


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



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The Apple Juggernaut



- On July 19, Apple hit all-time highs in quarterly sales (\$28.6B), quarterly profit (\$7.3B), iPhone sales (20.3M), iPad sales (9.3M), and stock price (\$376.85)
- With \$76.2B in cash, Apple has more cash than the U.S. Treasury
- A recent survey of 3000 people found that 35% were willing to buy the iPhone 5 without trying it first or even seeing it with their own eyes

IPOD SALES IN SECOND QUARTER

12 million

10

8

6

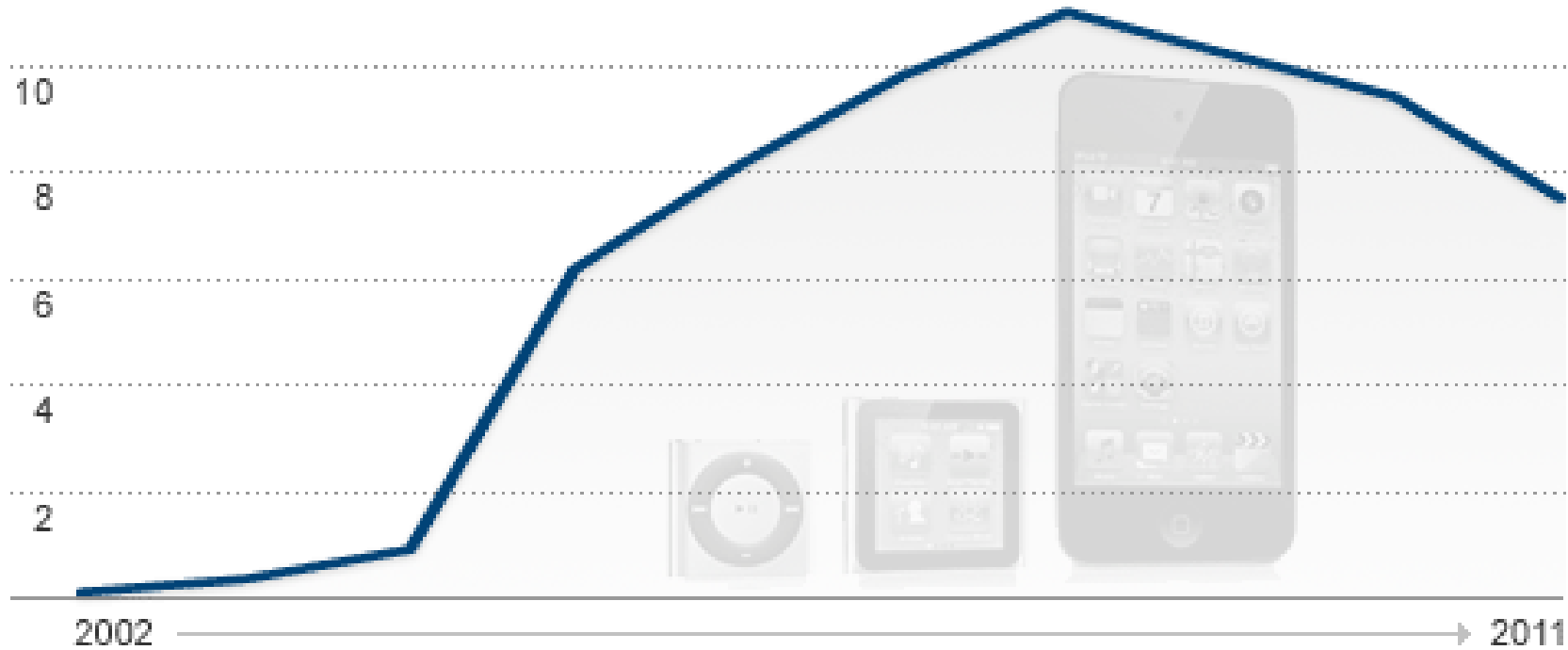
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2

2002

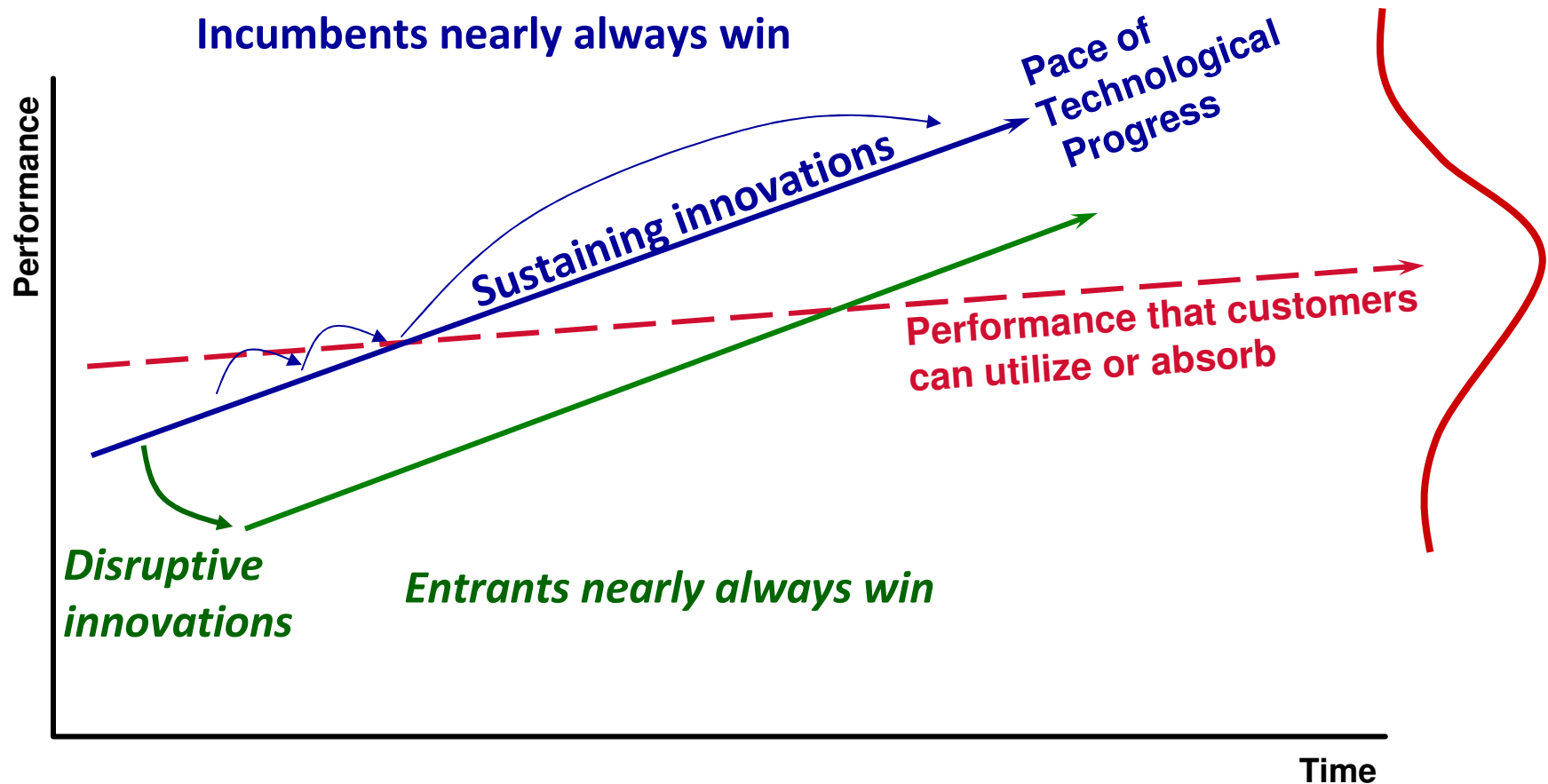
2011

SOURCE: APPLE



Should Apple be concerned?

Disruptive innovation is best described as a process by which a product or service takes root initially in simple applications at the bottom of a market and then relentlessly moves 'up market', eventually displacing established competitors



Disruption in business models has been the dominant historical mechanism for making things more affordable and accessible, and for generating corporate and economic growth

Yesterday

- Ford
- Dept. Stores
- Digital Eqpt.
- Delta
- JP Morgan
- Xerox
- IBM
- Cullinet
- AT&T
- Sony DiskMan
- Japan

Today

- Toyota
- Wal-Mart, Target
- Dell
- Southwest, RyanAir
- Fidelity
- Canon
- Microsoft
- Oracle
- Cingular
- Apple iPod
- Korea, Taiwan, HK

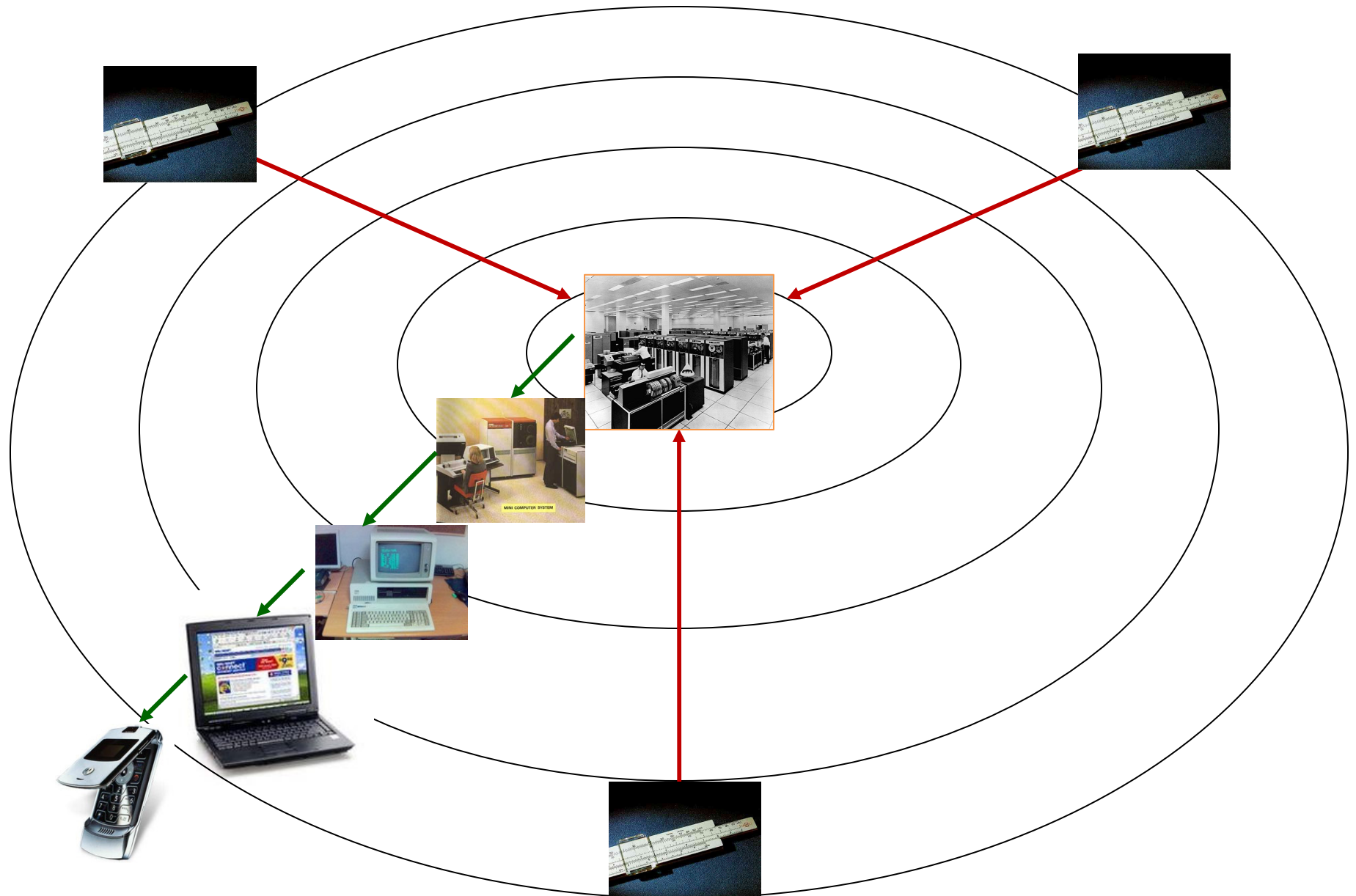
Tomorrow

- Chery, Tata
- Internet retail
- RIM Blackberry
- Skywest, Air taxis
- ETFs
- Zink
- Linux
- Salesforce.com
- Skype
- Cell Phones
- China, India

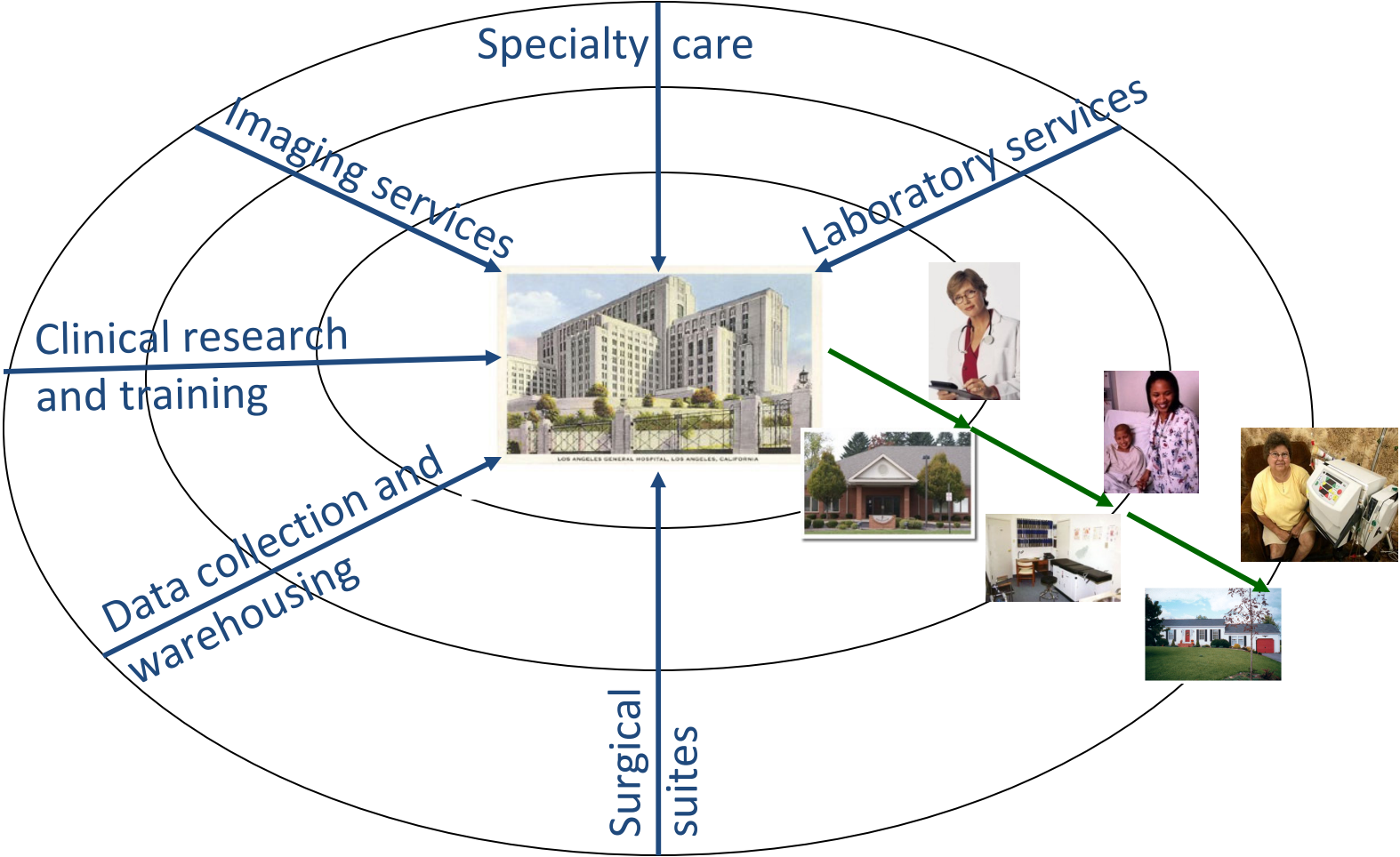
How did we get to a \$500 laptop computer?



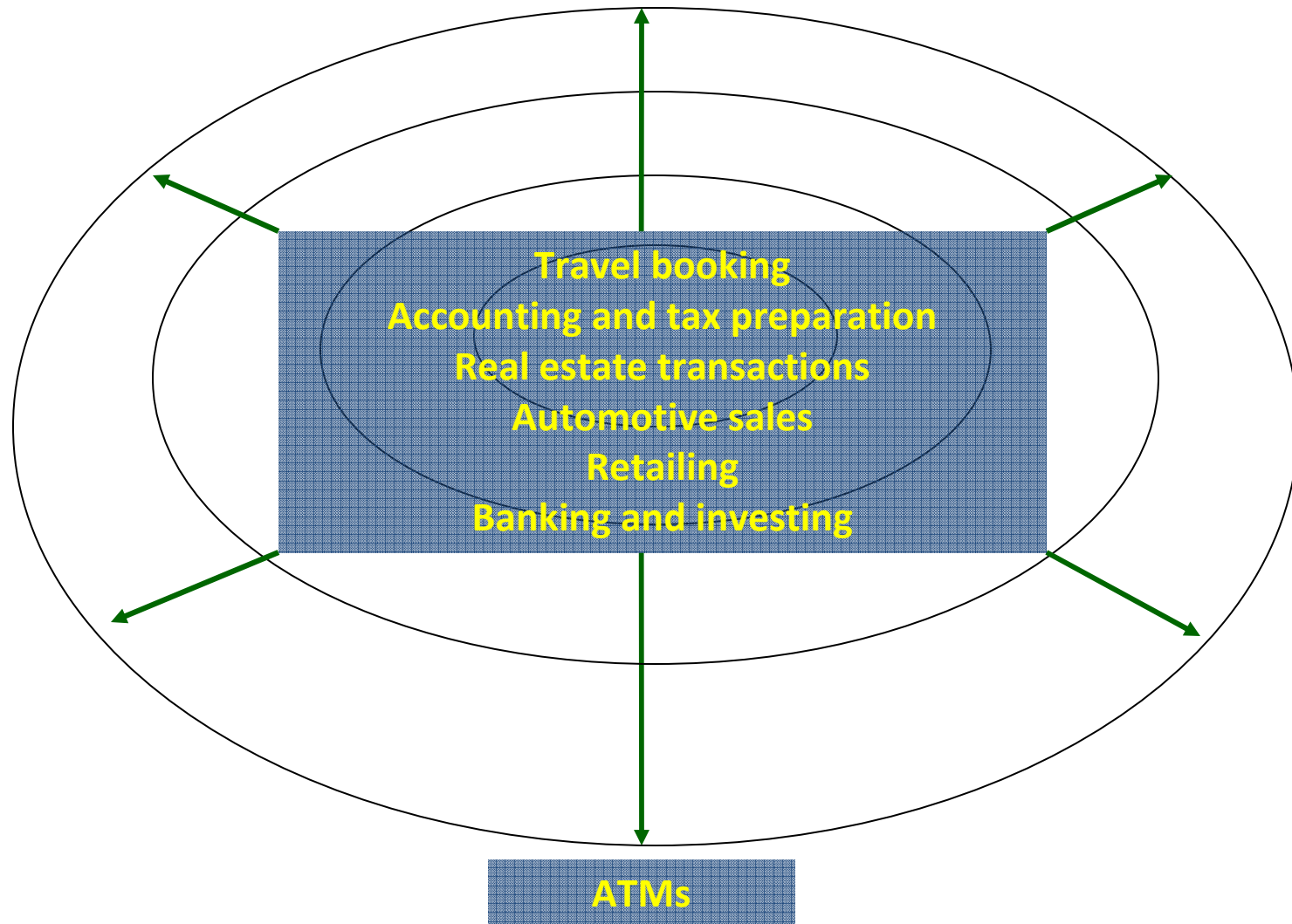
Centralization followed by decentralization in computing



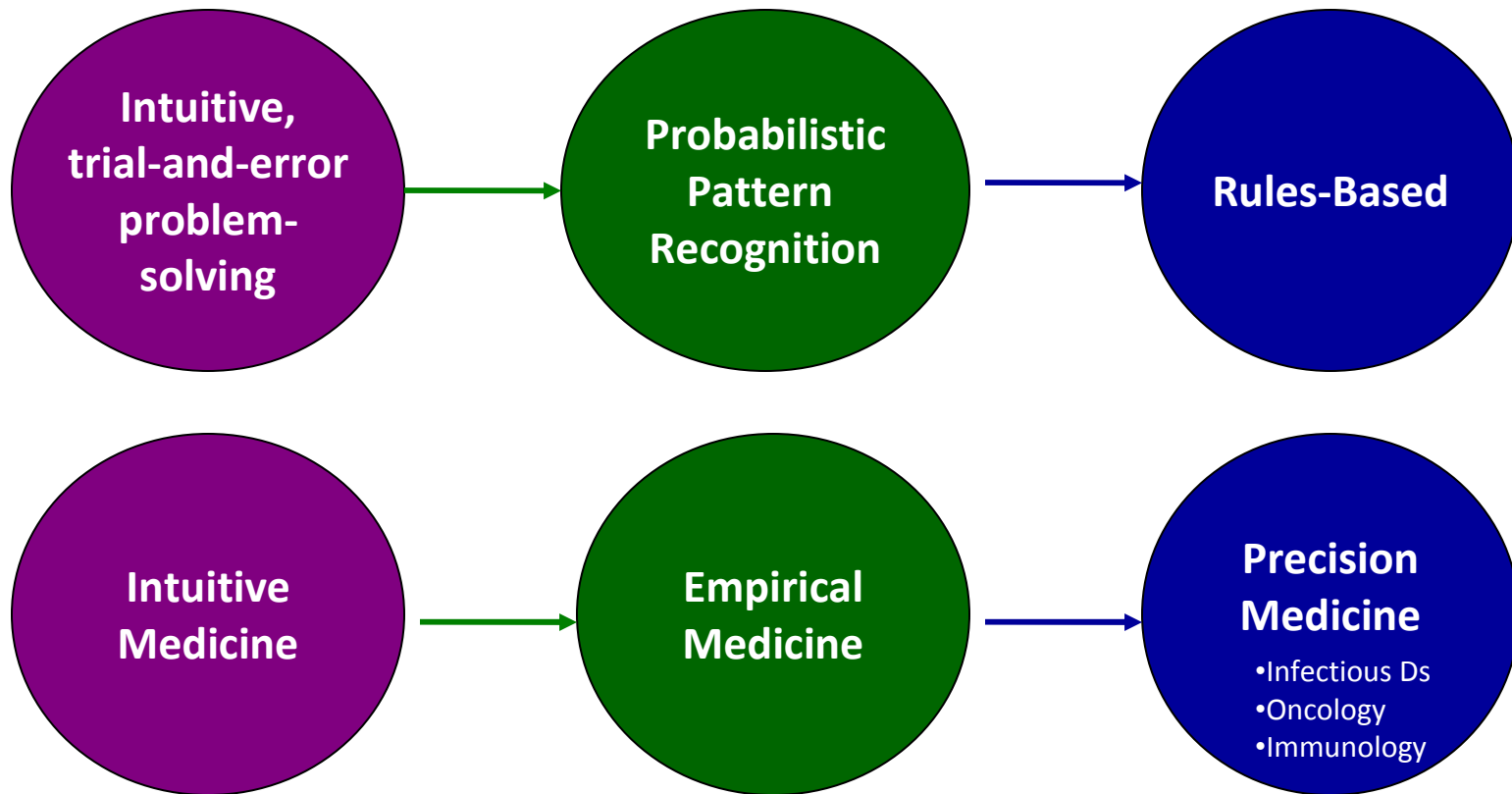
The decentralization that follows centralization is only beginning in health care



Decentralization is common in service industries – and it starts with simplifying technologies that disrupt expertise



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



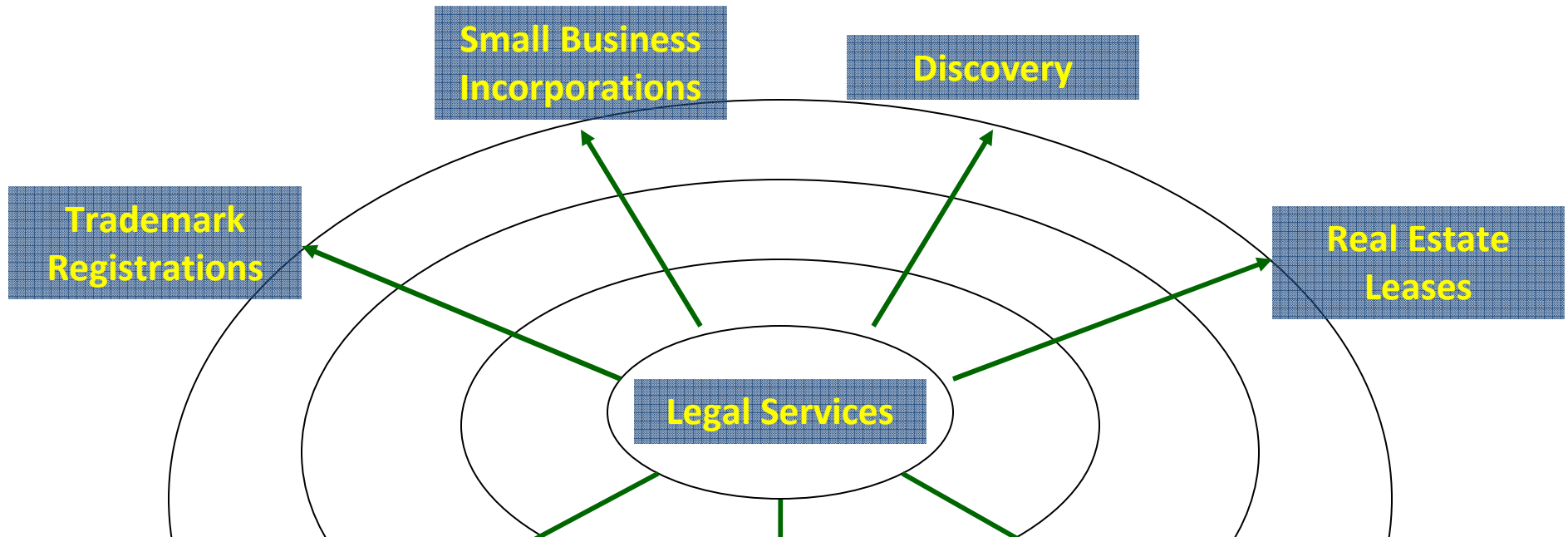
In vitro diagnostics

Imaging & molecular diagnostics

**Evidence-based medicine;
Clinical guidelines and order sets**

Clinical decision support systems

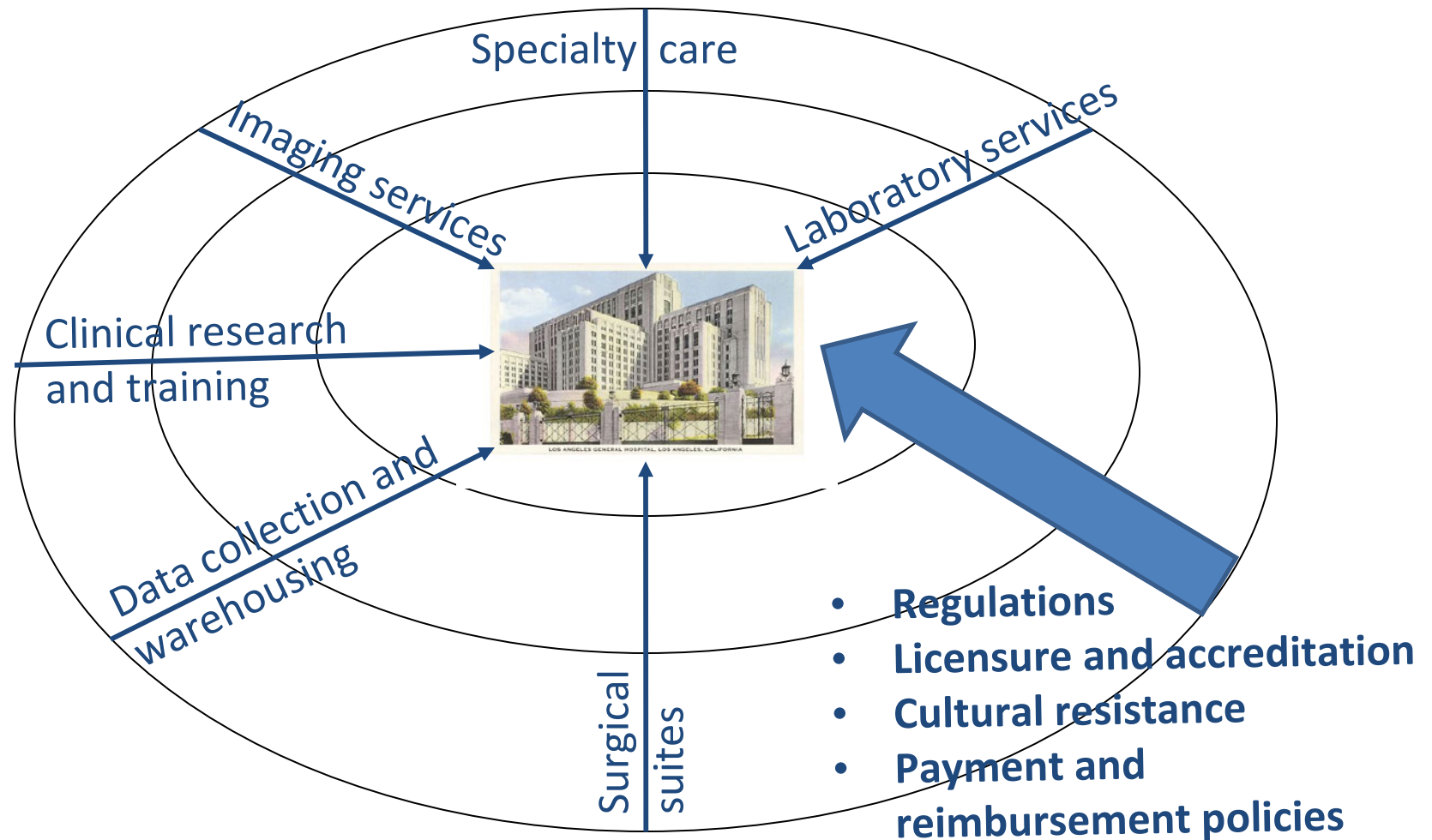
Disruption does not obviate the need for expertise, but maximizes its allocation to where it is most needed



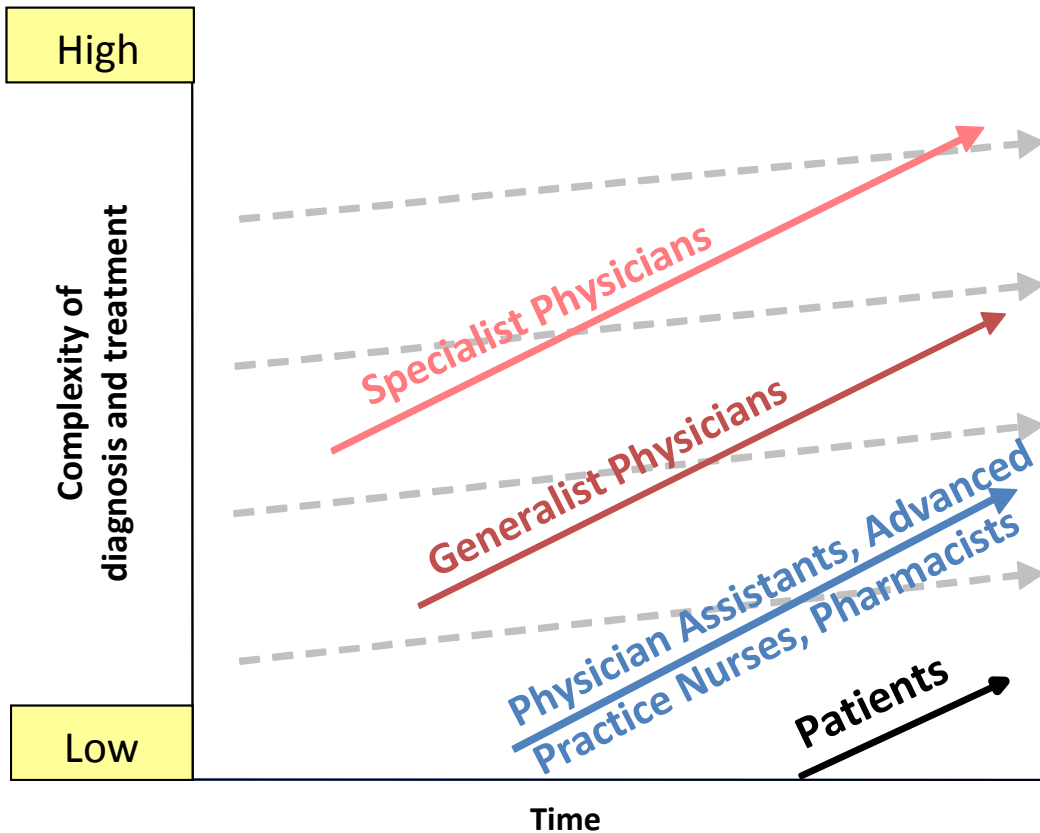
“Automate the automatable”

- Basha Systems “document assembly” software reduced the time needed to put together a type of real estate lease from 40 hours to 1; Basha has grown by 15-20% per year for more than 10 years
- Processing 6 million documents for discovery in 1978 cost \$2.2M. Today, Blackstone Discovery processes 1.5M documents for \$100K using e-discovery software.
- Frees up lawyers to spend more time talking to their clients and focus on higher-value work

Plugging new technologies into old business models has caused health care costs to rise rather than fall



Defense strategies of primary care and general practitioners to withstand disruption



1. Deride the quality and safety of the disruptors, and support legislation and policies that impede their growth
2. Promote the medical home as a previously unreimbursed service – an artifact of a fee-for-service system in which we are rewarded for doing more stuff
3. Move up-market by becoming low-end specialists – an artifact of the RBRVS system in which we are rewarded for doing complex stuff, or, more accurately, complex procedures
4. Move up-market by becoming concierge providers and charging more to those who can afford it

These responses to disruption are predictable, do little to enhance the primary care profession, and are ultimately futile in the long run

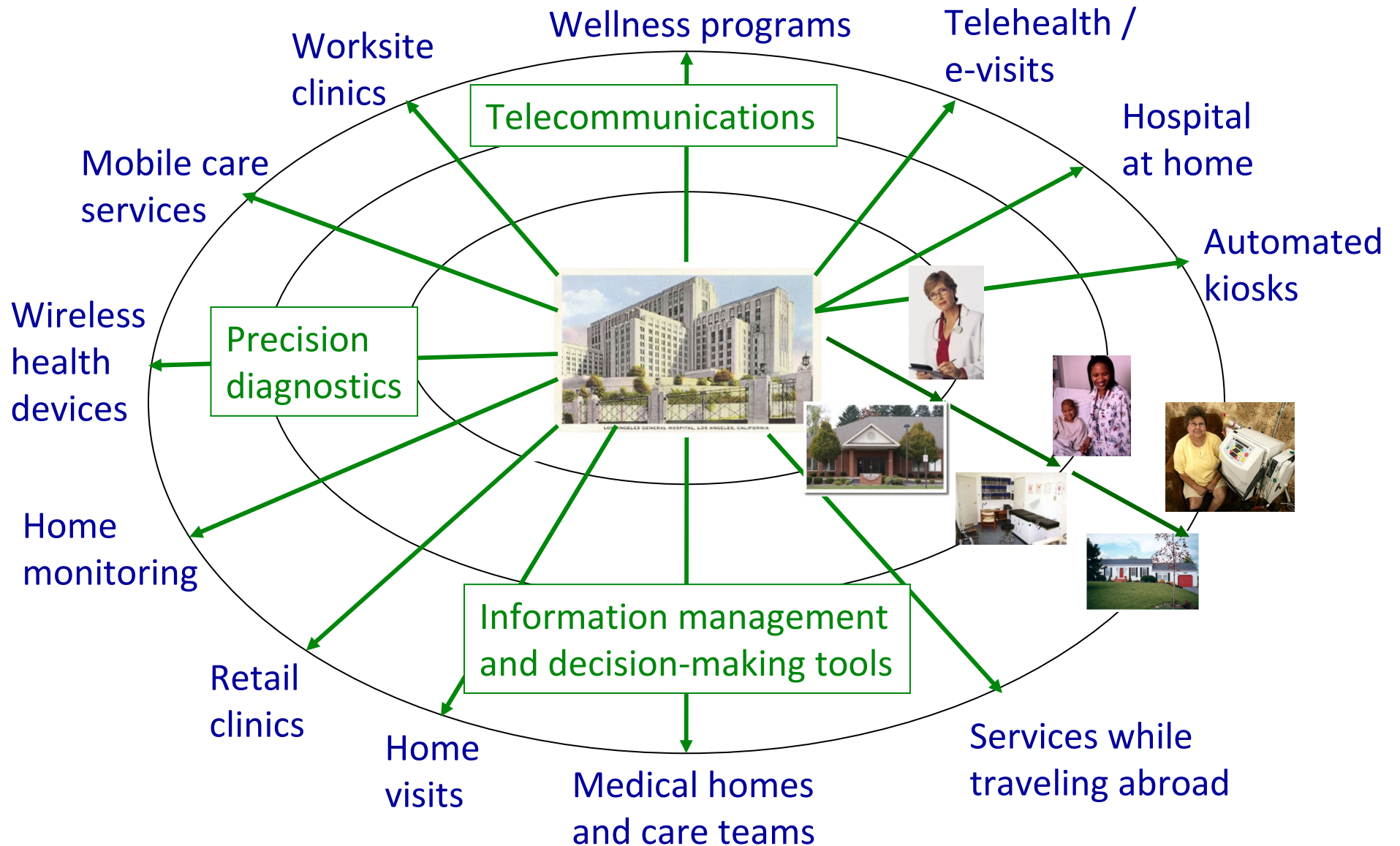
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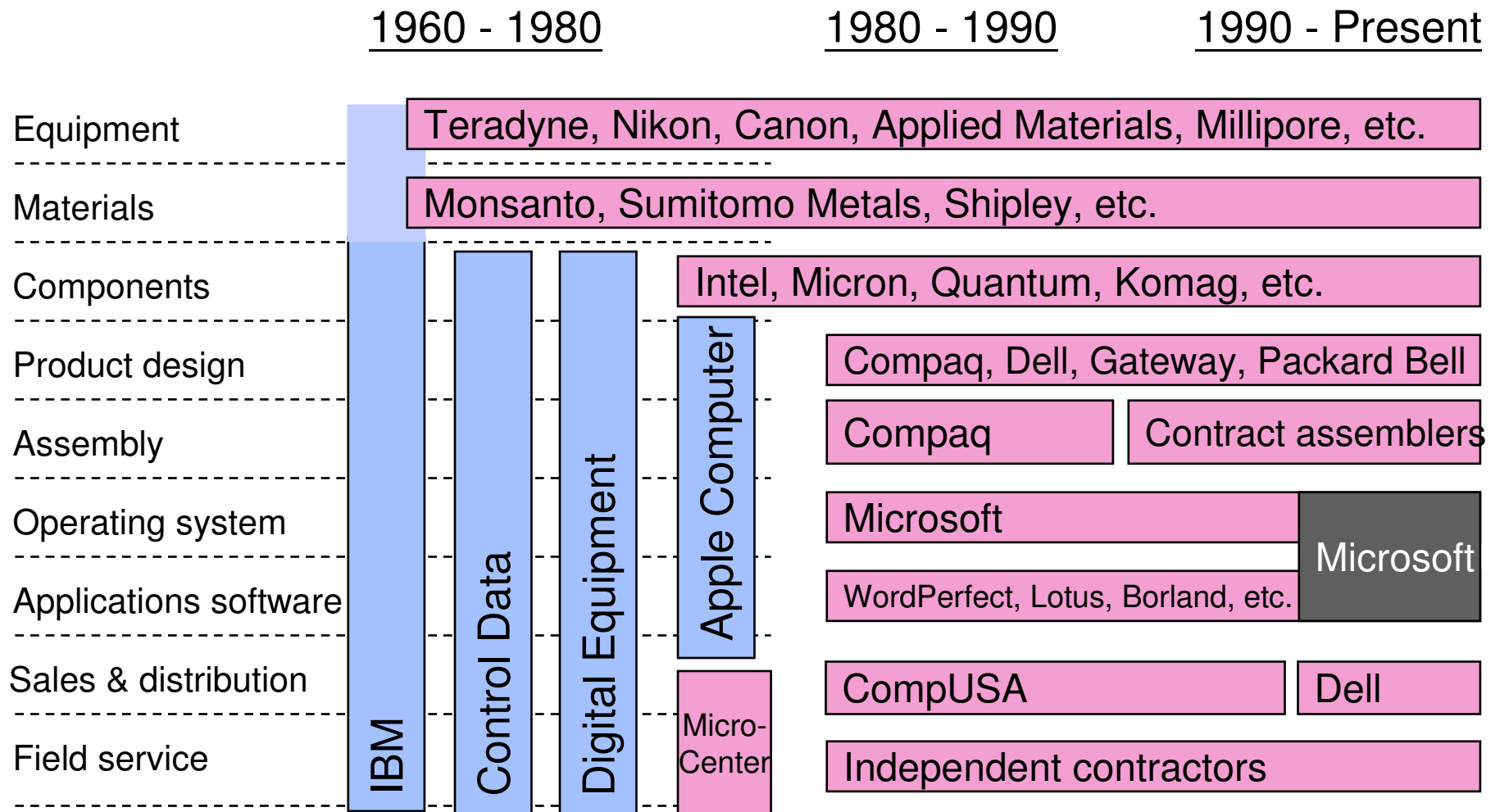
Not by:

- Forced cost-cutting
- Subsidized pricing
- Regulations requiring specific components be used
- Laws requiring that startups like Acer and ASUSTek only grow under the supervision of and with approval of Dell, HP, Sony, IBM, Gateway, Compaq

A new ecosystem of disruptive business models must arise



Fragmentation in the computer industry



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