

A black stethoscope is shown against a dark grey background. The tubing of the stethoscope is used as a frame for a hand-drawn diagram of a brain in white chalk. The brain is depicted with a central sulcus and several gyri. The stethoscope's chest piece is visible on the left side, and the ear pieces are on the right. The overall image conveys a sense of medical innovation and neuroscience.

# 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

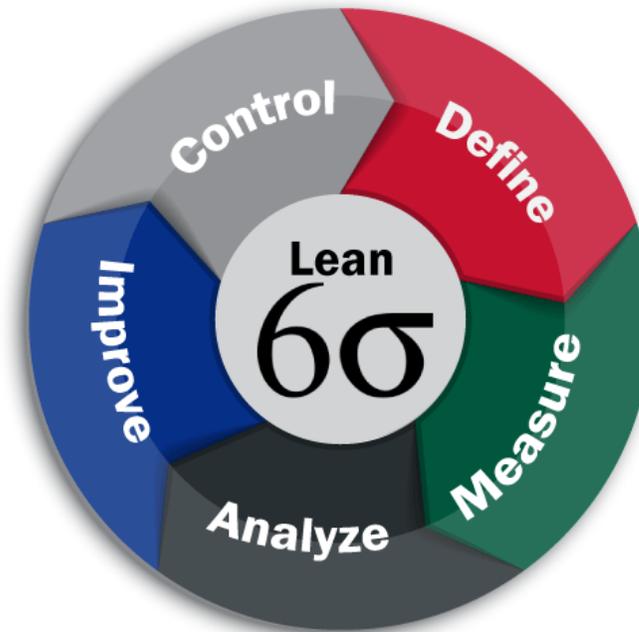
making good products better



**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



**CHRYSLER**

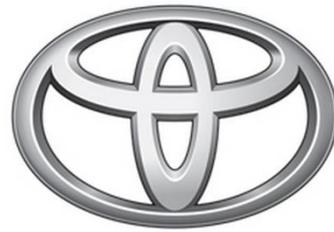


**Bigger**  
**Faster**  
**More Comfortable**  
**Safer**

# Disruptive Innovation



**HONDA**



**TOYOTA**

**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

# Disruption Innovation

## The Innovator's Dilemma



# 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**  
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# 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?



[Redacted name]

December 29, 2016 · 2

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 germmy 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.



**Dr DOCTOR onDEMAND**

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 nicole864

[PATIENT.DOCTORONDEMAND.COM](http://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”

TIME | Health

## What Happens When Doctors Only Take Cash

Haley Sweetland Edwards / Oklahoma City

Jan 26, 2017



# 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?

