

# Health Care Markets (HLTHMGMT 711)

## Daytime MBA Program

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### Teaching Team

**Instructor:**

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- Matthew Pepper
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### Location

Classroom: 2008 MBA Classroom (Keller East)

Web: <http://fuqua.instructure.com/>

### Course Overview

We will apply tools from business and the social sciences, especially economics and strategy, to challenges faced by managers, patients, and policy makers in the health sector. We will aim for broad coverage of health care, including products and providers, but we will pay special attention to payers. Payers are of interest throughout the health sector, because most providers and product manufacturers want to be paid.

First, we will discuss health insurance, including alternative payment mechanisms. Second, we will demonstrate cost effectiveness of a new medical intervention and suggest profit-maximizing and ethical prices. Third, we will examine the demand for medical products, including biologics, devices, and pharmaceuticals. Fourth, we will look at hospital competition, including new sources of competition. Fifth, we will examine disruptive innovations with the potential to provide care at lower costs.

We will begin each class with a lively discussion of the health sector, often using a business strategy case as the focal point. Class participants speak first so that we can reward preparation and so that we can utilize the richness of experience in the room. One of the best features of the class is the diversity of experience. Rarely in life do we have the opportunity for people with experience as payers, providers, and producers to gather in a room and debate the big issues of

health care. Alumni tell me that they miss this interaction. At the end of class each day, I lecture, drawing on my knowledge of strategy and economics.

Some people in the class have little background in health care. Outside perspectives can help to identify dysfunction in healthcare. However, people new to health care might find terms unfamiliar. Please ask for clarification of unfamiliar terms; it will help you and others. Also, for those with less background in health, I posted supplementary materials on my web page.

Businesses and foundations have supported my research. This can provide helpful insights, but also may be a source of bias. I genuinely hope to encourage vigorous discussion and welcome diverse views.

## Course Objectives

- Consider that to control health care costs someone must say “no”: payer, provider, or patient.
- Understand insurance economics including adverse selection, moral hazard, and risk pooling.
- Be familiar with alternative payment mechanisms.
- Understand reimbursement for manufactured products, including the recognition that regulatory approval is often necessary but not sufficient for government reimbursement.
- Know how to demonstrate the value of a medical product using cost effectiveness analysis.
- Understand the differences between non-profit and for-profit firms, particularly in the hospital and insurance industries.
- Examine demand for medical products and the dependence of demand on copayments and advertising.
- Understand the importance of ethical behavior in the health sector. Ethical behavior is particularly important, because (i) the industry impacts health and wellbeing, (ii) firms have market power, and (iii) governments are major purchasers and often bring civil and even criminal penalties against firms and people.
- Realize that generic products are not inherently low cost. Generics are low cost in markets with high profit potential and low entry costs, because many entrants are attracted, and competition drives down prices. On the other hand, when markets are small or entry costs are high, generics often have high prices.
- Calculate the cost of product development, accounting for failures and cost of capital.
- Know incentives for encouraging development of products for orphan and neglected diseases.

- Be aware of rising competition from generic manufacturers, retail clinics, medical tourism, and specialty hospitals, and how best to respond.
- Understand options for providing more health insurance to more people.
- Be better health care managers who understand current health care institutions and economics, and the implications of health care strategy for profits and social wellbeing.

## Materials

We will read cases from the course pack and articles from the course web site. To supplement the readings, students can read chapters from the textbook, “Health Economics” by Frank Sloan and Chee-Ruey Hsieh. The textbook is optional and available through the library.

## Question and Answer Sessions

People who have little background in U.S. health care might find it helpful to attend the optional question and answer sessions each week. We will meet during the lunch break in a classroom once per week. I’ll announce specifics after the term begins.

## Grading

- 30% Participation (attendance and discussion)
- 30% Assignments (written case analysis)
- 40% Term paper (may include evaluation by team members if applicable)

The Fuqua School of Business Honor Code applies to all aspects of the course.

## Participation

Please attend class and participate. Please feel free to change seats each day. Also, please note that we grade on the quality, not the quantity, of class participation.

We will use the on-line discussion board to clarify and extend discussions from class. You can access the discussion board through the course site.

Other obligations arise, including health, family, and career. These are very important. If you must miss class, please submit your assignment on line. If you are particularly interested in the material, please post your thoughts to the class discussion board. It is not necessary to E-mail us about absences, unless you will have an unusually high number of absences (five or more).

## Assignments

For each class answer the questions on the web page (not the questions in the case) in a short document. Submit the document in portable document format (pdf) using the web page. Please include your name and section number in both the file name and the document. Also bring a hard copy to class as a reference. Past students reported working an average of 3.5 hours per assignment.

Please submit the assignment by 9 a.m. If, however, your section meets after 9 a.m. you may submit later in the day, but please submit before attending class. Assignments are not accepted after class, because i) the primary objective of the homework is to encourage preparation for class, ii) answers are included in the slides posted on the web page after class, iii) it is generally better to work on future homework rather than past homework, and iv) each assignment represents only about 2% of your grade.

You may discuss the assignment with other *current* students in the class, but each student should submit a unique copy in her own words. Working with other current students should be a complement rather than a substitute for your own work.

Full credit is 1 point and we assign partial credit for good effort. We will have homework graded in about a week. We intend to post grades on the web page. If you receive "0" for an assignment, please check with the TAs to confirm that they received it.

## Term Paper

We will assign each person to a team for the term paper. We will announce team assignments by class 5. We will survey students at the end of the class regarding co-authors' contributions both in terms of input and output.

The paper topic should be about health care strategy. The focus should be on a single firm (for example, GlaxoSmithKline), agency (Centers for Medicare and Medicaid Services), or organization (World Health Organization). The paper should include thoughtful analysis, rather than simple descriptions and lists of facts. It should provide a clear understanding of a problem, the major options available, and a way of accomplishing the solution.

Good papers are typically between 2,000 and 10,000 words. It is possible to write a poor paper with more words and a good paper with fewer.

Use quantitative analysis when appropriate. Here are some data options:

<https://faculty.fuqua.duke.edu/~dbr1/health/data.html>

However, in many cases, data will not be available. You can forecast using logical, explicit assumptions. For example, in our research we estimated the market for biosimilars before any reached the market, based on the generic pharmaceutical market and expected differences in entry costs. Likewise, many consulting interviews feature questions such as the U.S. market for men's razor blades, so start with the population of the United States, then take the fraction that are men of age to shave, ...

The paper should include the following sections:

- Cover page. On page 1 include paper title, authors, acknowledgments, whether the material was submitted in other contexts (work or class), who helped you with the paper, and whether the paper may be shared with others.
- Executive summary (i.e., abstract). On page 2 summarize the paper (including strategic recommendations) in 300 words or fewer.
- Issue statement. Identify the firm's problem or opportunity.
- Background. Provide information that is relevant for the specific firm or agency.
- Capabilities. Identify the key qualitative and quantitative capabilities that the firm or agency must use or develop. Be specific about capabilities that are relevant for the issue, rather than a general assessment.
- Recommendations. Outline specific actions for leadership. The set of actions should address the quantitative and qualitative issues identified in the capabilities section.
- Implementation. Review how long and in what order the firm or agency should implement the recommendations, what resources are needed to implement the recommendations, which people will be responsible for implementation, and what incentives and information will be needed to ensure that people implement the plan.
- Conclusion. Include summary, caveats, and broader implications (beyond the firm or agency in question).
- References. Include a list of papers cited in order to credit other authors and to help the reader identify further reading.

Class	Date	Payer	Provider	Product	Topic	Term Paper
1	17-Jan	✓			Consumer-Driven Care	
2	22-Jan	✓	✓		Managed Care	
3	24-Jan	✓	✓	✓	Evidence-Based Med.	
4	28-Jan	✓	✓	✓	Connectivity & Coding	
5	31-Jan			✓	Diagnostics	Teams assigned.
6	4-Feb			✓	Pharmaceutical Prices	
7	7-Feb			✓	Biotech & Vaccines	
8	11-Feb	✓	✓		Medical Decision Making	
9	14-Feb		✓		Hospital Strategy	
10	18-Feb		✓		Hospital Competition	
11	22-Feb		✓		Emerging Markets	
	23-Feb					A member of team submit slide with 24-point font. List title, authors, conclusions.
12	25-Feb	✓	✓		Health System Change	One member of each team present slide.
	28-Feb					Term paper due. One member of each team submit. Label file with team number.

## Readings

### 1. Consumer-Driven Care

Regina E. Herzlinger. "Consumer-Driven Health Care: Medtronic's Health Insurance Options." *Harvard Business School Case*.

James C. Robinson and Timothy T. Brown. "Increases in Consumer Cost Sharing Redirect Patient Volumes and Reduce Hospital Prices for Orthopedic Surgery." *Health Affairs*. 2013.

Optional: Frank Sloan and Chee-Ruey Hsieh. "Health Economics." Chapter 4: "Demand for Private Health Insurance." (especially sections 3.4, 4.3, 4.7).

### 2. Managed Care

Amy C. Edmondson, Ashley-Kay Fryer, Morten T. Hansen, "Transforming Care at UnityPoint Health - Fort Dodge." *Harvard Business School Case*. 2015.

David Muhlestein et al. "Medicare Accountable Care Organization Results for 2015." *Health Affairs Blog*. 2016.

Optional: Frank Sloan and Chee-Ruey Hsieh. "Health Economics." Chapter 10: "The Supply of Private Health Insurance." (especially section 10.5).

### 3. Evidence-Based Medicine

Mark A. Hlatky, et al. "Evidence-Based Medicine and Policy: The Case of the Implantable Cardioverter Defibrillator." *Health Affairs*. 2005.

Marshall S. Stanton. "Implantable Cardioverter Defibrillators: An Excellent Case Study." *Health Affairs*. 2005.

T. Bennett et al. "Development of Implantable Devices for Continuous Ambulatory Monitoring of Central Hemodynamic Values in Heart Failure Patients." *Pacing and Clinical Electrophysiology*. 2005.

Optional: Frank Sloan and Chee-Ruey Hsieh. "Health Economics." Chapter 14: "Cost and Cost-Effectiveness Analysis." (especially sections 14.1, 14.3).

#### **4. Connectivity and Coding**

Bob Kocher and Bryan Roberts. "Why So Many New Tech Companies Are Getting into Health Care." *Harvard Business Review*. 2014.

Regina E. Herzlinger and Alfred Martin. "Connectivity in Health Care." *Harvard Business School Case*. 2012.

CMS. "Innovators' Guide to Navigating Medicare." 2015.

Optional: Frank Sloan and Chee-Ruey Hsieh. "Health Economics." Chapter 12: "Government Financing and Private Supply." (especially sections 12.3, 12.4).

#### **5. Diagnostics**

Stefanos Zenios, Robert Chess, and Lyn Denend. "Genomic Health: Launching a Paradigm Shift...and an Innovative New Test." *Stanford Case*.

Mark R. Trusheim, Ernst R. Berndt, and Frank L. Douglas. "Stratified Medicine: Strategic and Economics Implications of Combining Drugs and Clinical Biomarkers." *Nature Reviews Drug Discovery*. 2007.

#### **6. Pharmaceutical Prices**

David B. Ridley. "Payments, Promotion, and the Purple Pill." *Health Economics*. 2015.

Frank Sloan and Chee-Ruey Hsieh. "Health Economics." Chapter 9: "Pharmaceutical Manufacturers." (especially sections 9.2, 0.6. 2.7).

#### **7. Biotechnology and Vaccines**

Henry Grabowski, Rahul Guha, and Maria Salgado. "Regulatory and Cost Barriers Are Likely to Limit Biosimilar Development and Expected Savings in the Near Future." *Health Affairs*. 2014.

Jean Stéphenne. "Vaccines as a Global Imperative—A Business Perspective." *Health Affairs*. 2011.

Optional: Frank Sloan and Chee-Ruey Hsieh. "Health Economics." Chapter 9: "Pharmaceutical Manufacturers." (especially sections 9.1, 9.3).

## 8. Medical Decision Making

Peter Q. Eichacker, Charles Natanson, and Robert L. Danner. "Surviving Sepsis — Practice Guidelines, Marketing Campaigns, and Eli Lilly." *New England Journal of Medicine*. 2006.

Richard L. Kravitz et al. "Influence of Patients' Requests for Direct-to-Consumer Advertised Antidepressants: A Randomized Controlled Trial." *Journal of the American Medical Association*. 2005.

Donald A. Redelmeier and Robert B. Cialdini. "Problems for Clinical Judgment: 5. Principles of Influence in Medical Practice." *Canadian Medical Association Journal*. 2002.

## 9. Hospital Strategy

Laura Morgan Roberts and Ayesha Kanji. "Jeanette Clough at Mount Auburn Hospital." *Harvard Business School Case*.

Ron Winslow, "An Inside Look at a Top Hospital's Struggle to Cut Costs," STAT News, 2017.

Uwe E. Reinhardt. "Pricing of U.S. Hospital Services: Chaos Behind a Veil of Secrecy." *Health Affairs*. 2006.

Optional: Frank Sloan and Chee-Ruey Hsieh. "Health Economics." Chapter 6: "Hospitals." 2012 (especially section 6.3).

## 10. Hospital Competition

Regina E. Herzlinger. "MedCath Corporation (A)." *Harvard Business School Case*.

Elizabeth L. Munnich and Stephen T. Parente. "Procedures Take Less Time at Ambulatory Surgery Centers, Keeping Costs Down and Ability to Meet Demand Up." *Health Affairs*. 2014.

David J. Jacofsky and Derek A. Haas. "A Payment Model That Prevents Unnecessary Medical Treatment." *Harvard Business Review*. 2016.

Optional: Frank Sloan and Chee-Ruey Hsieh. "Health Economics." Chapter 6: "Hospitals." (especially sections 6.4, 6.5).

## 11. Emerging Markets

Andrea Taylor, Erin Escobar, and Krishna Udayakumar. "Expanding Access to Low-Cost, High-Quality Tertiary Care: Spreading the Narayana Health Model Beyond India." *Commonwealth Fund*. 2017.

Yasser Bhatti, et al. "Global Lessons In Frugal Innovation To Improve Health Care Delivery In The United States." *Health Affairs*. 2017.

Optional: Frank Sloan and Chee-Ruey Hsieh. "Health Economics." Chapter 11: "Private Financing of Health Care Services." (especially section 11.3).

## 12. Health System Change

Clayton M. Christensen, Richard Bohmer, and John Kenagy. "Will Disruptive Innovations Cure Health Care?" *Harvard Business Review*.

Optional: Frank Sloan and Chee-Ruey Hsieh. "Health Economics." Chapter 13: "Public Supply and Financing." (especially section 13.4 of 1<sup>st</sup> edition or 13.5 of 2<sup>nd</sup> edition).