



## Morphing of Health Care

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Financing of health care in the United States is now entering a period of rapid change. For the past 15 years, managed care has been the predominant product that employers have selected to manage the group health benefit for their employees. Employers are now facing double-digit inflation for their health care benefit premiums with no reasonable expectation of moderation in the

foreseeable future.

Demand for medical services is accelerating because of new drugs, hospital hegemony and medical devices technology that enhance quality but increase costs. There is an ever-broadening social definition of health, and an ever more informed and assertive consumer. Yet the nation lacks the economic resources to finance all services that would provide some benefit to every patient. The setting of social priorities and balancing of competing claims is an unavoidable imperative.

The fundamental question is where and by whom these difficult decisions will be made. The five candidates are government, employers, insurers, physicians and consumers. What happens if critical decision-making in the future is placed in the hands of the consumer?

### Vertical vs. horizontal integration

Most industries in the United States, with the notable exception of health care, have restructured themselves from a vertically integrated structure to a horizontal orientation. This restructuring has occurred in the full spectrum of American industries, including transportation, manufacturing, entertainment, information systems and agriculture.

Andrew Grove of Intel describes this morphing in the computer industry, in his book, *Only the Paranoid Survive*. He makes the point that the consumer dictated this restructuring by taking control of the purchasing decision-making process. The upshot was an enhanced productivity that was easily 10 times greater than with the vertical structure that preceded it. In a little over five years, with the consumer dominating the decision-making, the cost for computing, adjusted by performance, decreased by 90 percent.

The following diagrams illustrate how the computer industry was organized before and after this consumer directed restructuring process (see **Figure 1** & **Figure 2**).

### Restructuring of Health Care

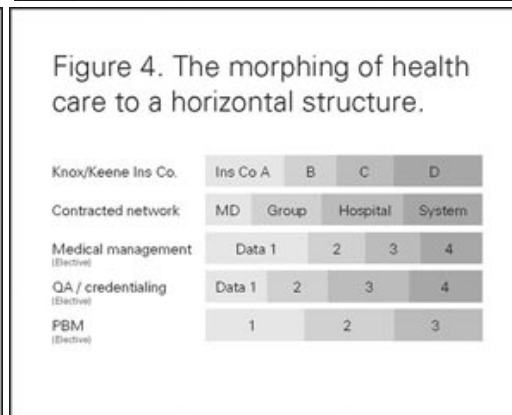
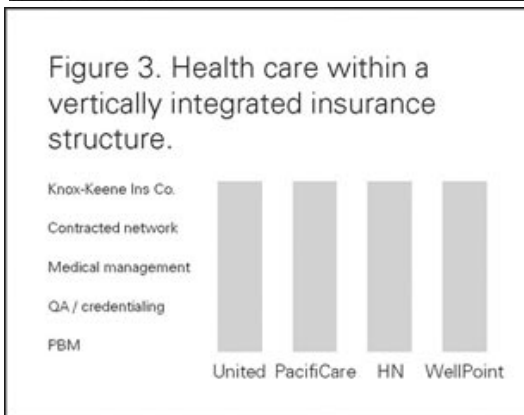
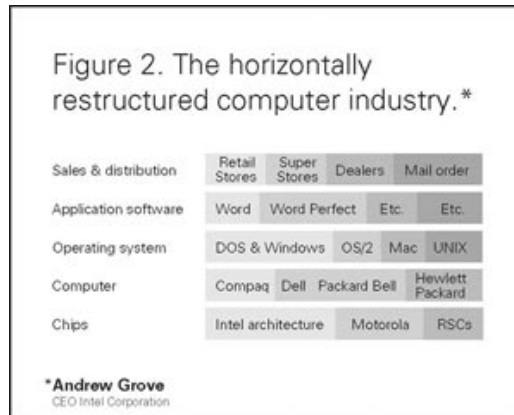
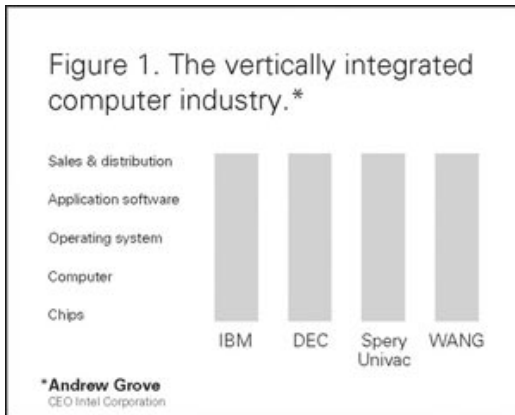
For a number of reasons — ranging from consumer dissatisfaction with the restrictions of managed care to unsustainable inflationary trends — the health care industry is undergoing a similar fundamental restructuring. Under managed care, the norm was vertical integration into health care delivery systems that were prepackaged and presented to the consumer by the insurance industry. This vertical structure is illustrated in **Figure 3**. **Figure 4** applies the experiences chronicled in the computing industry and predicts the structure into which health care could evolve into.

In reality, the delivery of health care is now conforming to the demands of the consumer. After a turbulent decade of trial and error, the managed care experiment can be characterized as a partial economic success but a political failure.

The driving force that made America's economy the most dynamic and successful throughout the world has been the consumer. The consumer forced the horizontal restructuring of all industries within the U.S. economy. That same primal force is about to restructure the health care system.

What does the consumer want within health care? The American Hospital Association (<http://www.aha.org>) data in Figure 5 (unavailable) answers that question. Consumers want to make the decisions that affect them and the lives of their family. They want their physician playing a more prominent role as advisor. They want a diminished role for insurance companies, hospitals, government and the employer.

It will be a mistake to bet against the consumer in the future.



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