

# The Innovator's Prescription:

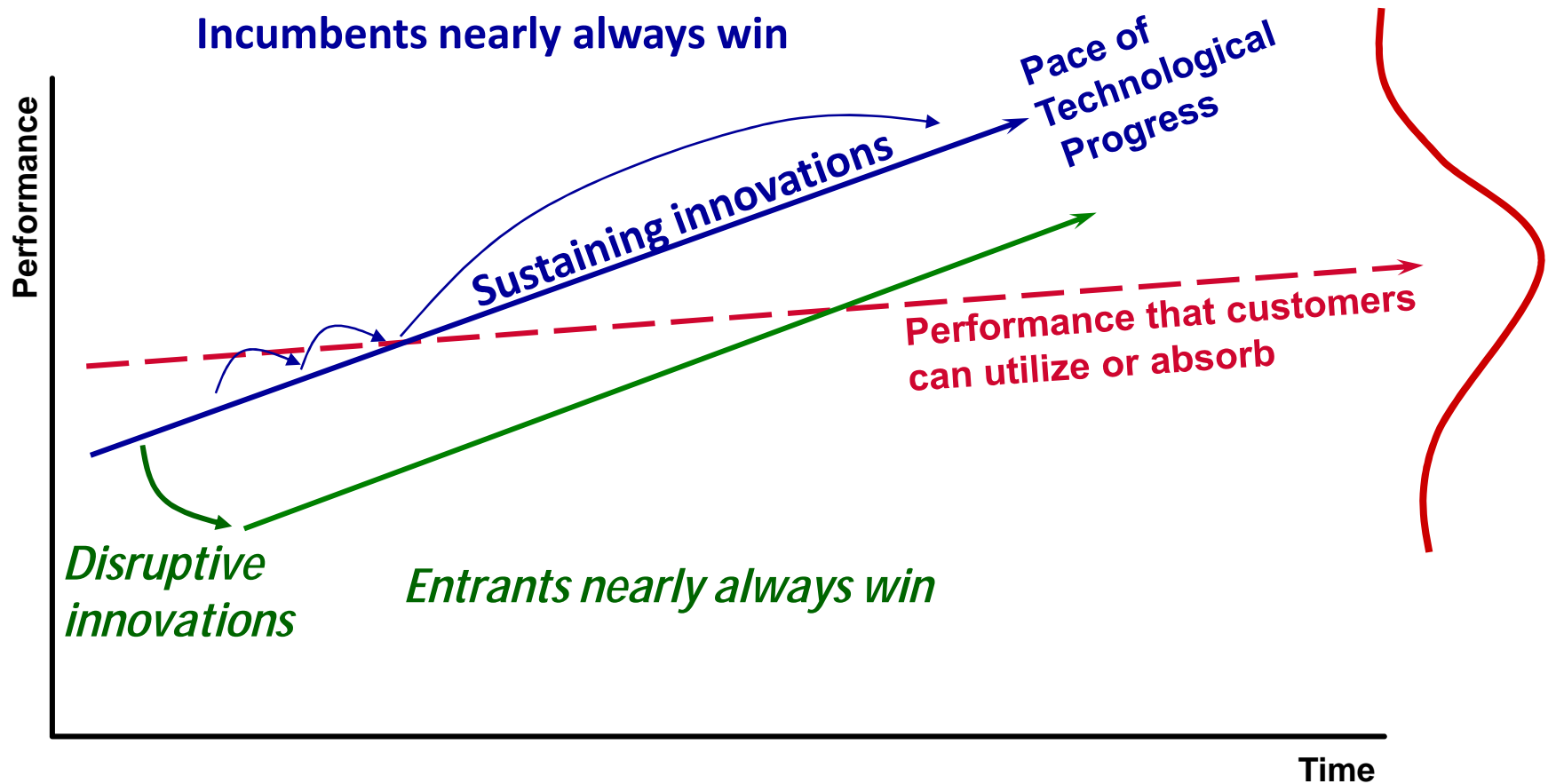
## How Disruptive Innovation Can Fix Health Care Delivery



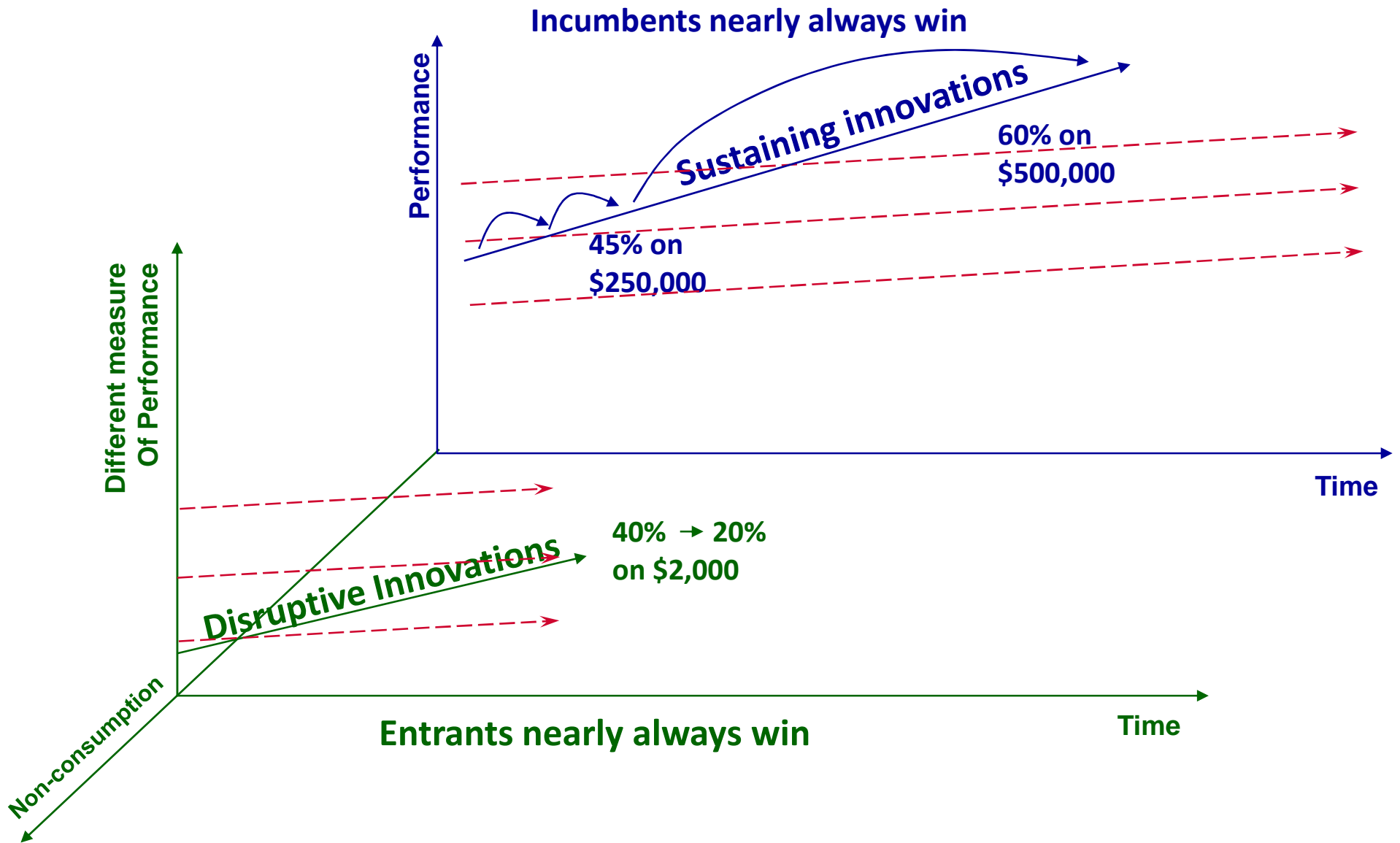
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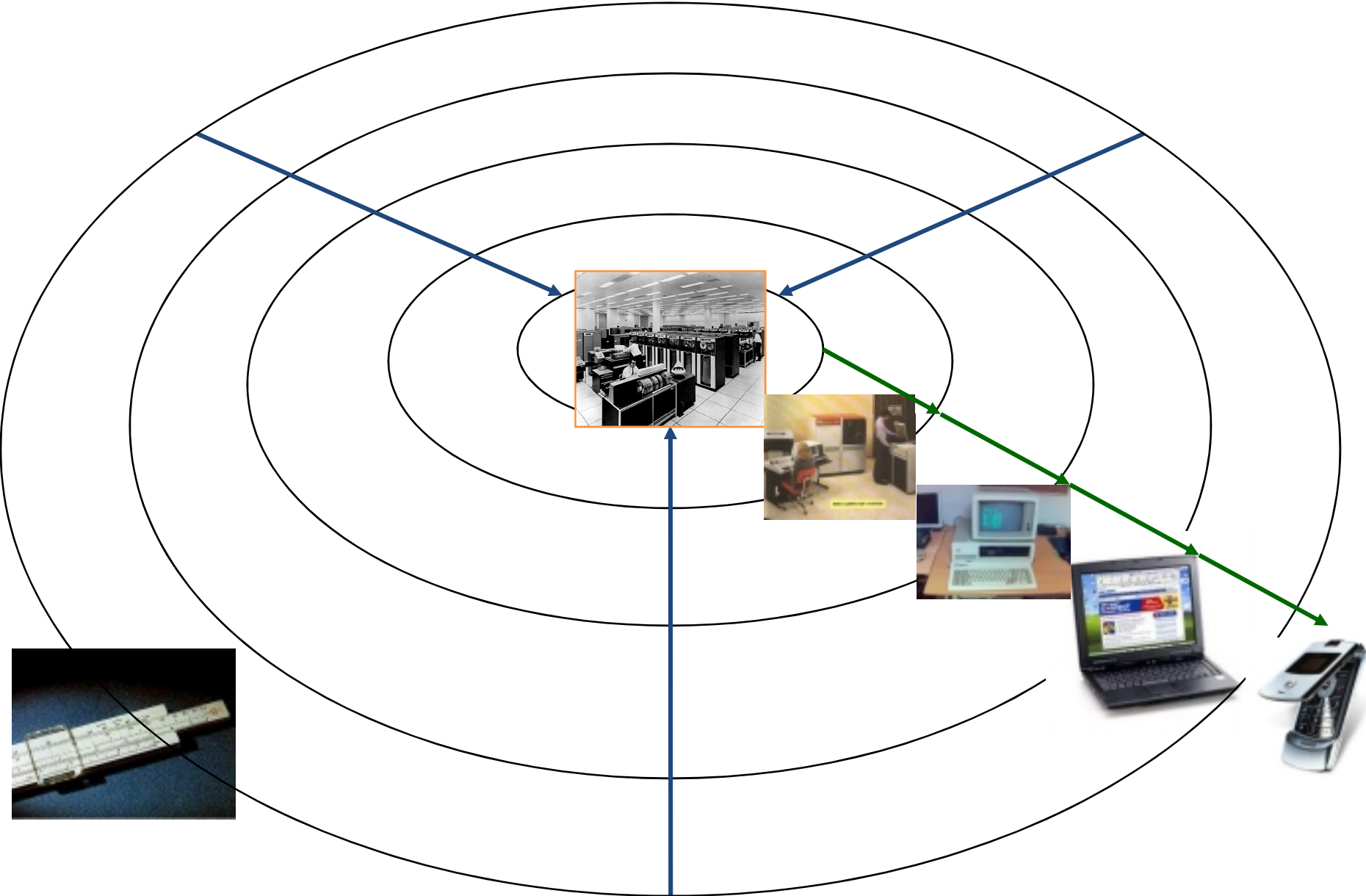
# The Disruptive Innovation Model



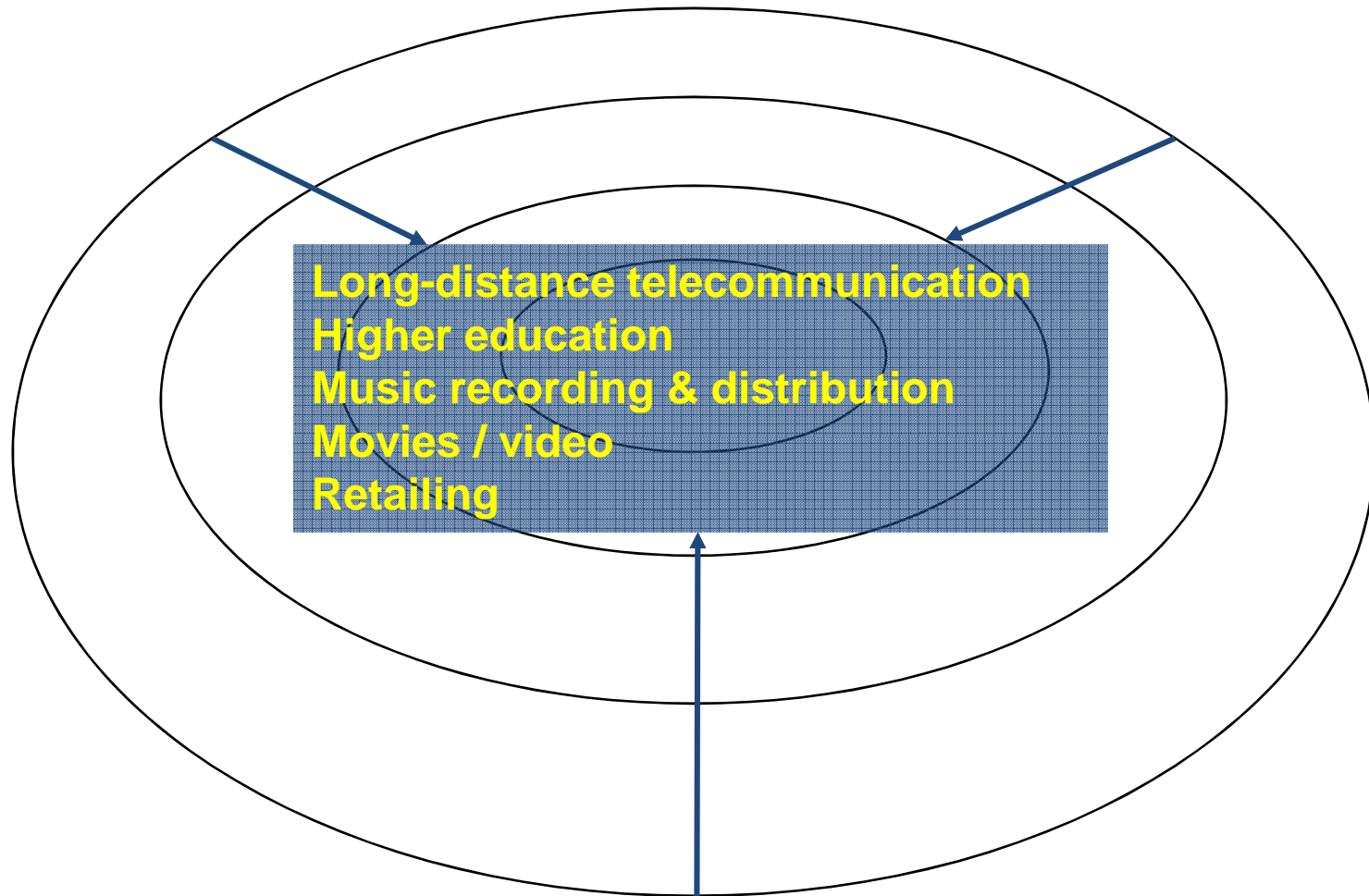
# Disruption is driven by an asymmetry of motivation



# Centralization followed by decentralization: Computing

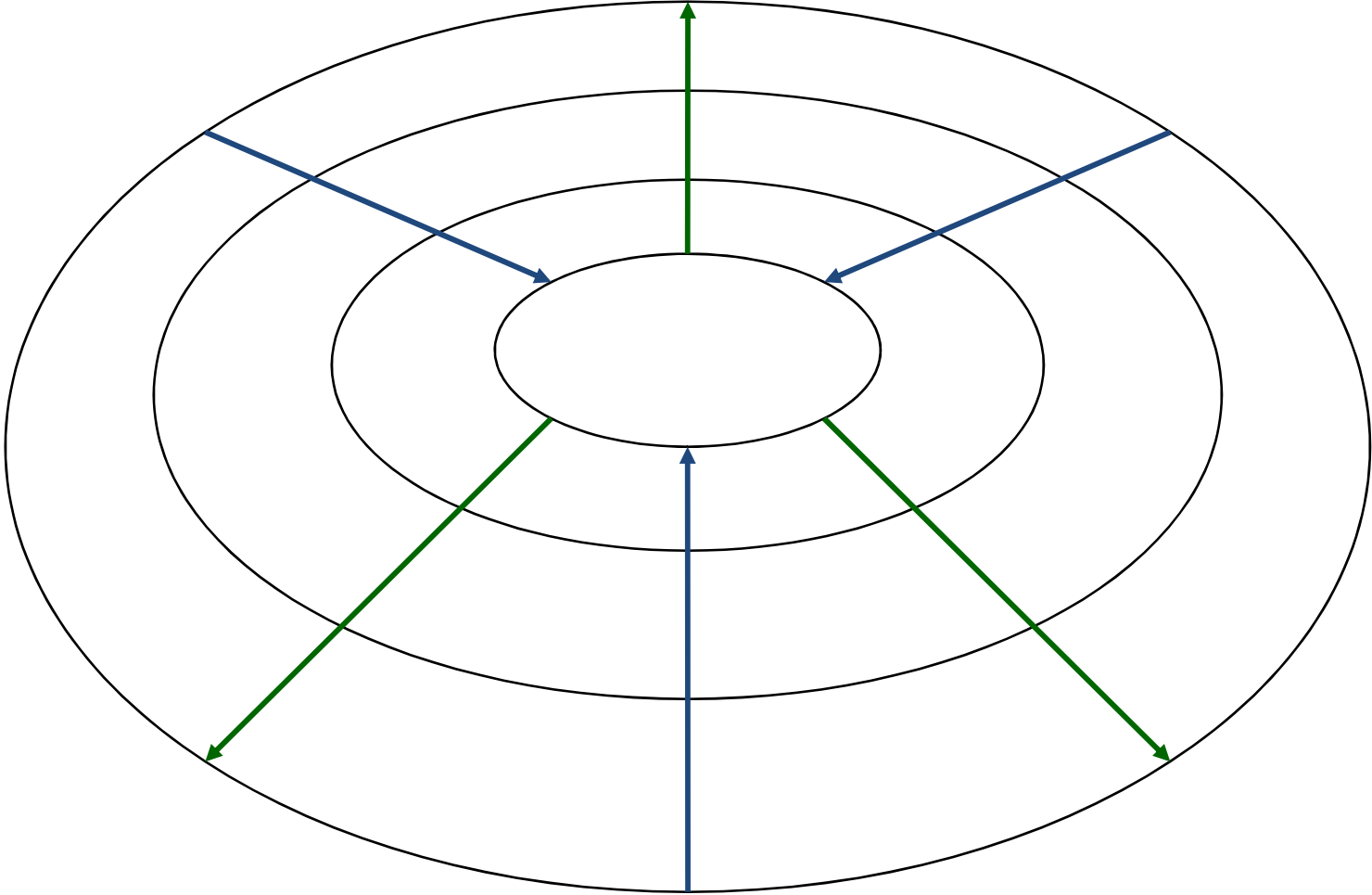


# Centralization followed by decentralization is common

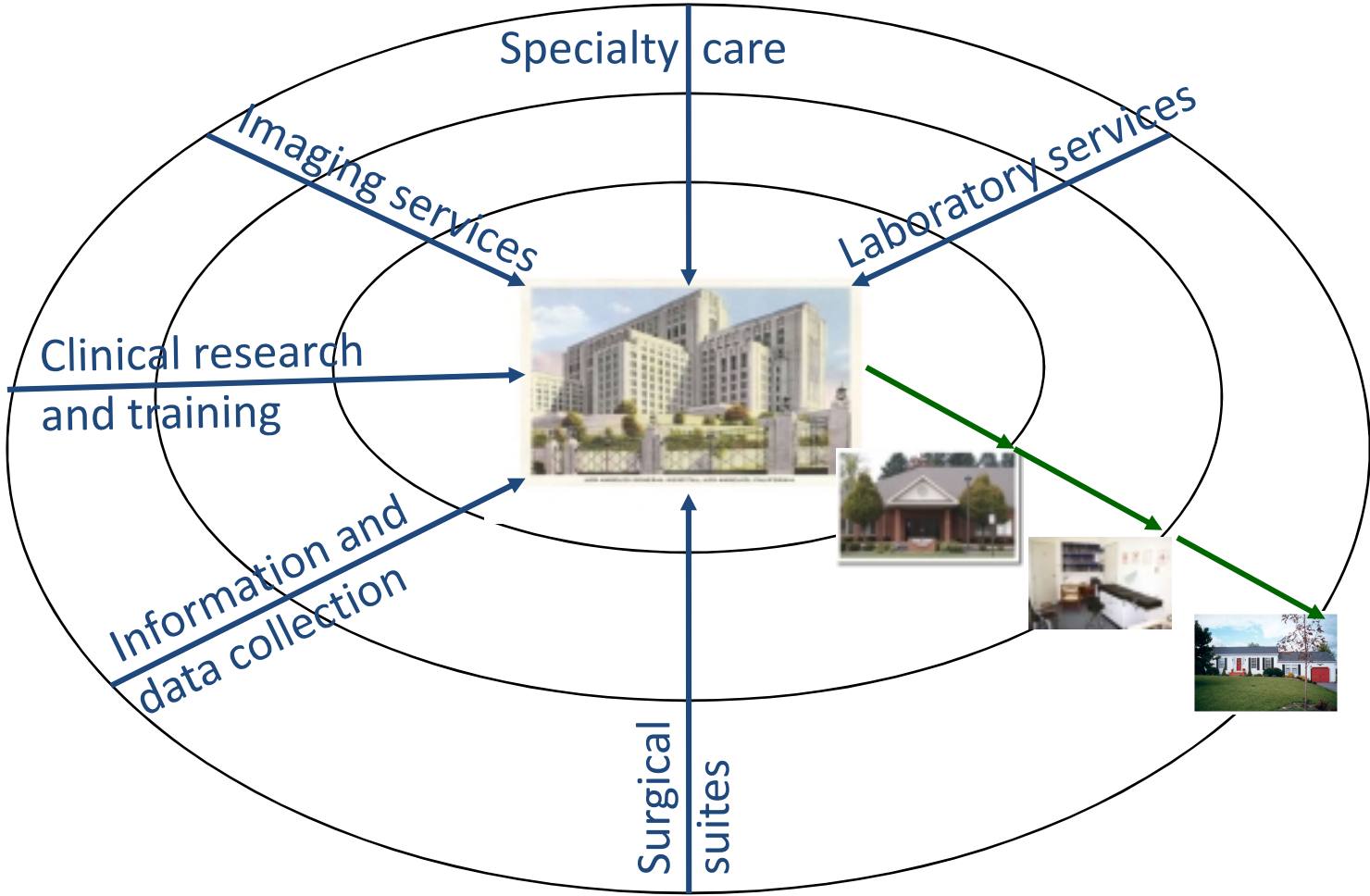


The pursuit of profit and differentiation in head-on competition among similar business models adds functionality and cost

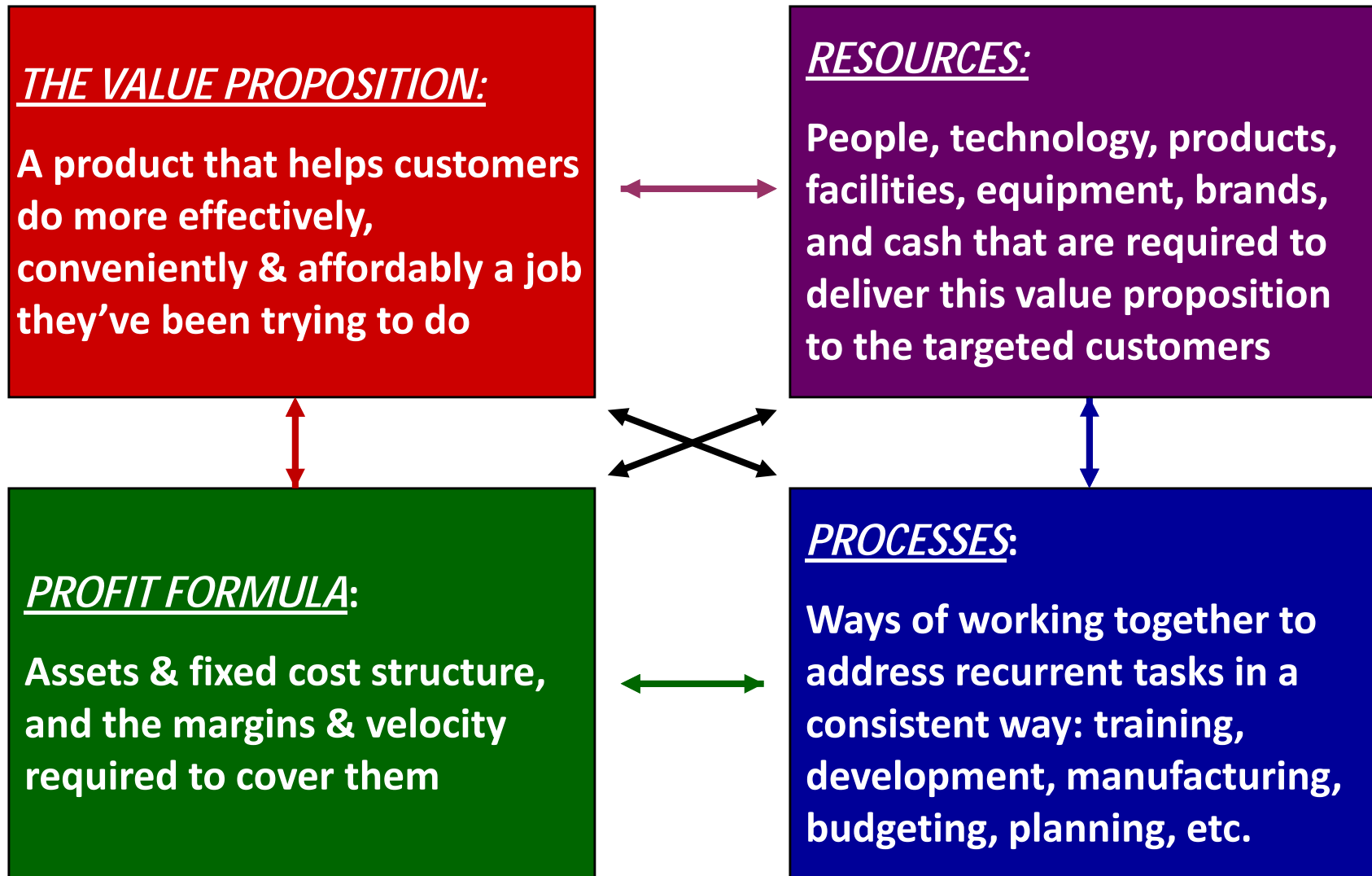
**Disruptive decentralization is the mechanism that reduces cost**



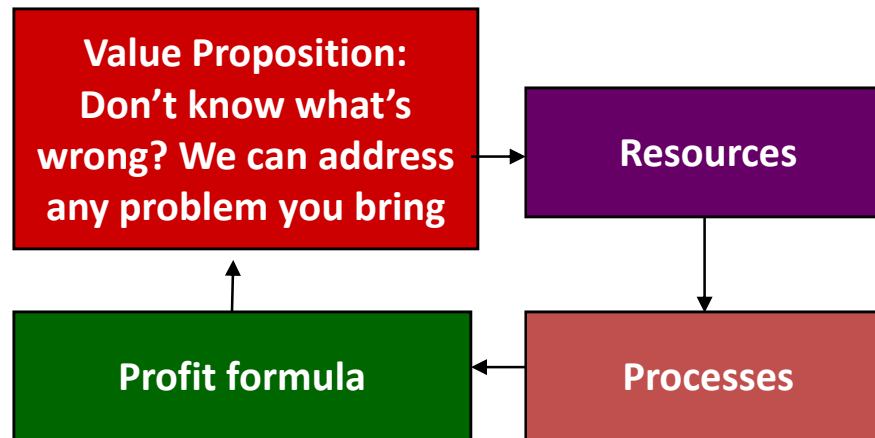
# The decentralization that follows centralization is only beginning in healthcare

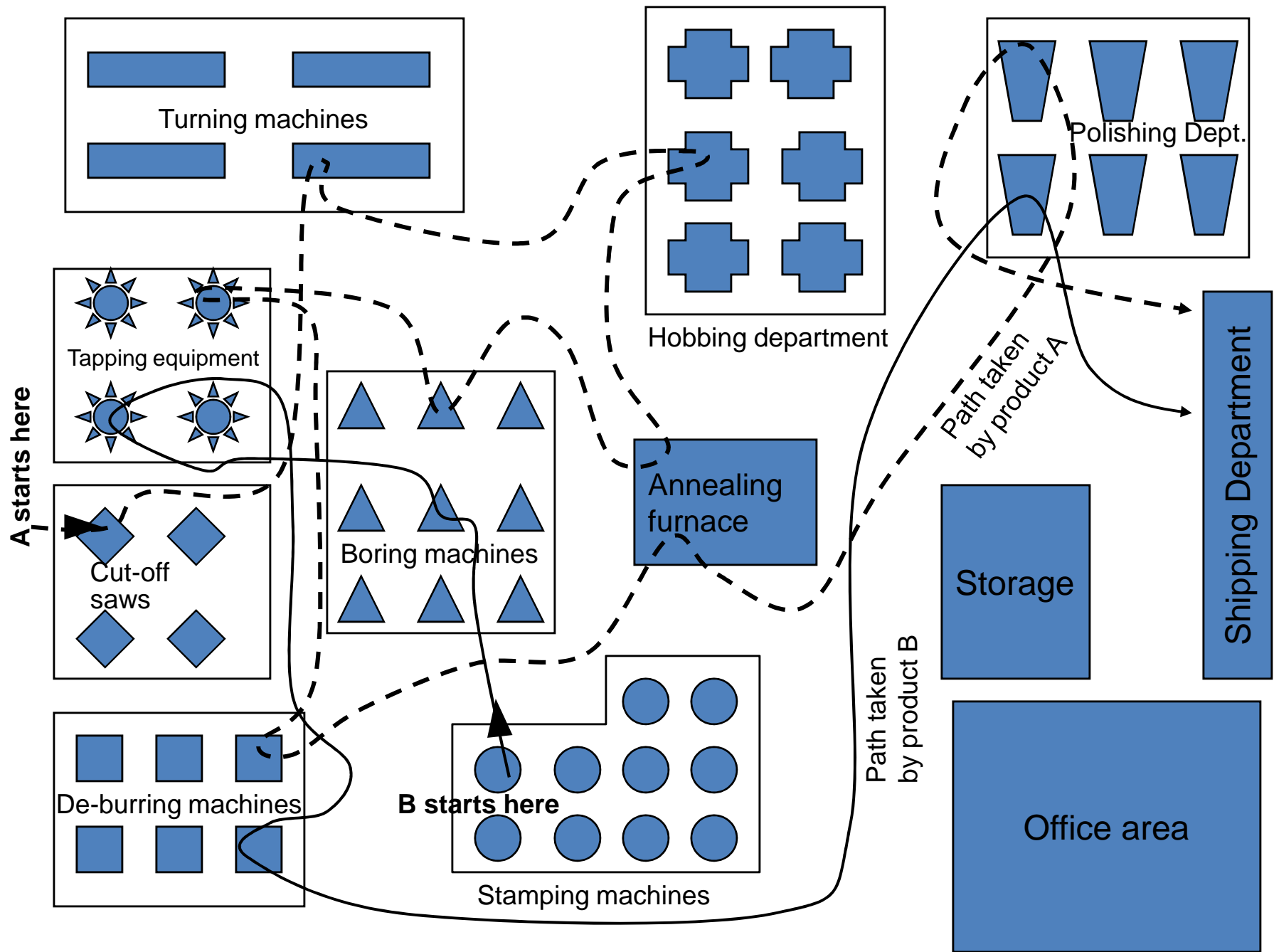


# What is a business model, and how is it built?

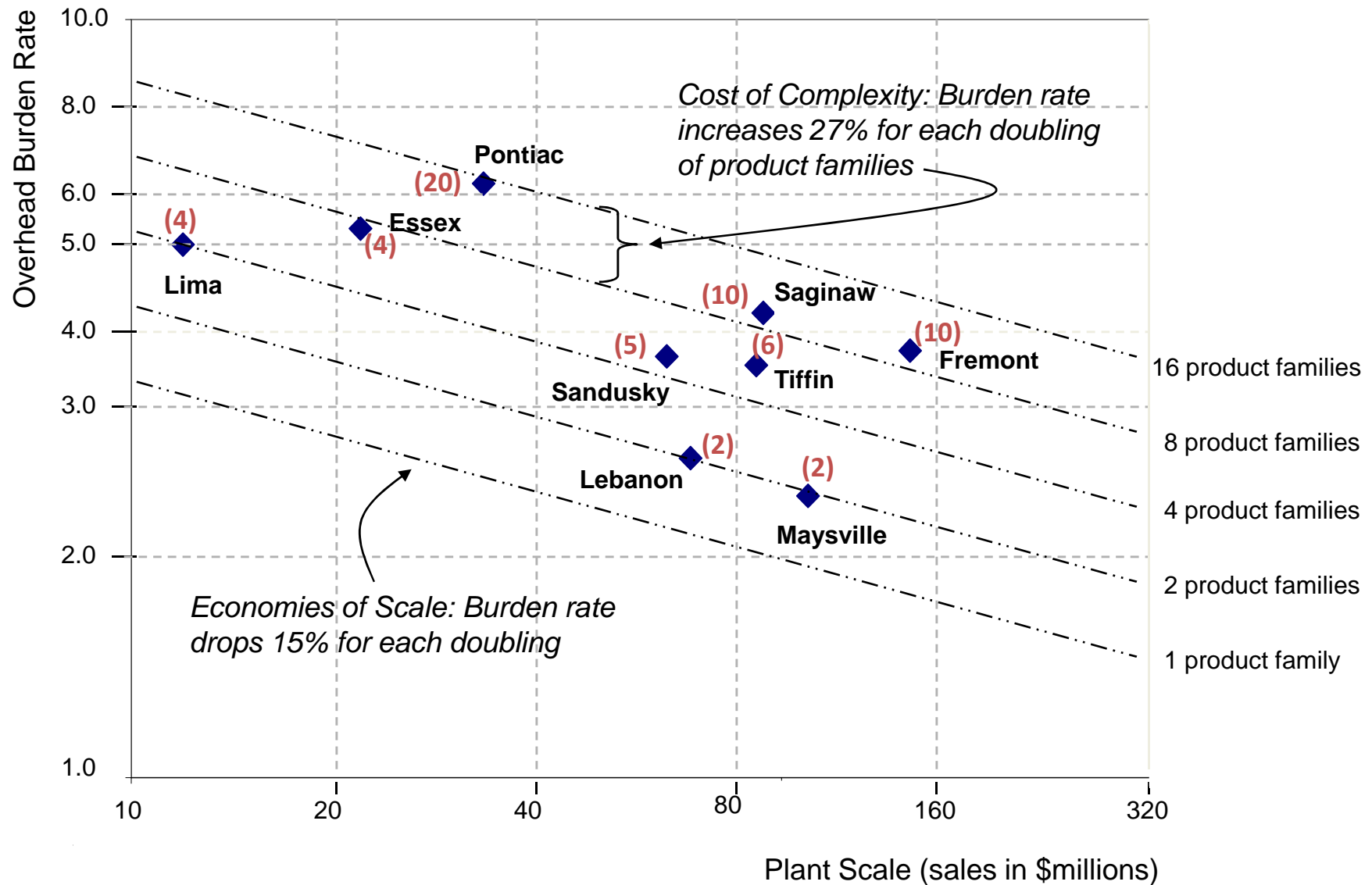


# The Traditional General Hospital Is Not a Viable Business Model





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



# Sources & 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 confluences 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

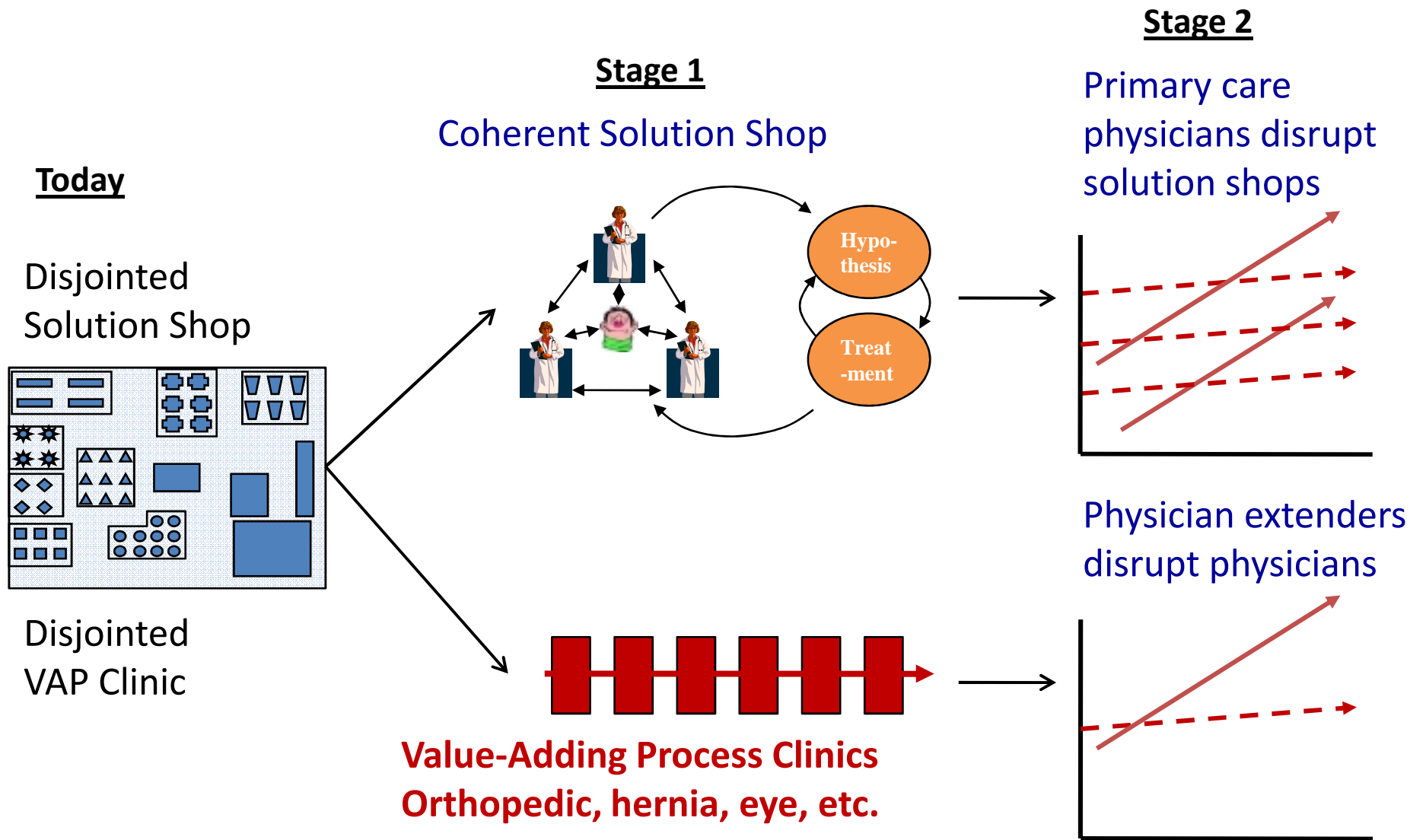
**Fee for outcome**

## **Facilitated Networks**

- Telecommunications
- Insurance
- eBay
- PatientsLikeMe.com

**Fee for Membership**

# Disruption of the Hospital Business Model



# It is often futile to cram new technologies into old business models

