Disruptive Innovation

Healthcare Landscape 2017
Introduction
From Schumpeter to Christensen

Schumpeter (1942) – Creative Destruction
The market’s “industrial mutation”

Clayton Christensen (1997)
Sustaining Innovation
Efficiency Innovation
Disruptive Innovation
Sustaining Innovation
making good products better

Sold to sophisticated customers  -- updated with enhanced features
Efficiency Innovation
The same product produced more cheaply

Consumer may not notice any changes other than lower price
Disruptive Innovation
cheaper – easier – convenient

• New product initially perceived as inferior
• Does not appeal to high-end customers
• Attracts low-end or new “non-customers”
• Over time performance improves and meets the needs of more customers
• Eventually replaces the existing product
Disruptive Innovation

From complicated to simple: Takes something that was very expensive and hard to produce and only a few could afford. Converts it into something that is much simpler to produce, is cheaper, more convenient, more available.
Disruptive Innovation

Bigger
Faster
More Comfortable
Safer

GM
Ford
Chrysler
Disruptive Innovation

Smaller
Lighter
Less Comfortable
Less Safe
Cheaper
Reliable
Better Gas Mileage

The leaders got killed from below
Disruption Innovation
The Innovator’s Dilemma

• Disruption typically comes from outside the industry
• Once the business model is in place for the established product
• Change in culture required is very difficult
• Hard to focus on lower quality, lower margin product
• Rather focus on current (high margin) customers
• Often incumbent is driven to extinction or marginalized
Innovation in Health Care?
Mostly Sustaining

• Most innovation in health care has been sustaining innovation
  • Making good products/services better
  • Technological change cited as major driver of cost increases

Bigger
Faster
More Comfortable
Safer
An example of disruption?

Retail Clinics

• Initial focus on LOW MARGIN minor conditions
  • Strep throat, sinus infections, sports physicals
• Focus on convenience
• Strong opposition from medical community
  • Low quality alternative to rigorous physician care
• Today they are widely accepted and used
• Looking to “move up” to more complex higher margin business such as imaging, chronic disease management
An example of disruption?

I could not get in to see my doctor until Tuesday, and my cedar allergies are killing me! I tried a "virtual visit" with a physician. She was thorough, the technology interface was seamless and my questions were addressed. I avoided a germy waiting room and lots of wasted time driving to the office. I plan to upload a note to my PCP via their portal for continuity of care.

Had a great visit with Doctor On Demand!

"Dr. Halanski was more thorough than my regular primary care doctor! I appreciated the ability to be seen within 5 minutes and be finished in 15 minutes. I will definitely use Doctors on Demand again." Get $10 off your first visit with code nicole684.

PATIENT.DOCTORONDEMAND.COM
An example of disruption?

“Free market-loving, price-displaying, state-of-the-art, AAAHC accredited, doctor owned, multispecialty surgical facility in central OK”
Why Has Disruption Been Difficult?

- Barriers to Entry
  - Need scale for payer contracts
- Regulatory Barriers
  - Tend to protect status quo
- Passive Consumers
  - Wedge between delivery of care and payment
Moving Forward – will disruption be easier?

Two Competing Forces

• Supply-Side Incentives – move to “population health”
  • P4P, Bundled Payments, Global Payment, etc.
  • Strong incentive for mergers, consolidations, affiliation
  • Potentially more regulation due to antitrust issues
  • Empower the incumbent, make entry more difficult

Less likely to see disruptive innovation – rather efficiency innovation
Moving Forward
Two Competing Forces

• Demand-Side Incentives
  • Shifting Risk Onto the Consumer
    • High Deductibles > 50% of employer plans have deductible > $1,000
    • More than 25% with Health Savings Accounts
    • Insert WebMD joke here
  • Employer frustration
    • Narrow networks, private exchanges

• Looking for help to be a better “shopper”

Disruptive Innovation More Likely
Which of these will dominate?
We don’t know, but…

• New Administration
  • Repeal and Replace – focus on health savings accounts and other market-based ideas
  • Decreased regulations – ‘One in Two Out’ Executive Order

• Rise of Entrepreneurism
  • Proliferation of technology focused on the consumer
    • Wearables, artificial/augmented intelligence, IoT, etc.
  • Increasing transparency
  • Helping patients make better health care decisions (help with shopping)

• Behavioral Economics
  • Better understanding of what motivates our behavior
Will someone figure it out?

- Uber didn’t invent anything – but “put it all together”
  - Existing technology
  - Frustrated consumers
  - Made it very simple
  - Right place at the right time
  - Ready supply of drivers
  - Skirted regulation

Will someone put it together in healthcare?