**The Innovator’s Prescription**

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Health care – 1970 7% of GDP, 2007 16%. About 50% of health care consumed seems to be driven by physician and hospital supply, not Pt need or demand. The book shows how to make it affordable – less costly and of better quality. The book examines the industry thru the lenses of general models of managing innovation. First, the book explains why health care has become progressively expensive and inaccessible.

Elements of disruptive innovation – Fig. 1.1 –

* Technology enabler – sophisticated technology simplifies and routinizes the solution to problems that previously required unstructured processes of intuitive experimentation to resolve
* Business model innovation – can profitably deliver these simplified solutions to customers in ways that make them affordable and conveniently accessible.
* Value network – a commercial infrastructure whose constituent companies have consistently disruptive, manually reinforcing economic models.
* In the middle of these 3 enablers are a host of regulatory reforms and new industry standards that facilitate or lubricate interactions among the participants in the new disruptive industry.

Disruptive technology enablers in health care:

* *Precision medicine* – molecular and imaging diagnostics, and telecomm are the enablers that will precisely diagnose the cause of Pt’s condition, rather than by physical symptoms. Therapy can be developed and standardized that is predictably effective. *Intuitive medicine* – highly trained and expensive professionals solve medical problems through intuitive experimentation and pattern recognition. As these patterns become clearer, care evolves into the real of evidence-based medicine or *empirical medicine*.
* Nurses can provide care for many infectious diseases; hospital stay is rare
* Has not happened in health care – delivery of care has been frozen for 100 years into two business models – the general hospital and the physician’s practice.
* Generally there are 3 types of business models: Solution shops; Value-added process (VAP) businesses; and Facilitated networks
* Both health care models started out as solution shops, but mixed over time with VAP and network as well. Much of the cost is spent in OH, rather than in direct Pt care. For each to function properly, these business models must be *separated in as “pure” a way as possible.*
* Solution shops – diagnostic work in hospitals and in specialist practices are solution shops. Payment is in the form of fee for service. The professionals intuitively develop hypotheses, test the hypotheses by applying the best possible therapy. Iterate until the Pt responds. To be paid based on results is not feasible.
* VAP – VAP clinics typically can deliver comparable care at prices of 50%. Egs Minute Clinic, eye surgery centers, etc. These charge their customers for the output of their processes, while solution shops must bill for the cost of their inputs. Most of them even guarantee the result. Reason: because of the ability to deliver the outcome in a repeatable and controllable manner. Hence restuarants can print prices on their menus, and universities can sell credit hours at certain prices. Manufactuers publish their prices and guarantee the result for the period of warranty. VAPs operate in the realm of empirical and precision medicine.
* Current hospitals and clinics can’t measure their value – just like universities can’t – because they have *conflated fundamentally different business models whose metrics of output, value, and payment are incompatible with each another*.
* Facilitated Networks – enterprises in which people exchange things with one another. Mutual insurance companies: customers pay premiums into one common pool, and then take claims out of it. Participants in telecomm networks send and receive calls and data among themselves. Such networks typically make money through membership or user fees. These can be effective business model for the care of many chronic illnesses that depend heavily on modifications in Pt behavior for successful treatment. An example is dLife. WebMd and Waterfront Media are building such networks. *Such network models can be structured to make money by keeping people well, while solution shop and VAP make money when people are sick.*
* If these basic business models are separated, accurate measurements of value, cost, pricing, and profit for each type of business becomes feasible.
* *A second wave of disruptive business models* can then emerge within each of these three types. Powerful online tools can walk physicians through the process of interpreting symptoms and test results to formulate hypotheses. This will enable lower cost GP to access the expertise of – and thereby disrupt specialists of intuitive medicine. Likewise, Minute clinic, which employ nurses (vs physicians), need to disrupt physician practices.
* Disruptions are rarely plug-compatible with the prior value network. When disruptive innovators embrace the current network, they lose much of the innovation. *Disruptive solutions need to be knit together in a new value network.*
* Amassing the power to execute disruption: (Pg XXX) – the current health-care system generally is modular. Need larger entities. For eg., Kaiser Permanente is structured to profit from members’ wellness, rather than their sickness. Their structure gives them the incentive to create and direct Pts to lower-cose business models.
* The notion of sticking with your core competence is actually a recent and alarmingly backward-looking one. Forward looking: If it is a critical problem to solve, we’d better develop the competence to solve it.

**Changes in the Infrastructure Around Health Care (page xxxii)**

* Reforming the reimbursement system
* Role of IT: Two roles: (1) Shifts the locus of care, from solution shops to facilitated networks. It will enable doctors, nurses, and Pts to help each other. It will enable GPs to disrupt specialists, and for nurses to disrupt doctors. (2) Will reduce the costly paperwork and help avoid costly mistakes.
* IT and Facilitated Networks: