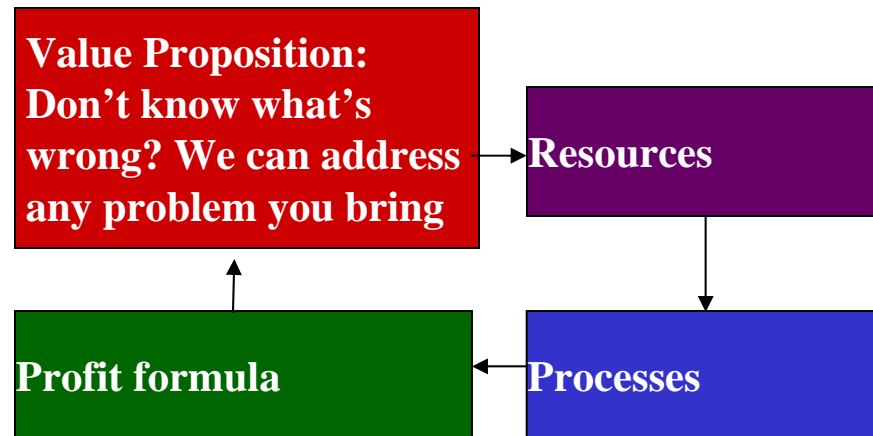
# The Innovator's Prescription: A Disruptive Solution for Health Care

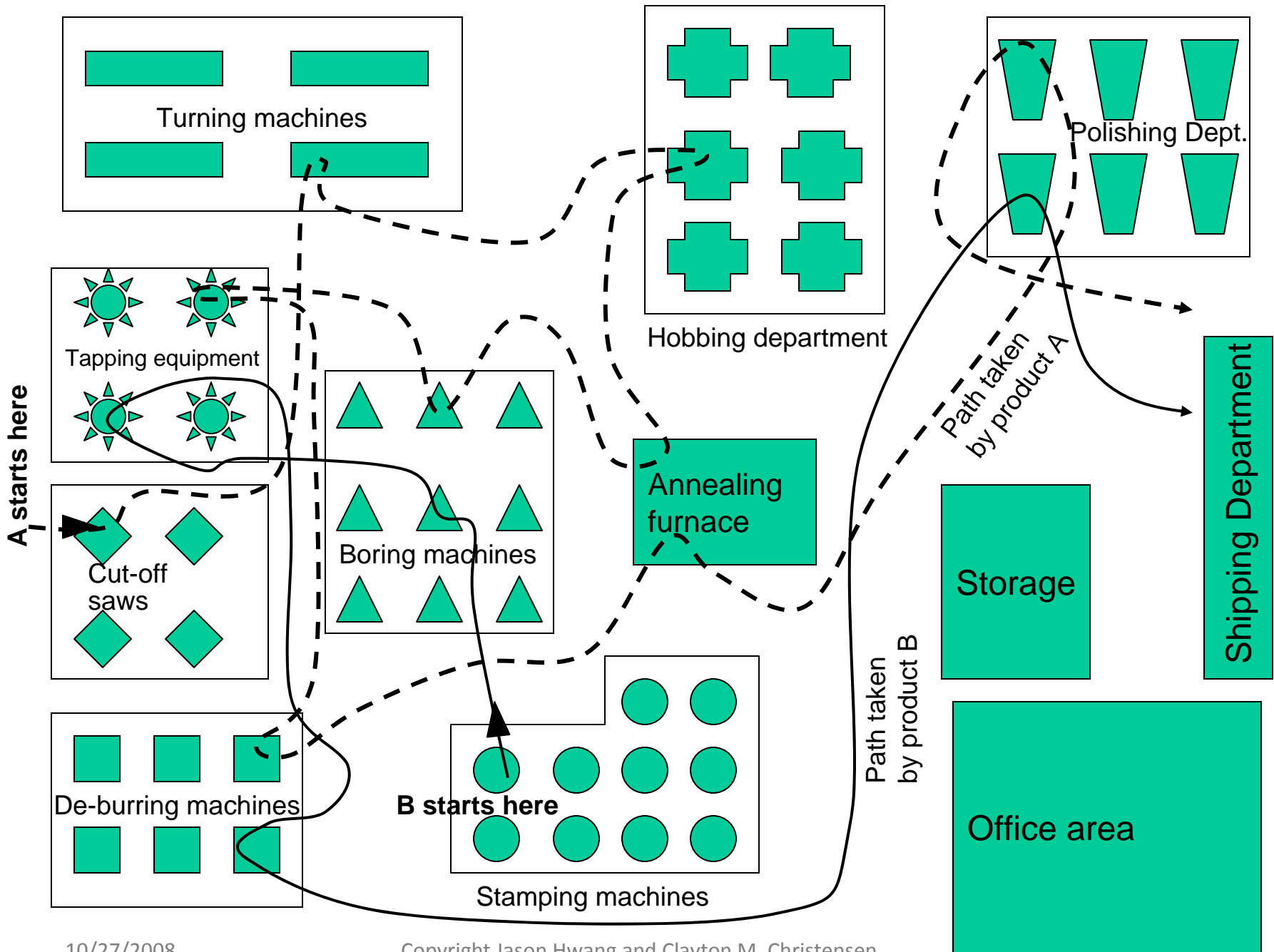


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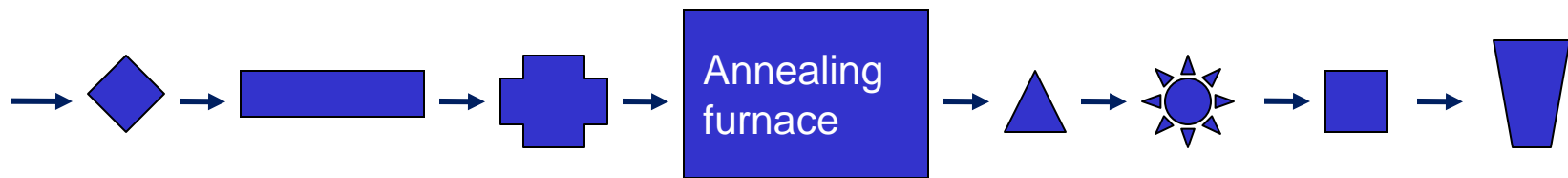
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# The Traditional General Hospital Is Not a Viable Business Model

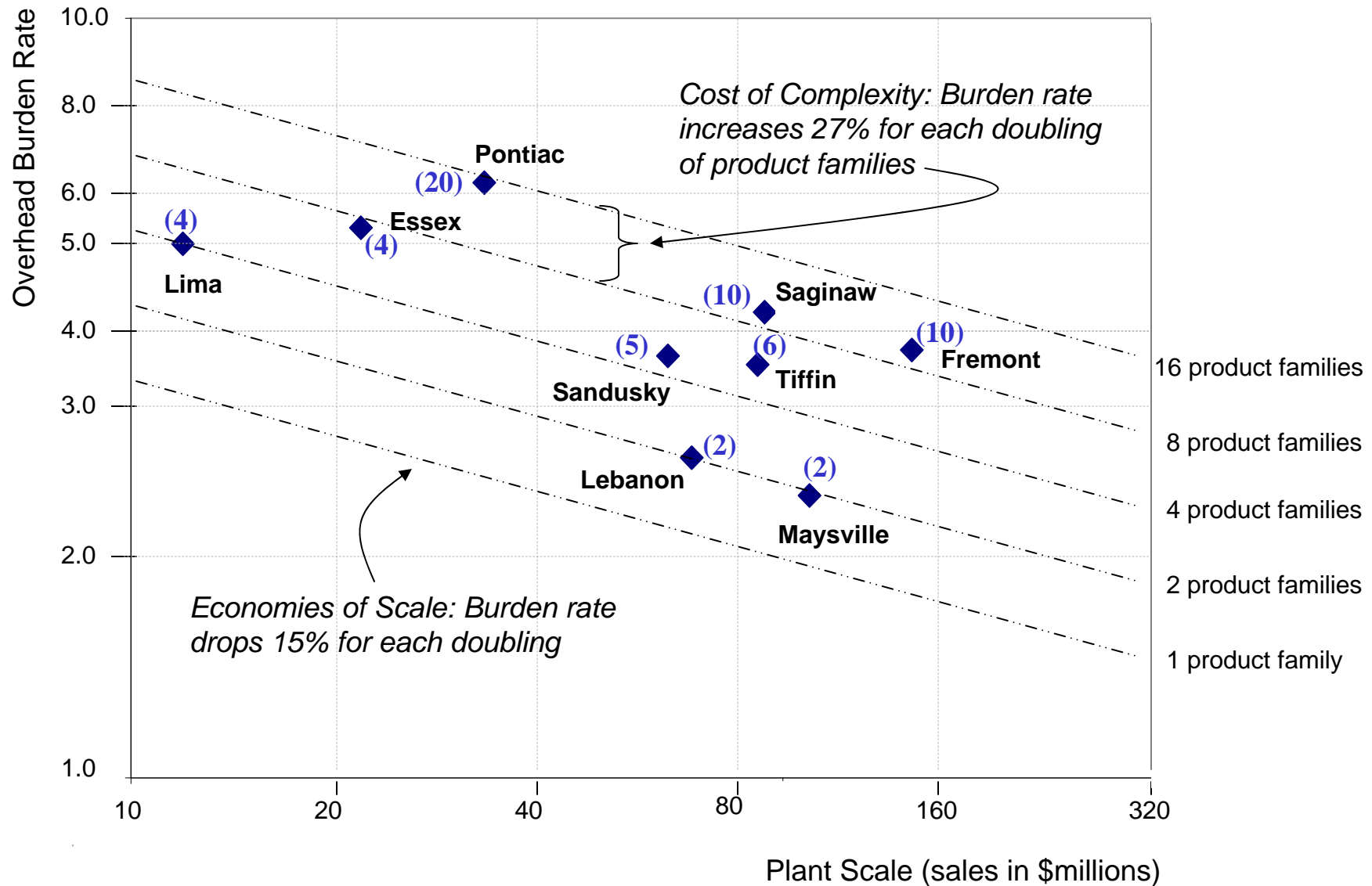




# Focus and integration optimizes efficiency and high quality



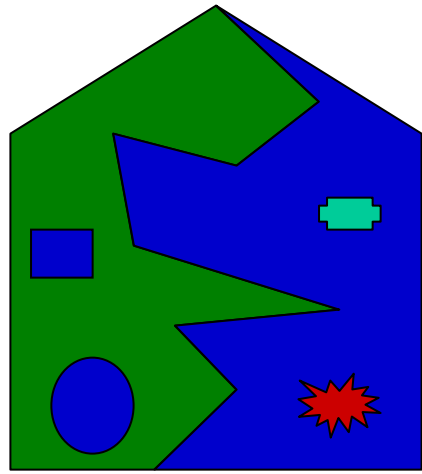
# Economies of scale and countervailing costs of product-line complexity



# Sources & magnitude of cost differences: Specialty vs. General Hospitals

	<b>Shouldice Hospital (hernia repair)</b>	<b>General Hospital</b>
<b>Cost of materials &amp; supplies</b>	<b>\$100</b>	<b>\$300</b>
<b>Cost of direct labor</b>	<b>\$600</b>	<b>\$670</b>
<b>Overhead burden</b>	<b>\$1600</b>	<b>\$6030</b>
<b>Total cost for equivalent length of stay</b>	<b>\$2,300</b>	<b>\$7,000</b>
<b># service families offered</b>	<b>1</b>	<b>75</b>
<b>Overhead burden rate</b>	<b>2.7</b>	<b>9.0</b>

# Business Model Disruption in Health Care

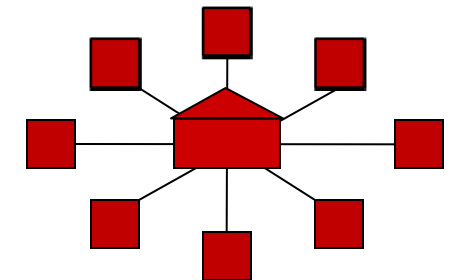
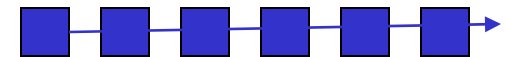
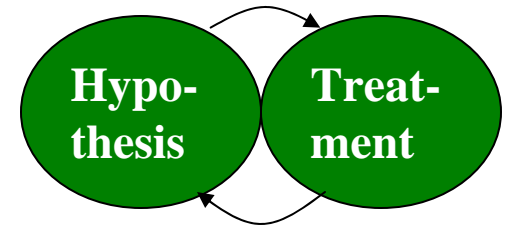


Today's hospitals and specialist physician practices are agglomerations of solution shop, value-adding process, and (a few) facilitated network activities

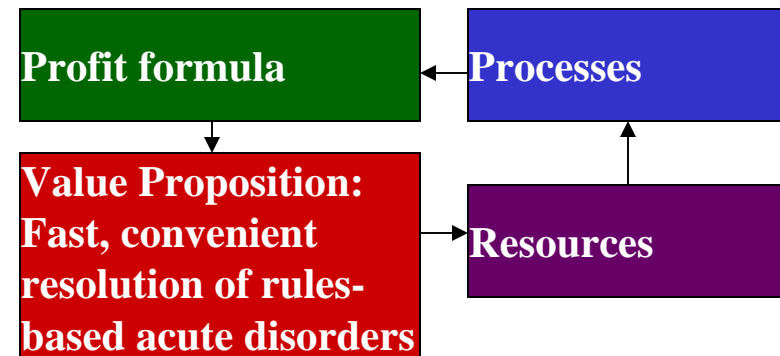
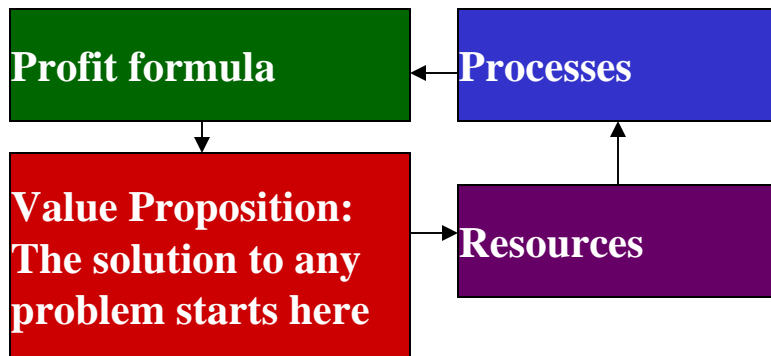
**Hospitals become focused solution shops, practicing intuitive medicine**

**Focused value-adding process hospitals & clinics provide procedures after definitive diagnosis**

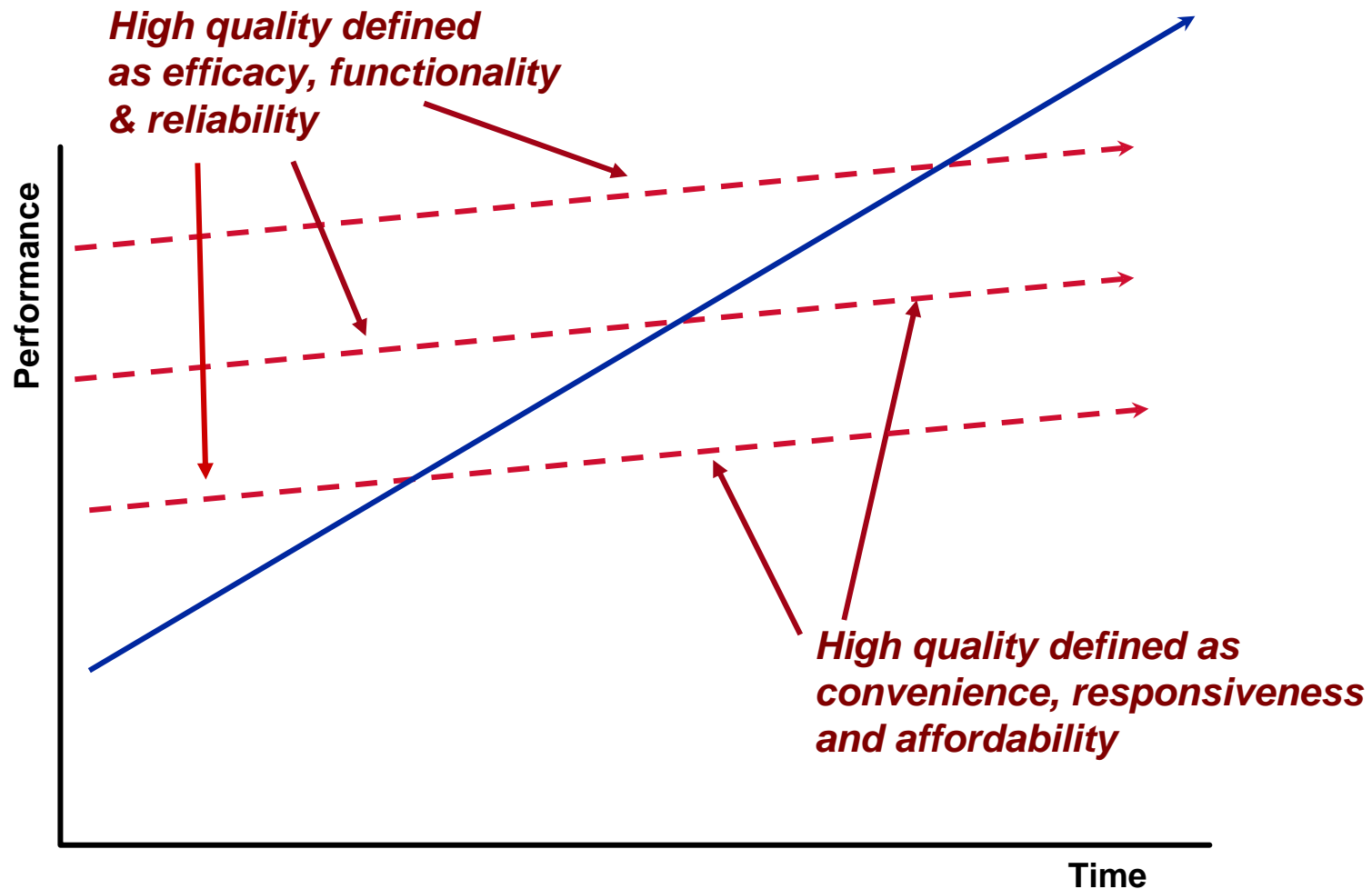
**Facilitated networks take dominant role in the care of many chronic diseases**

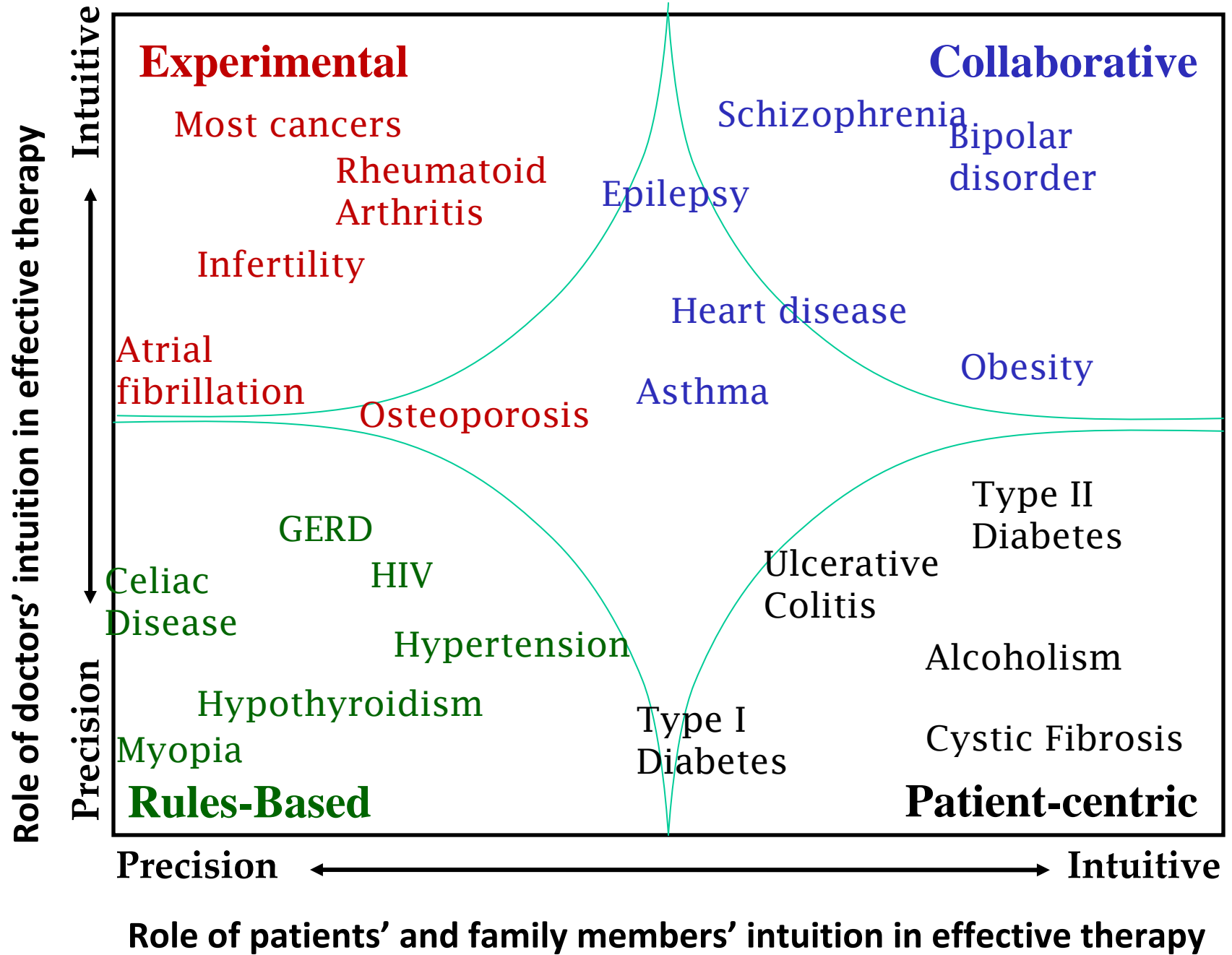


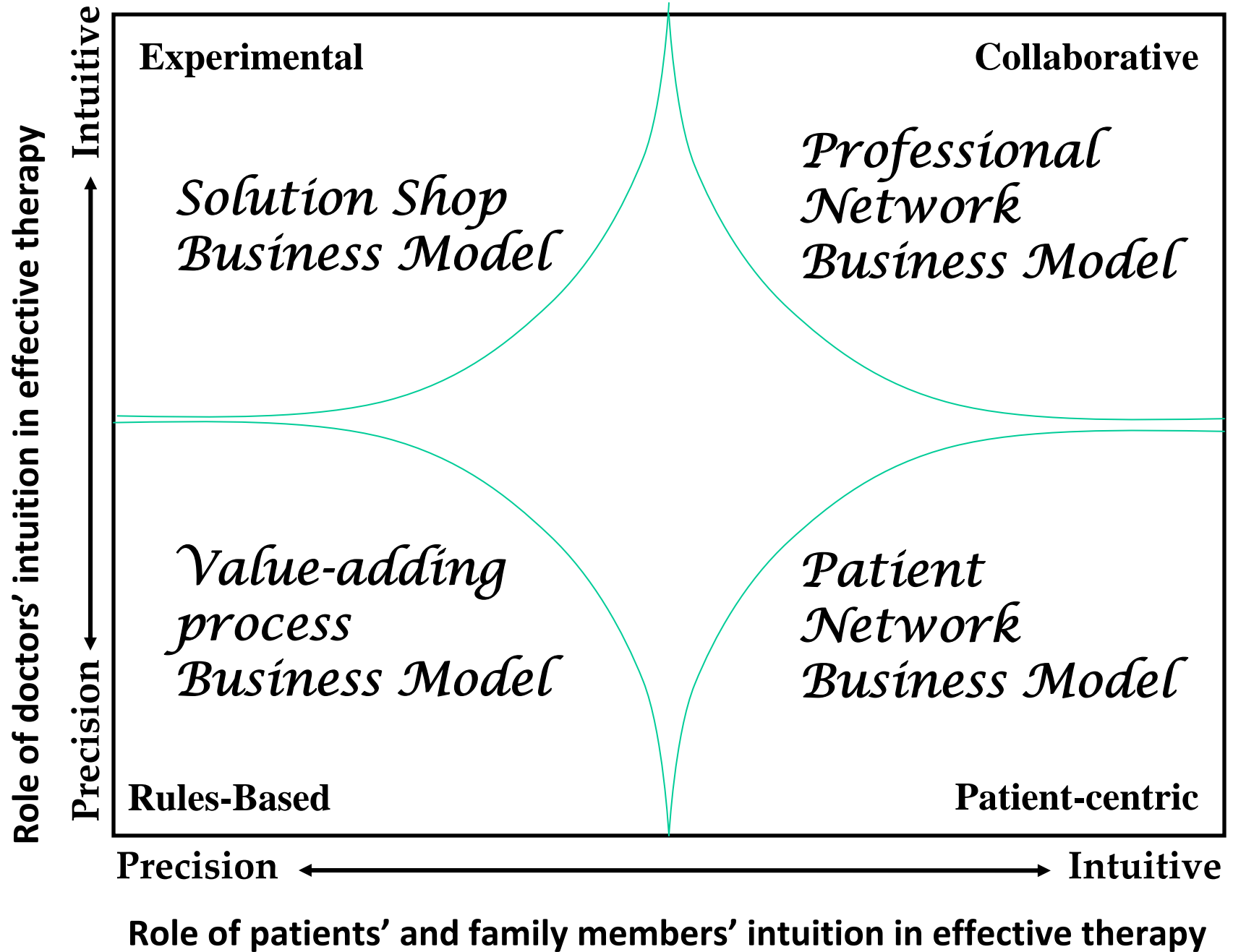
# Disruptive business model innovation in physicians' practices



# The basis of competition – the definition of quality – changes as the process of disruption unfolds





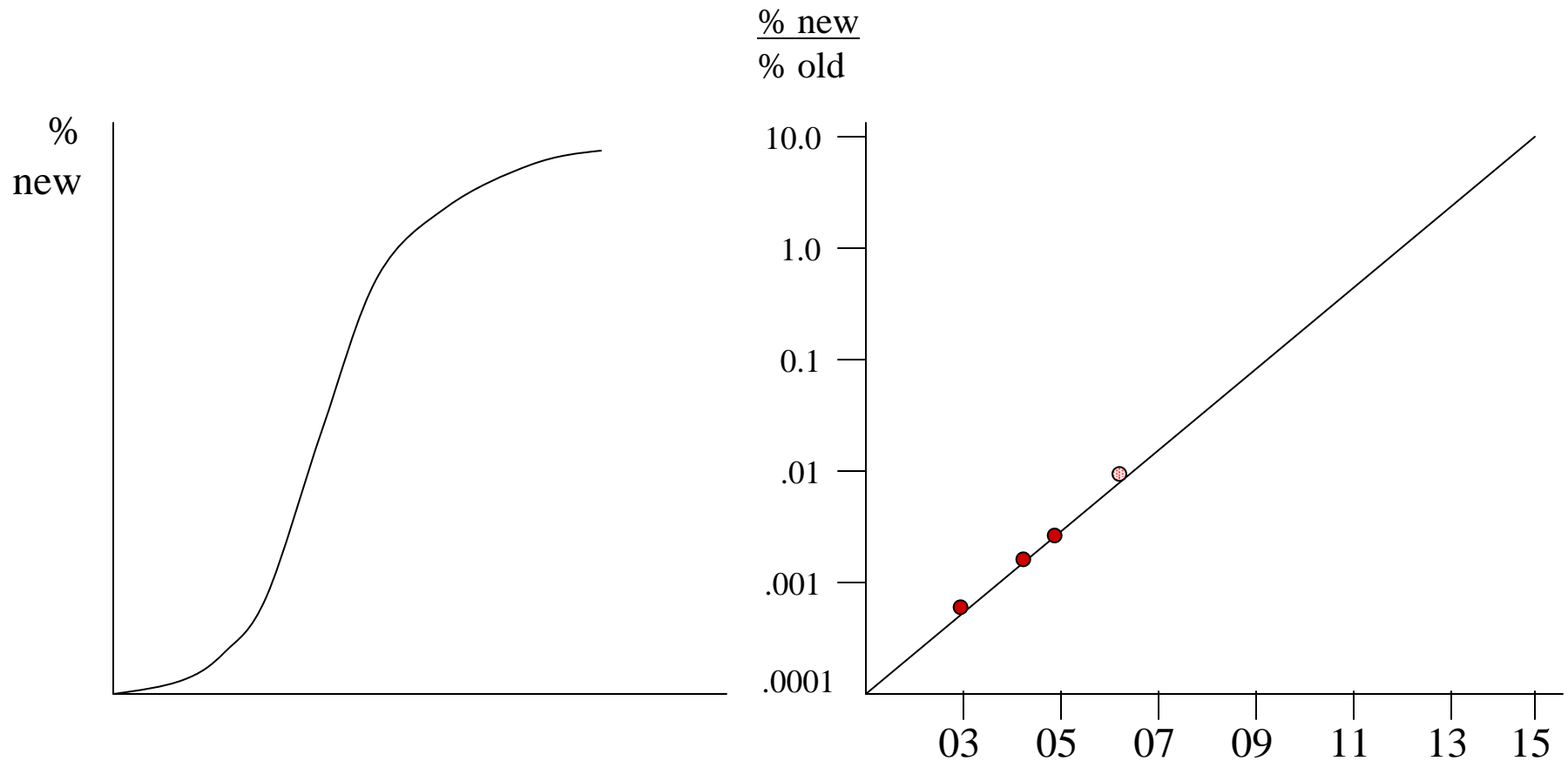


# The jobs of reimbursement

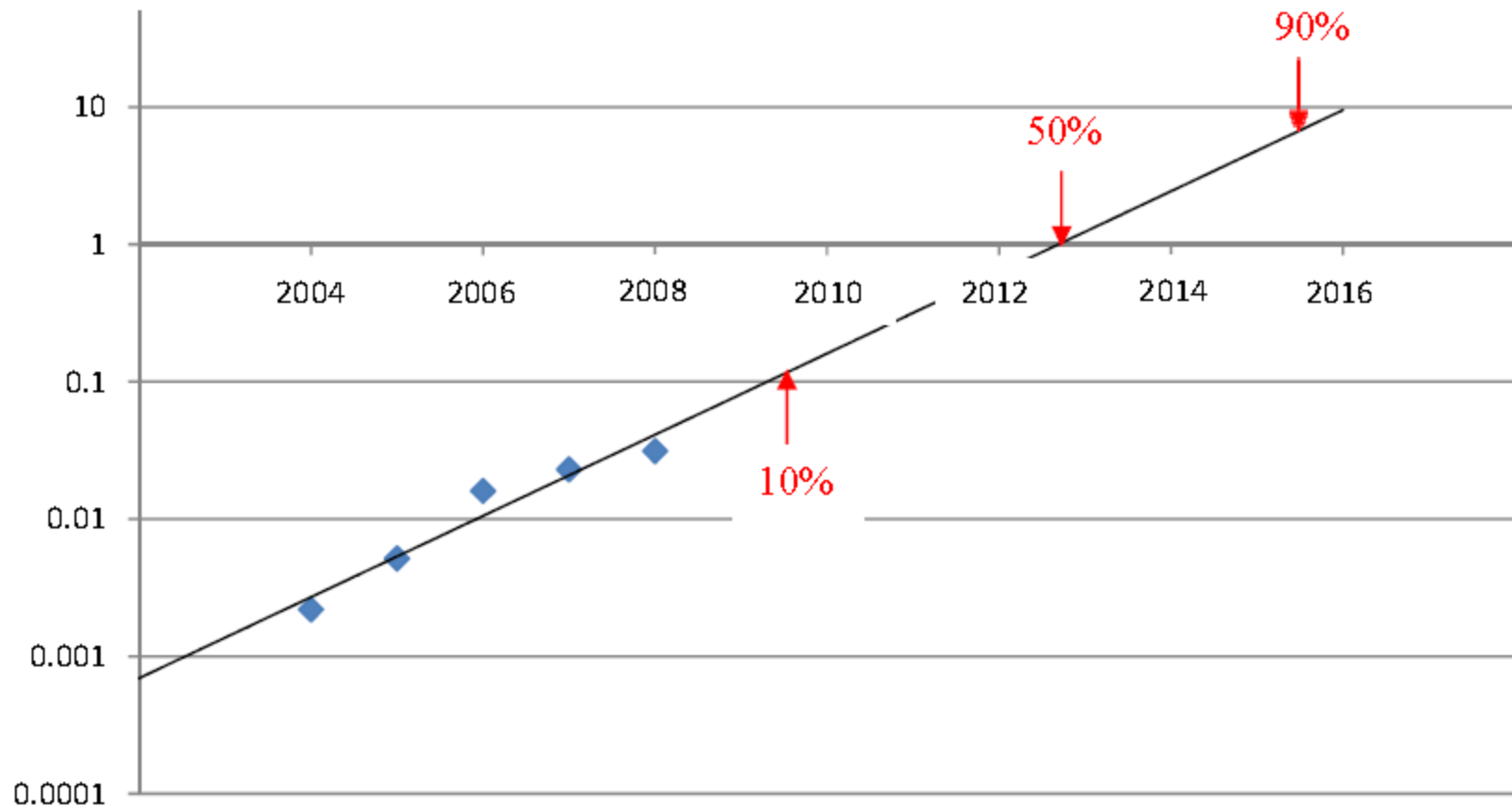
		Fee for service	National health plans	Capitation in independent systems	Capitation in integrated systems	HSAs & HDI
Patient Jobs	Help me to become healthy	Neutral	Neutral	Detracts	Detracts	Neutral
	Help me to maintain my health	Neutral	Neutral	Detracts	Detracts	Detracts
	Help me achieve financial security	Neutral	Neutral	Detracts	Neutral	Detracts
	Protect my assets from being taken or destroyed	Neutral	Good	Excellent	Excellent	Excellent
Pro-vider Jobs	Pay me for services rendered.	Good	Good	Detracts	Excellent	Good
Em-ployer Jobs	Help me cost-effectively attract and retain the best possible employees.	Good	Badly counter-productive	Detracts	Detracts	Excellent
Insur-er Jobs	Help me avoid paying for unnecessary services	Badly counter-productive	Good	Excellent	Excellent	Neutral
Politi-cians Jobs	Help me stay in office while I balance the budget	Badly counter-productive	Badly counter-productive	Badly counter-productive	Detracts	Good

Key: Excellent Good Neutral Detracts Badly counter-productive

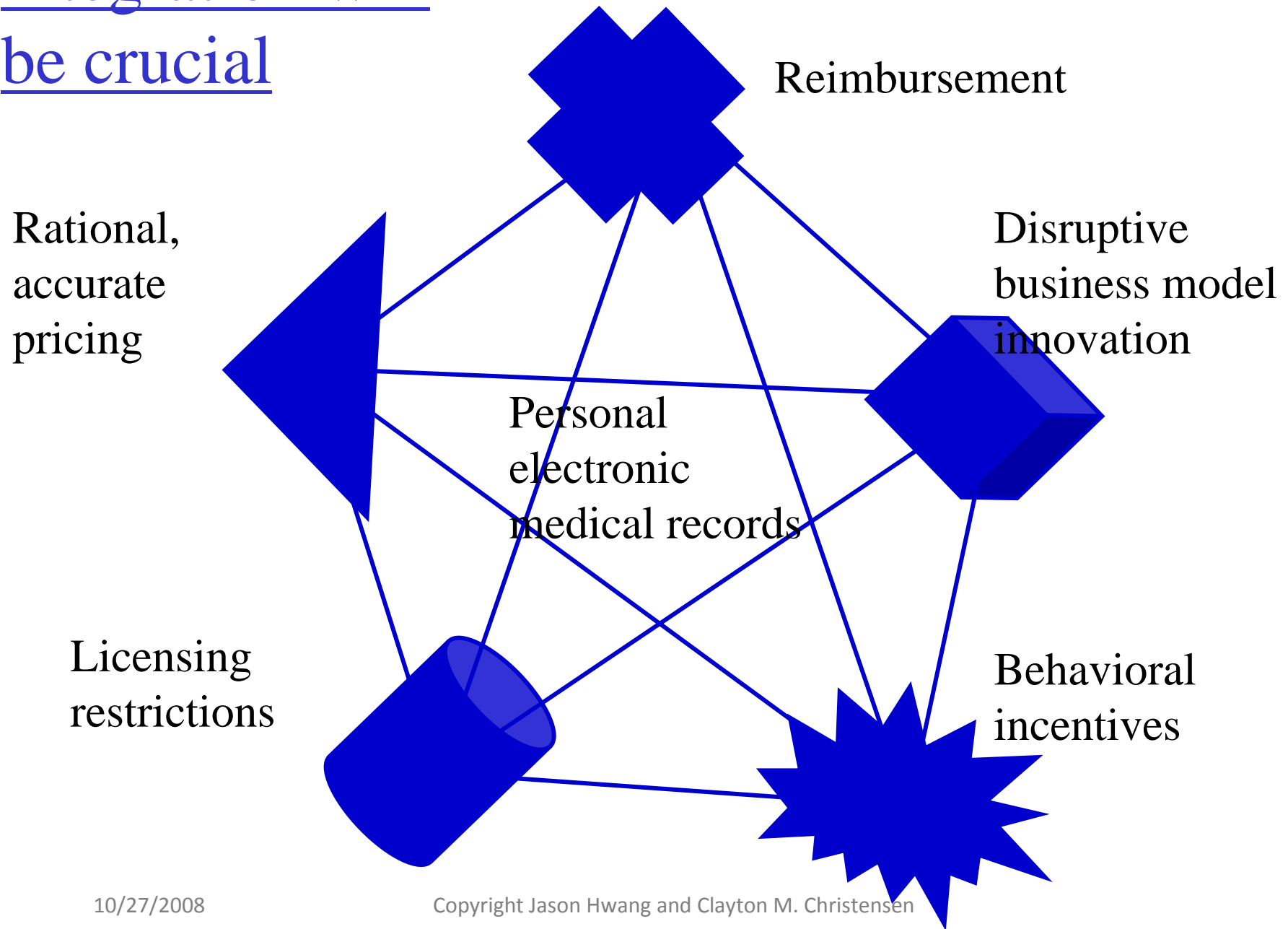
# The substitution of one thing substitutes for another always follows an S-curve pattern



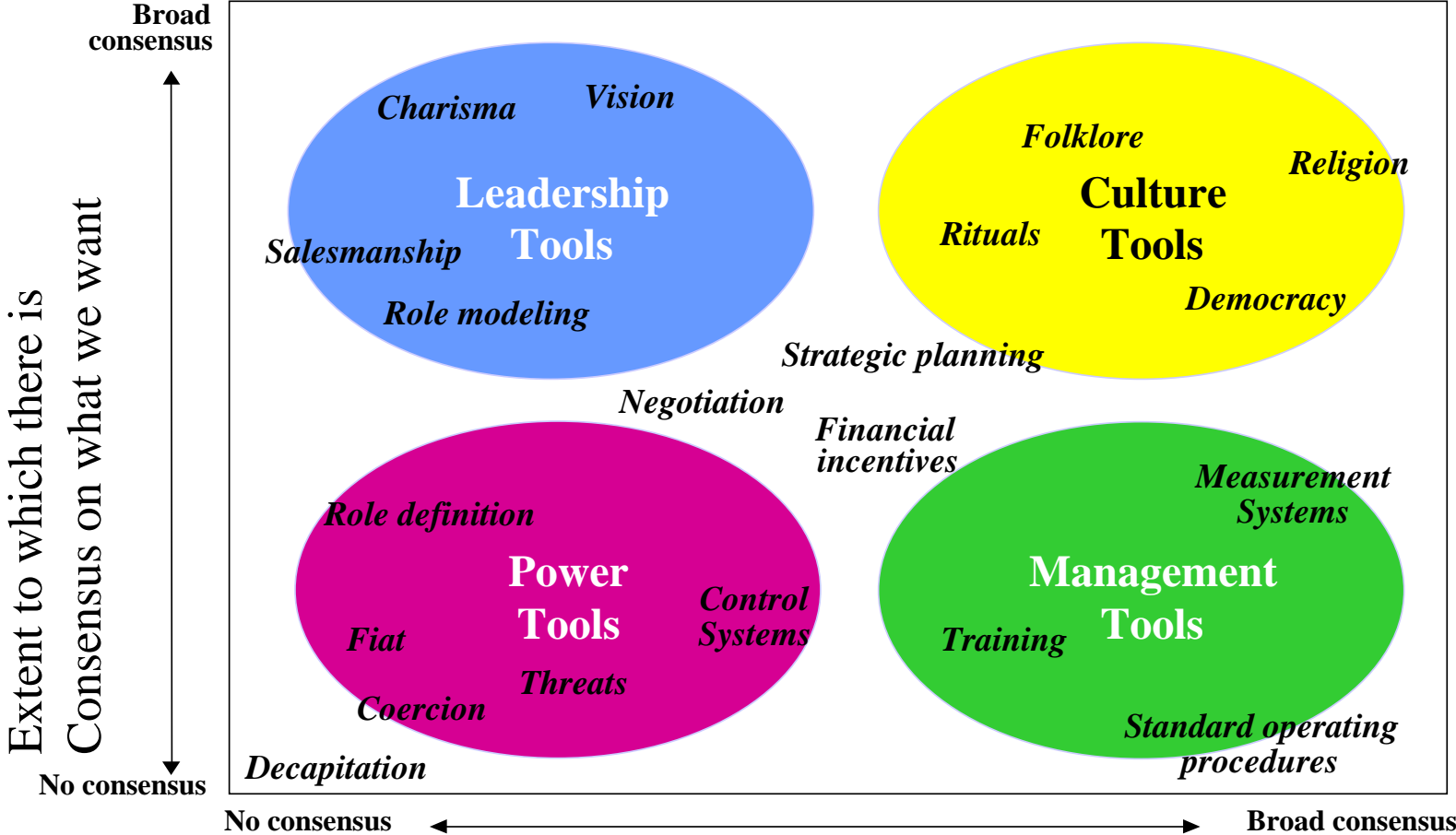
# Past and Future Substitution of HSAs & HDI for Conventional Private Health Plans



# Integration will be crucial



# The Tools of Cooperation



Extent to which there is pre-existing consensus about what actions will lead to the needed results

**The ideal entity responsible for healthcare should have a long-term horizon, strong motivations to keep people healthy, and the ability to make care convenient.**

- Employers
- Insurance / reimbursement firms
- Doctors & hospitals
- Employees
- Government

**Throughout business history, managers have integrated backward into activities that were not their “core competencies,” when they could not get critical inputs from independent suppliers that were reliable and cost-effective**

