

BAIN & COMPANY

**Creating Value
Through Disease
and Therapy System
Cost Management**

Health Care Viewpoint

Number 8



Bain health care expertise

As the year 2000 approaches, the health care industry is still turbulent. Customer requirements and competitive dynamics continue to evolve. The industry is seeing more deals, more alliances, more investment, and more experiments than ever before. It's not always clear whether a new approach is a fad or a real basis for leadership in the marketplace. Health care organizations are rethinking every element of their strategies, structures, and business practices to find the path to sustainable results.

Bain & Company helps health care companies navigate a course to outstanding results. We work closely with motivated management teams to create a clear map, a goal and direction for achieving not incremental improvements, but full potential returns.

Bain's global health care practice combines expertise, an industry network and years of experience accumulated across all parts of the health care industry. Bain helps health care companies, including product suppliers, distributors, providers, and payers worldwide, select a strategic course and create a practical migration path to the goal.

the ultimate **endgame** of managed care

Managed care is penetrating the U.S. and potentially the global marketplace not because of government regulatory edicts, but because of demonstrated value creation. Value creation to date has come primarily from leveraging the fixed cost utilization economics of overcapacity in the health care system. Future value creation will come from the creation of care pathways and protocols that optimize the total resource consumption by therapy or disease for a given population over time. This shift is leading to a restructuring of the total health care delivery value chain, creating new bases of competitive advantage and separating the performance of leaders in disease and therapy management from the followers.

Creating Value

The Disease Management Continuum

At its most basic level, disease management means taking a system rather than a component view of health care delivery, and coordinating patient care resources across the entire health care delivery system throughout the lifecycle of a disease. “Disease management” covers the continuum from taking responsibility for a discrete component of care (capitated diagnostics), to a total procedure (capitated orthopedic surgery), to a total therapy (capitated AIDS treatment), to a total disease within a population (capitated asthma), to all health care for a population (capitated lives).

Winning strategies are based on finding value creation opportunities in the system, such as in the cost structure, the causes of outcome variation, and the control points for change.



Five lessons Learned from Early Experiments

- 1) Understand disease system economics and focus on the drivers of major outcome and cost variation,
- 2) Create an information database to develop best practices, track performance vs. best practice, and drive continuous improvement,
- 3) Develop a pricing paradigm that aligns the incentives of the key players,
- 4) Influence clinician and individual behavior through information and incentives, and
- 5) Invest to create competitive barriers so value creation gains are not bid away in competitive pricing.

Remaining Opportunities to Achieve Full Potential

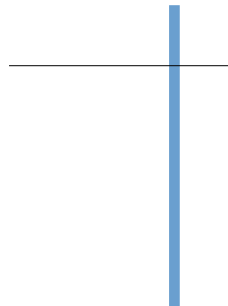
Numerous transactions have cited the promise of disease management to justify the high premiums paid. Visible examples have included the PBMs (Medco, DPS); disease management carve-out companies (Valuehealth, Salick, Quantum); broad line managed care networks (Kaiser, Intermountain, U.S. Healthcare); procedure-focused distributors (Axion, Allegiance); and information/data players (Apache, Mediquial). In certain diseases and value chain activities, substantial progress is being made; in others, there remain both substantial opportunities and challenges to achieve the full potential of disease management.

Explore Strategic Implications

Every management team should be asking itself several questions:

- 1) Based on our current role (value chain positioning, disease/therapy expertise, geographic coverage, competitive position, and distinctive value proposition), how will disease management likely impact our company's offerings?
- 2) What opportunities exist to increase value addition from a disease management perspective, and what new capabilities would be required?
- 3) What options exist for implementing these opportunities, and what are the specific trade-offs of making vs. partnering vs. buying new capabilities, vertically integrating into new areas (that may compete with current customers), and risk vs. return on investments to create competitive barriers?

The full implications of disease and therapy systems cost management will likely take more than a decade to play out globally. However, there are first-mover advantages to locking up the best acquisitions and partners and to rapidly acquiring experience to create information databases and efficient business systems.



Bain is one of the world's leading global business consulting firms. Its 2,400 professionals serve major multinationals and other organizations through an integrated network of 26 offices in 18 countries. Its fact-based, "outside-in" approach is unique, and its immense experience base, developed over 26 years, covers a complete range of critical business in every economic sector. Bain's entire approach is based on two guiding principles: 1) working in true collaboration with clients to craft and implement practical, customized strategies that yield significant, measurable, and sustainable results, and 2) developing processes that strengthen a client's organization and create lasting competitive advantage. The firm gauges its success solely by its clients' achievements.

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