

# Health Care Markets (HM 711E)

## Executive MBA Program

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The course is open to students in the Global and Weekend Executive MBA programs at Duke University.

### Links

- Course web: <http://fuqua.instructure.com/>
- Professor web: <https://faculty.fuqua.duke.edu/~dbr1/>
- Professor email: [david.ridley@duke.edu](mailto:david.ridley@duke.edu)

### Professor

My name is David Ridley. I am a health economist and the Faculty Director for Duke's Health Sector Management center. In my research I examine innovation and pricing in health care. I was the lead author of the paper proposing the priority review voucher program which became law in 2007 and created a market of more than a billion dollars for drug development for neglected diseases. I have taught health care management to more than 3,000 Duke graduate students since 2001. I enjoy discussing health care strategy and policy with Duke graduate students.

### 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 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.

## Objectives

At the conclusion of the program, participants will understand

- how insurers cover patients and pay providers and product makers.
- the function of new payment mechanisms, including accountable care organizations.
- insurance economics including adverse selection, moral hazard, and risk pooling.
- policy options for providing more health insurance to more people.
- how to demonstrate the value of a medical product using cost effectiveness analysis.
- the differences between non-profit and for-profit firms.
- demand for medical products and the dependence of demand on copayments and advertising.
- incentives for encouraging development of products for orphan and neglected diseases.
- that generic products do not inherently have low costs; generics are low cost in large markets with low entry barriers.
- rising competition from generics, retail clinics, medical tourism, and specialty hospitals.
- which disruptive forces can succeed in health care.
- how government regulation and reimbursement influence disruption.
- how to be better health care managers using tools from economics and strategy.
- the perspectives of many players throughout the health care ecosystem.
- the importance of ethical behavior in the health sector.

## Materials

We will read cases from the course pack and articles from the course web site.

## Grading

- 1/3 Discussion (you may supplement class discussion with comments on the discussion board)
- 1/3 Assignments (written analysis of the cases)
- 1/3 Paper (may include evaluation by team members)

I hope you'll join the discussion in the distance portion of the class. Class discussion enriches understanding by your peers. However, I understand that you have family, work, and religious obligations on Saturdays.

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

## Assessments

For each class, there will be an assessment on the class web page. You may ignore the questions in the case. Past students reported working an average of 4 hours per assessment. We will drop the lowest assessment score for each person. The assessments are “open” meaning that you can use class readings and other readings to answer the questions. The assessments are formatted as quizzes, but have no time limit, other than a deadline.

Assessments are due 30 minutes before the start of class. Assessments 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, and iii) it is generally better to work on future homework rather than past homework.

You may discuss the assessments 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. Also, you may use readings beyond the readings assigned for class.

## Term Paper

You will create teams for the term papers. The executive MBA staff will tell you the team parameters. We will survey members of your team at the end of the class regarding contributions in terms of input and output.

The paper 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. The paper should provide a clear understanding of a problem, the major options available, and a way of accomplishing the solution.

Quantitative analysis should be used 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. In these cases 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, ...

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.

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. The executive summary should be sufficiently comprehensive that a busy executive can read the summary and understand the key conclusions without reading beyond the summary. However, it should also be sufficiently appealing as to motivate the executive to continue reading.
- 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 recordings

We avoid recording and sharing videos of students discussing health care topics, to the extent permitted by Fuqua policy. Health care includes controversial topics and we want students to have an open discussion. Instead of class discussion recordings, we provide recordings of many lectures as well as class slides. Also, the exams do not include questions from class discussion.

## Schedule

See the next page

Class	Format	Date	Time	Assign	Payer	Provider	Product	Topic
1	Online	29-Aug	10:30 am	✓	✓			Consumer-Driven Care
2	Residency or Online	13-Sep	8:45 am		✓	✓		Managed Care
3		14-Sep	11:30 am			✓		Hospital Strategy
4		15-Sep	8:45 am			✓	✓	Health IT
5		16-Sep	11:30 am				✓	Pharmaceutical Prices
6		17-Sep	6:30 pm			✓		Emerging Markets
7		18-Sep	2:15 pm		✓	✓		Health System Change
8		Online	3-Oct	10:50 am	✓	✓	✓	✓
9	17-Oct		10:50 am	✓	✓		✓	Evidence-Based Medicine
10	31-Oct		10:50 am	✓		✓		Hospital Competition
11	14-Nov		10:50 am	✓			✓	Biotech and Vaccines
	30-Nov		11 pm	✓				Term paper

# Resources

## 1. Consumer-Driven Care

David Ridley. "Healthcare Spending." Video.

David Ridley. "Health Insurance." Video.

David Ridley. "Insurance Economics." Video.

David Ridley. "High-Deductible Health Insurance." Video.

David Ridley. "Medicare and Medicaid." Video.

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

James C. Robinson, Timothy T. Brown, and Christopher Whaley, "Reference Pricing Changes the 'Choice Architecture' of Health Care for Consumers," *Health Affairs*. 2017.

## 2. Managed Care

David Ridley. "Managed Care." Video

David Ridley. "Medicare and Medicaid Managed Care." Video

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. "Spread of ACOs and Value-Based Payment Models in 2019." *Health Affairs Blog*, 2019.

Jonathan Gonzalez-Smith, et al. "Medicare ACO Results for 2018." *Health Affairs Blog*, 2019.

## 3. 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.

## 4. Health IT

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

## **5. Pharmaceutical Prices**

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

## **6. 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.

## **7. Health System Change**

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

## **8. Reimbursement**

CMS, Innovators' Guide to Navigating Medicare. 2015.

## **9. 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.

## **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.

## **11. Biotechnology and Vaccines**

Benjamin Falit, Surya Singh, and Troyen Brennan, "Biosimilar Competition In The United States: Statutory Incentives, Payers, And Pharmacy Benefit Managers," *Health Affairs*, 2015.

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

