

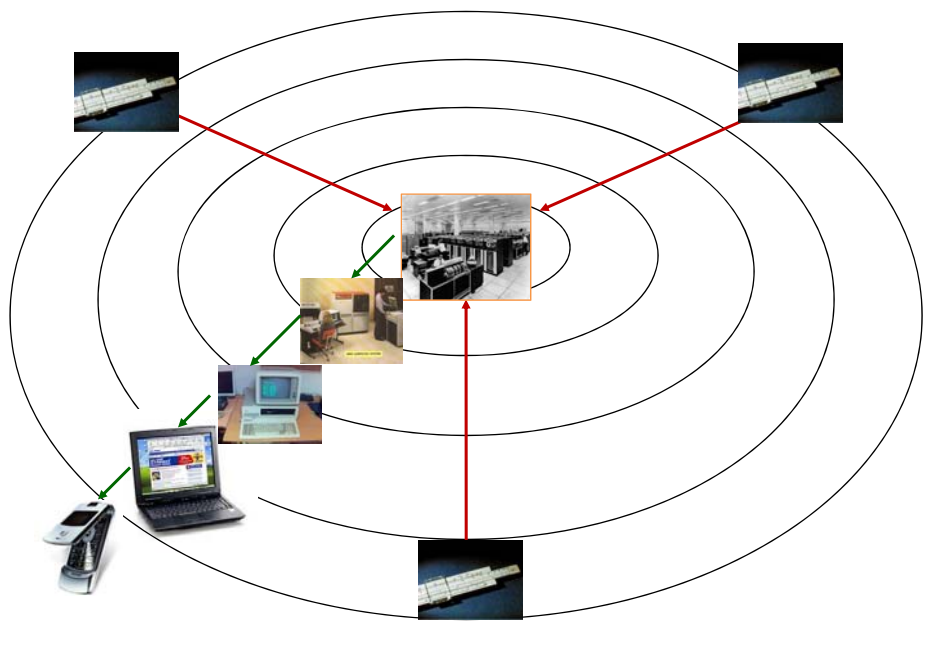
# The Innovator's Prescription: How Disruptive Innovation Can Fix Health Care

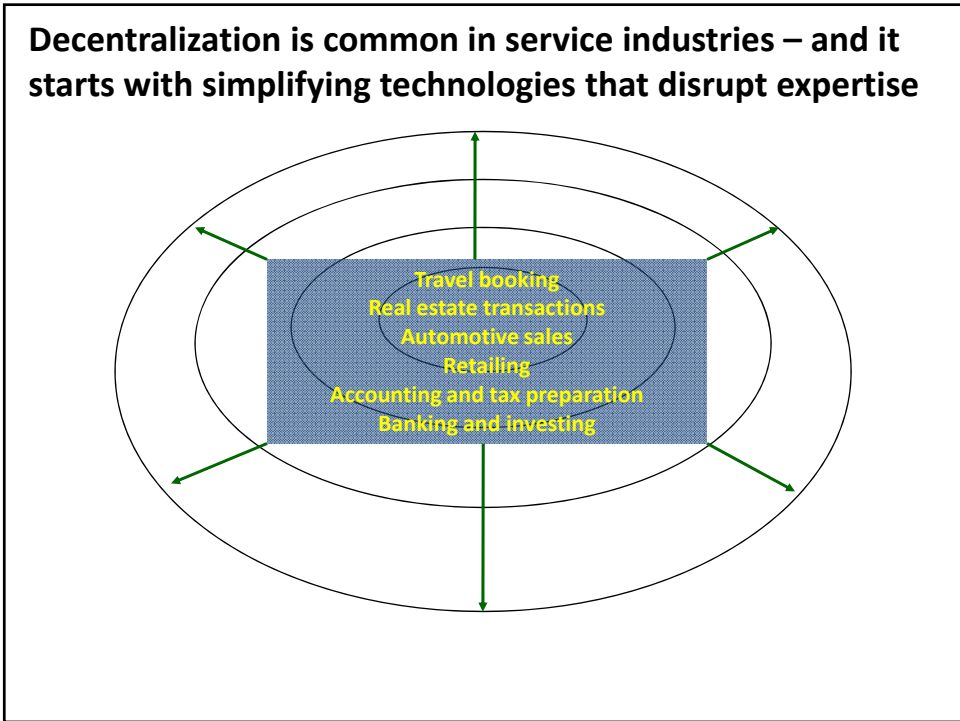
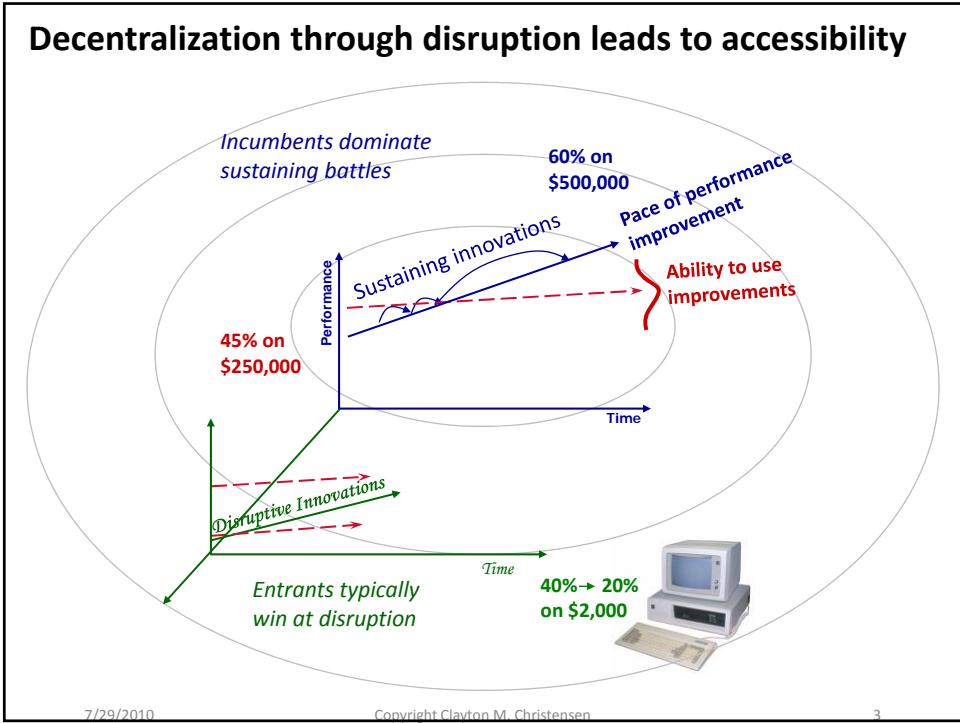


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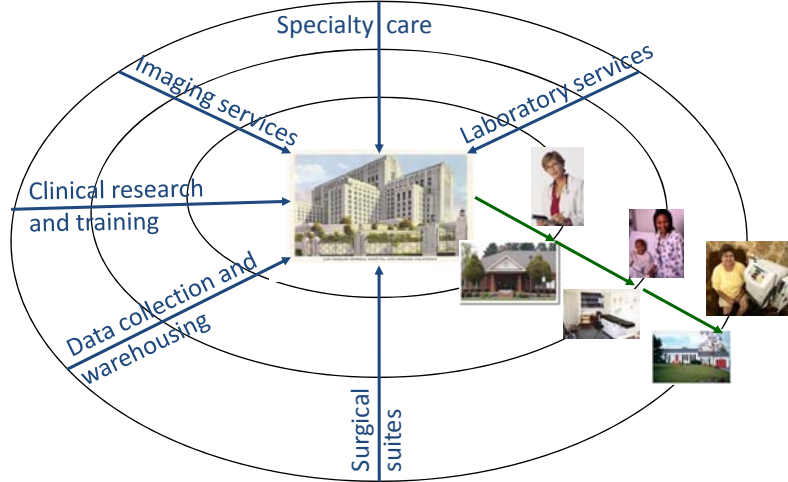
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## Centralization followed by decentralization in computing

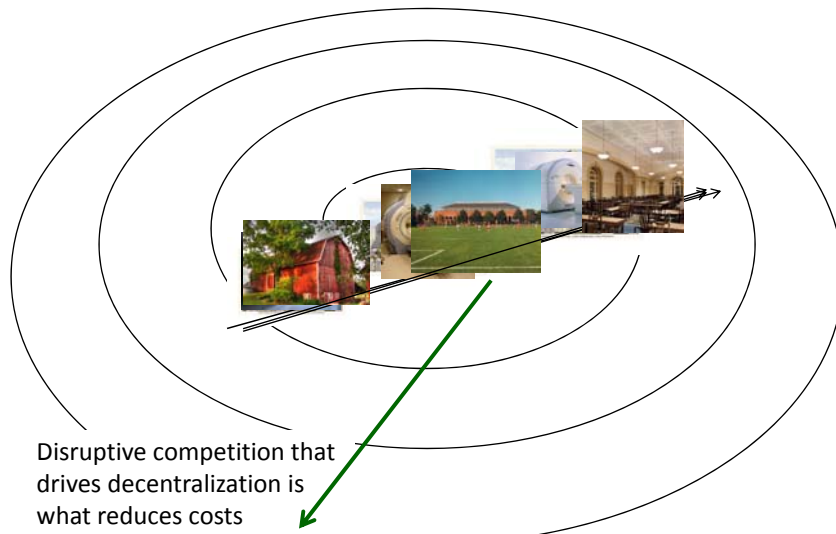




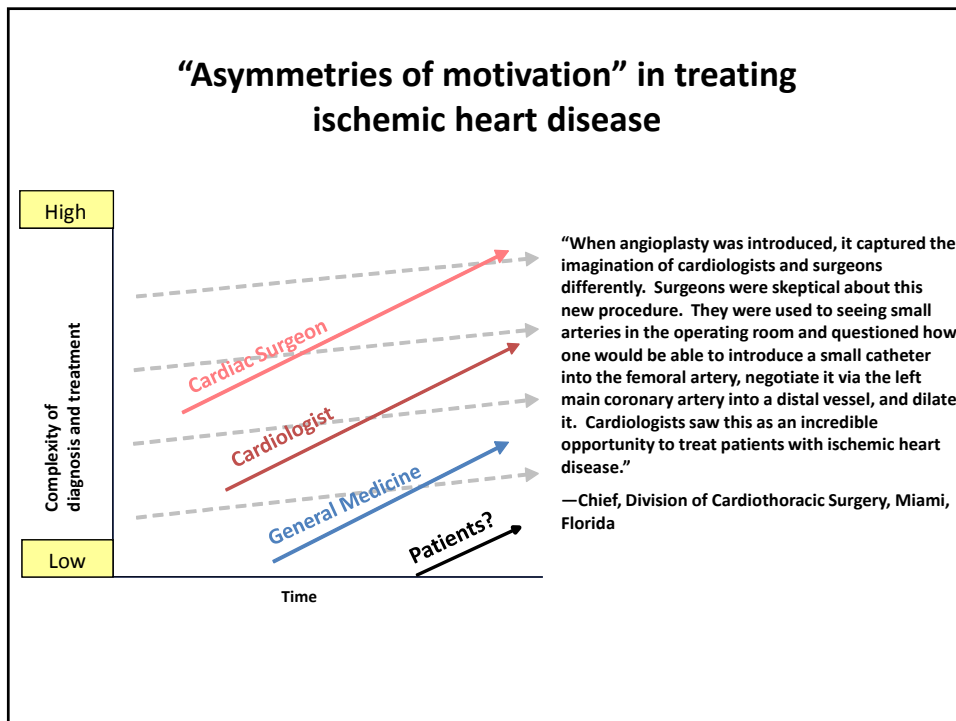
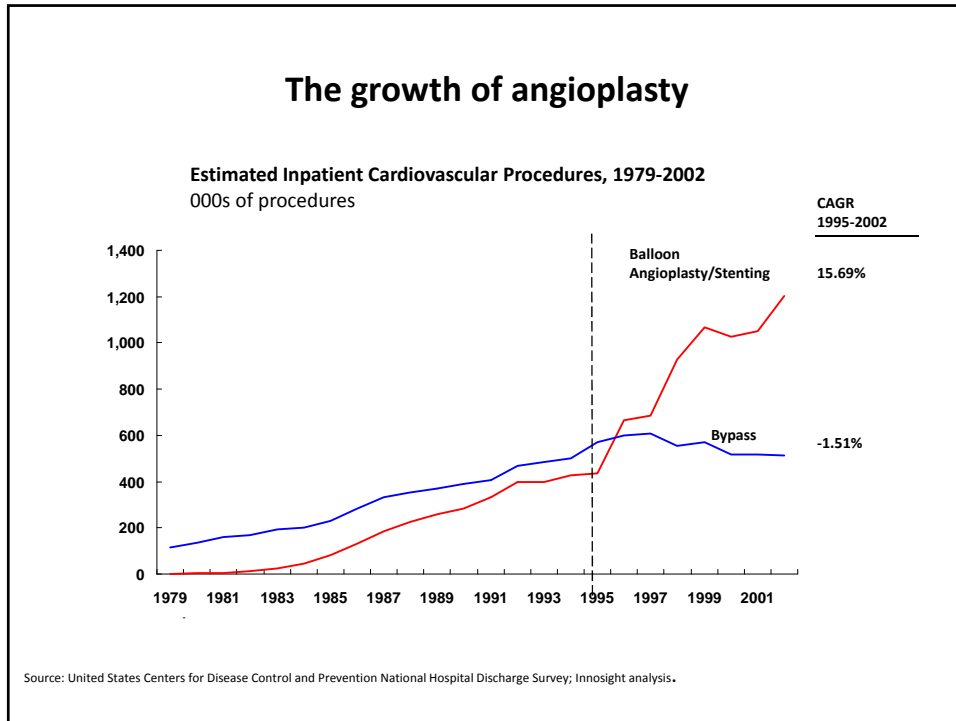
**The decentralization that follows centralization is only beginning in healthcare**



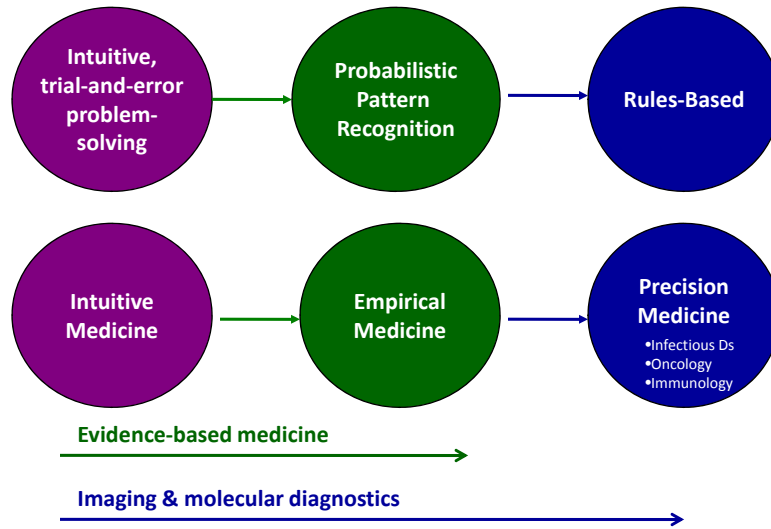
**The pursuit of profit and differentiation in sustaining competition amongst similar business models generally adds cost**



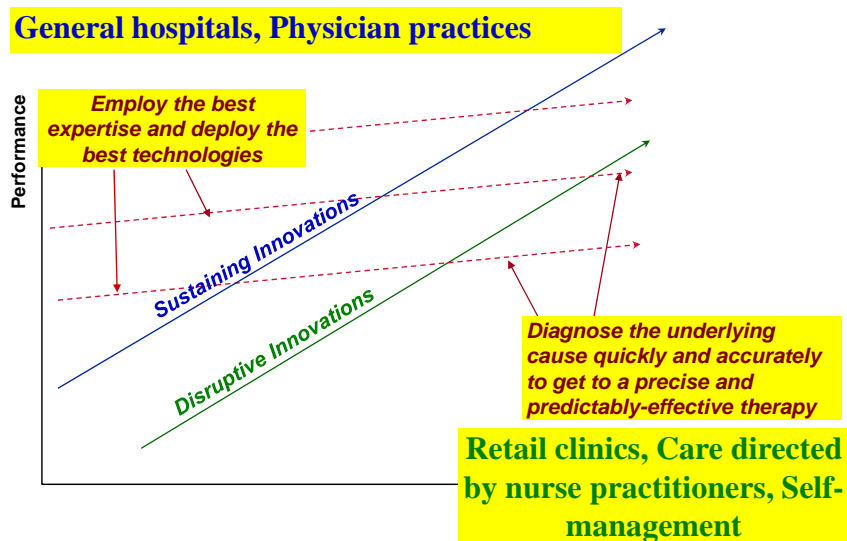
Disruptive competition that drives decentralization is what reduces costs



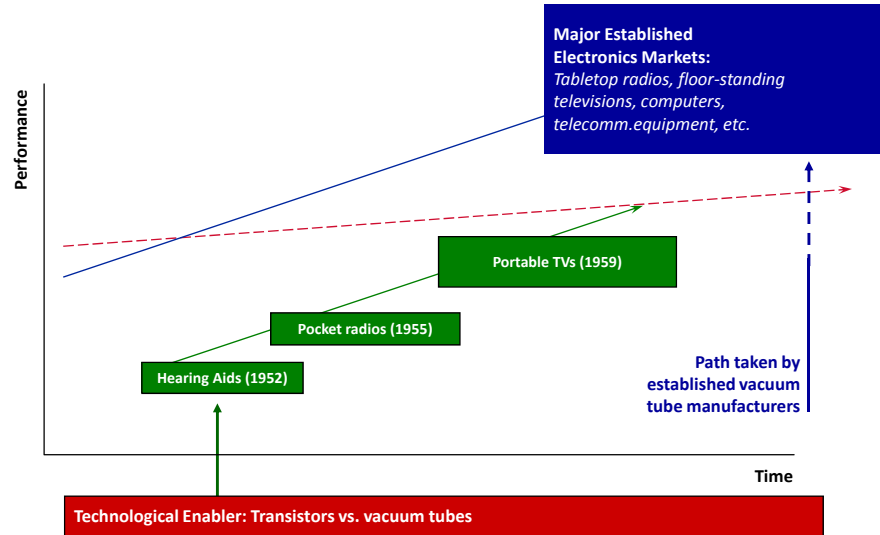
**Simplifying technologies enable disruption by making work less dependent upon trial-and-error experimentation**



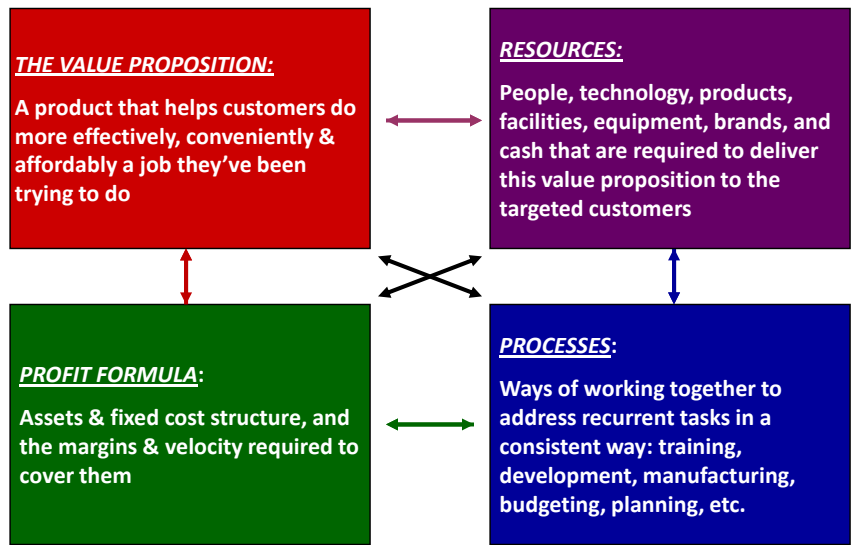
**The definition of quality and performance can change over time**



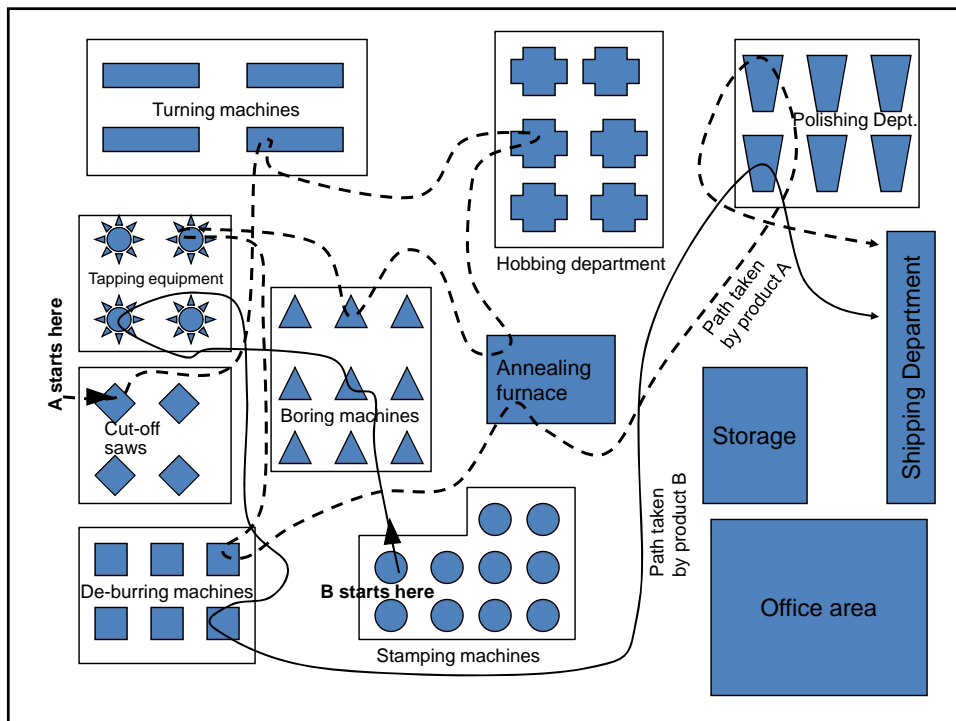
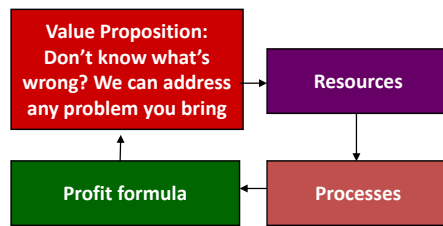
### Business model malpractice: It is often futile to cram new technologies into old business models



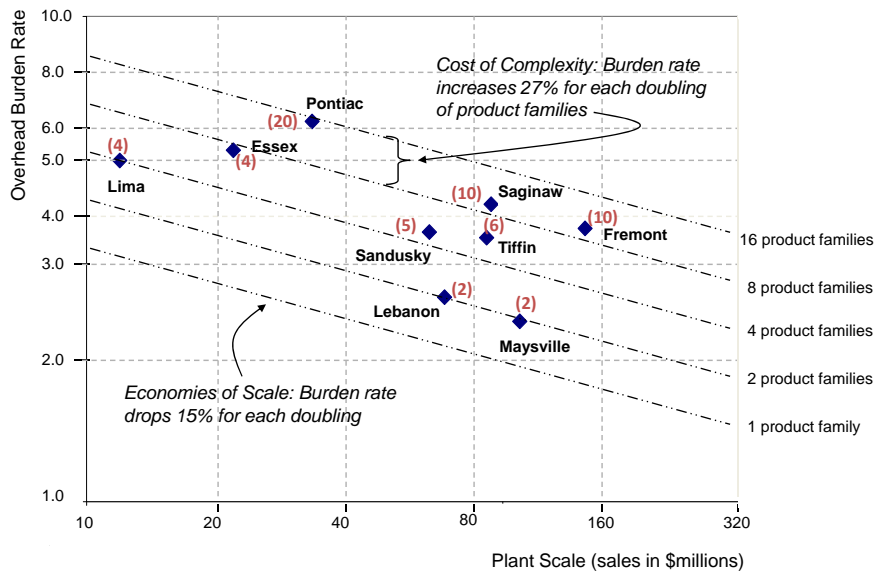
### What is a business model, and how is it built?



# The Traditional General Hospital Is Not a Viable Business Model



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



**Sources and magnitude of cost differences: Specialty vs. General Hospitals**

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



## Hospitals are expensive conflations of three types of business models



### Solution Shops

- Consulting firms
- High-end law firms
- R&D organizations
- Diagnostic & intuitive activities of hospitals

**Fee for service**

### Value-adding process businesses

- Manufacturing
- Education
- Food services
- Medical procedures following diagnosis

**Fee for outcome**

### Facilitated Networks

- Telecommunications
- Insurance
- eBay
- Provider and patient communities

**Fee for Membership**

## Disruption will end the one-size-fits-all era of health care delivery

### Solution Shops



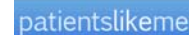
Generalist physicians disrupt specialist physicians

### Value-Adding Process Businesses

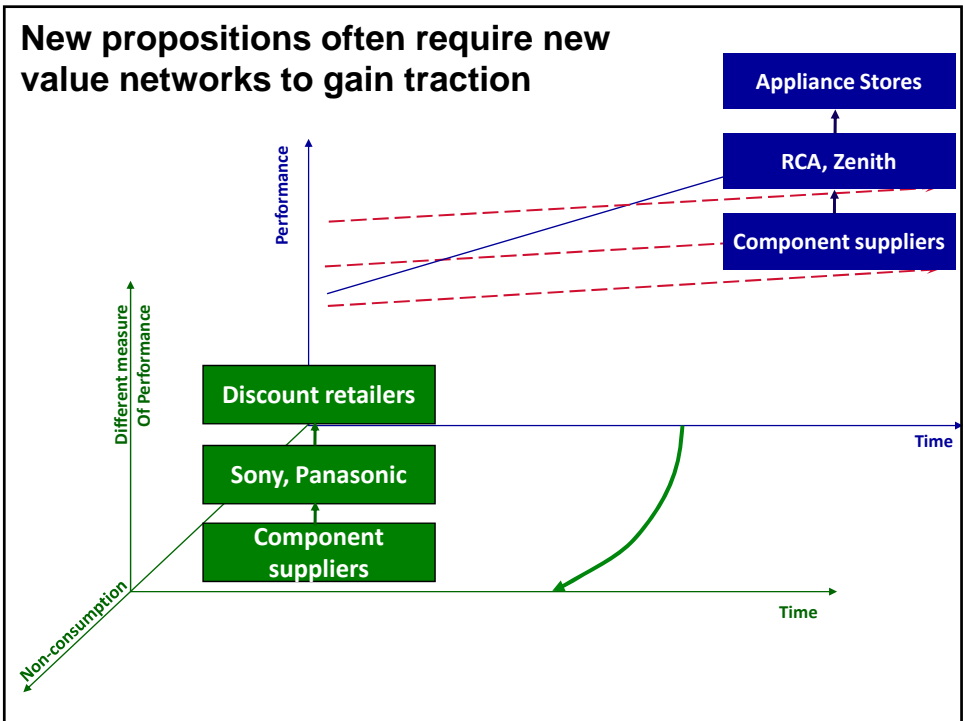
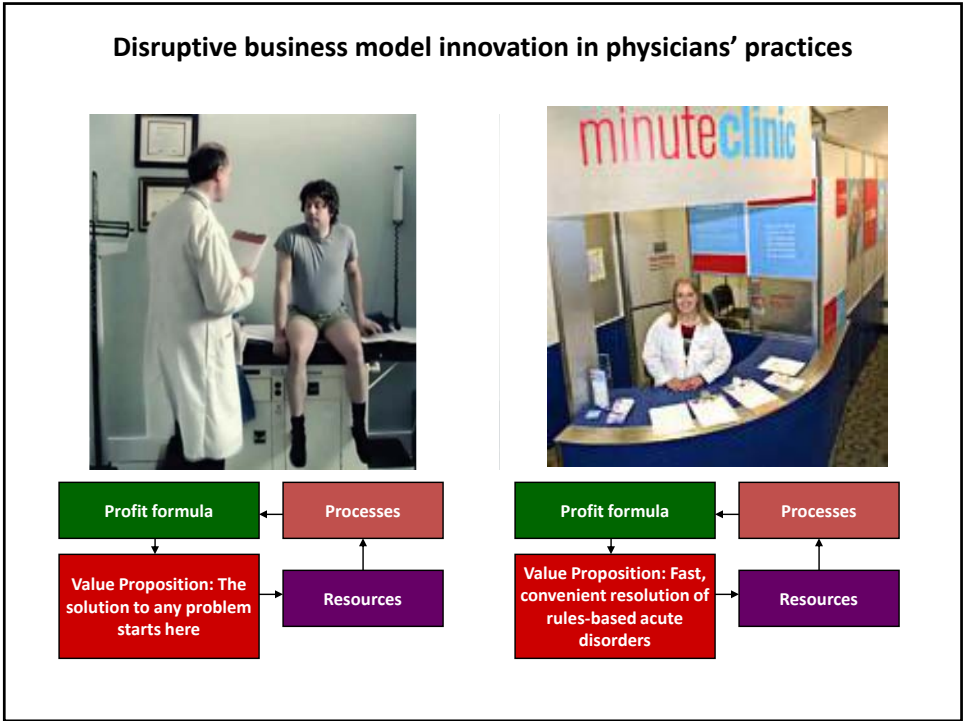


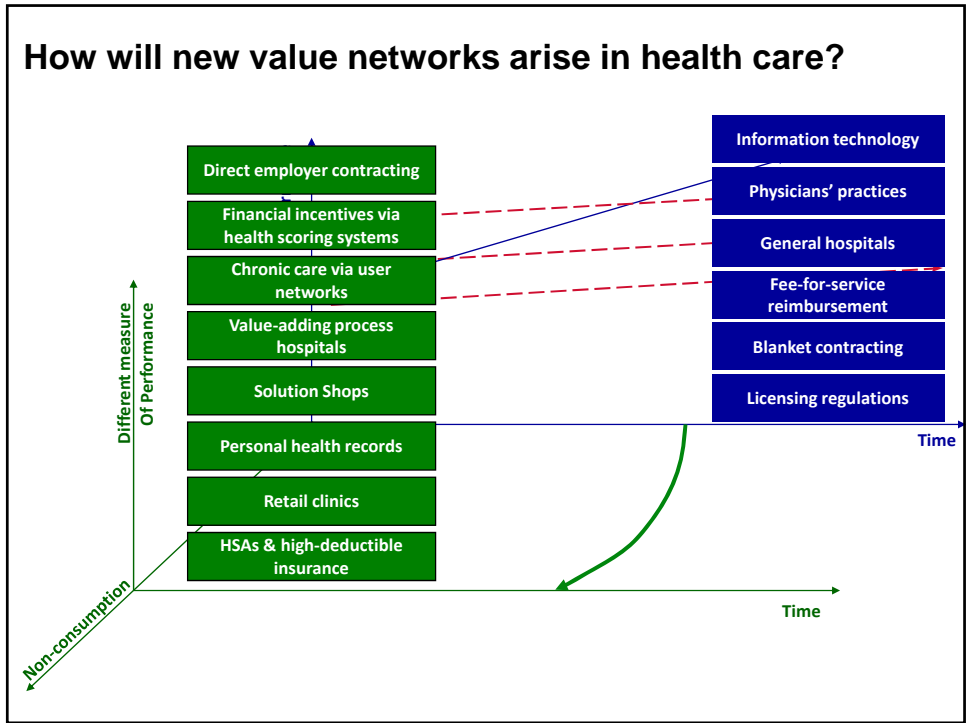
Mid-level providers disrupt physicians, while technicians disrupt health care providers

### Facilitated User Networks



Patients disrupt health care providers





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