

Applying Blue Ocean Strategy to the Foundation of Accountable Care

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A common argument against the Accountable Care model is that our customers are not clamoring for the system we are building.¹ Even during the height of the national debate on health care reform, patients did not press to be assigned to a patient-centered medical home to manage their health care needs. Yet there is an undeniable push for value, better service, and lower cost. Intuitively, we know the areas in which the industry underperforms: overutilization, avoidable readmissions, poor communication, high infection rates, and service fragmentation.² The strategic imperative before us is to anticipate future competitive forces and, looking across time horizons, to build the foundation for tomorrow's delivery system. We need to create markets rather than respond to existing demand. To do that, health care leaders must take the initiative to imagine and create uncontested market space while still being held accountable for the health care they deliver. The current configuration for health care delivery is flawed and does not meet customer expectations.

Smart businesses regularly engage their customers in dialogue to determine what would excite them beyond the products and services that are available.³ With appropriate timing and marketing, cutting-edge products or services challenge the status quo of industry incumbents. They rapidly pace ahead to achieve market dominance. The new management metaphor that encompasses this approach suggests a sea change of innovation: *Blue Ocean Strategy*. Examples of Blue Ocean Strategy include Cirque du Soleil, which created an entirely new entertainment market space by replacing the traditional circus, and iPhone, which convinced populations around the world that a touch screen phone was an imperative.

Written in 2005 by W. Chan Kim and Renée Mauborgne, both distinguished business school professors at INSEAD, *Blue Ocean Strategy* is the best-selling book that articulates this management metaphor.⁴ It has sold more than 2 million copies and has been published in more than 40 languages across 5 continents. The authors studied 150 strategic moves by companies in 30 industries spanning more than 100 years. They focused on those enterprises whose actions resulted in making the competition irrelevant and creating new and unique market space. *Blue Ocean Strategy* delineates the features that allowed vast and varied industries to see this type of unique growth.

The metaphor of red and blue oceans describes the market universe. Red oceans are all the industries in existence today—the known market space. In red oceans the industry boundaries are defined and accepted, and rules of competitive engagement are clearly understood. The arenas in which an industry competes are accepted as a given. Companies struggle to outperform their rivals and grab a greater share of the existing product or service market. According to the metaphor, the competition is fierce, turning the ocean red with blood. In contrast, blue oceans are all the industries NOT in existence today—the unknown markets with no competition. Blue oceans are spawned by companies that apply fresh thinking to steer away from the traditional markets; these companies typically design new products or services linked to unrecognized consumer appetites. A shining example of the lack of competition in blue oceans is Apple's introduction of the iPhone, followed immediately by the iPad. Apple has used Blue Ocean Strategy repeatedly to find new markets, often creating the market need itself, without worrying about the competition.

The sentinel idea in *Blue Ocean Strategy* is that of "Value Innovation." A blue ocean is created when a company develops an innovation that simultaneously creates value while decreasing costs. A blue ocean is created through the application of a "Four Actions Framework" (*eliminate, reduce, raise, and create*) that serves to drive value while eliminating waste. The innovation (in product, service, or delivery) must raise and create value for the market, while simultaneously reducing or eliminating services that are less valued by the market. Our premise is that Blue Ocean Strategy may be applied to the foundation for Accountable Care to redefine and optimize health care delivery.

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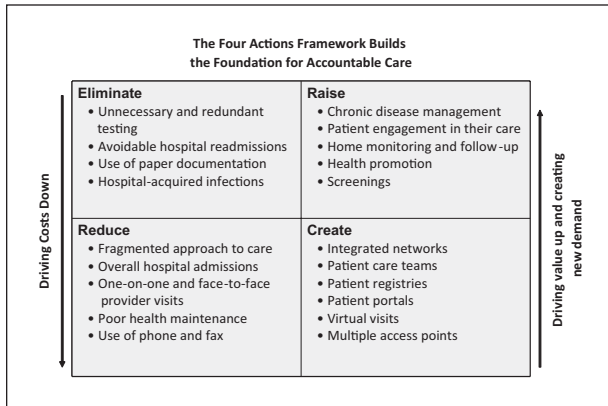


Figure 1. The four actions framework
Source: Kim and Mauborgne.⁴

Blue Ocean Strategy involves the simultaneous pursuit of differentiation (new products or services) and low cost. The Four Actions Framework can be applied to Accountable Care Organizations to reduce costs while driving up value and creating new demand (Figure 1).

Examples of applying Blue Ocean Strategy to meet the goals of Accountable Care while opening up uncontested market space and identifying new health care consumer demands are beginning to emerge:

- *Telemedicine for behavioral health.* Duke Foundation and JSA Health in Houston are using hub and spoke models to perform remote telemedicine psychiatric evaluations of patients. This is efficient and less expensive than face-to-face care. This is service differentiation and value in a changing market.
- *Single stay rooms.* Providence Regional Medical Center in Everett, Washington, has opened one of the few “single stay” wards in the nation. At Providence, the patient remains in one room for the entire hospital stay after heart surgery. The equipment, supplies, and personnel are brought to the patient’s bedside. As the patient progresses and improves, intensive monitoring equipment gives way to physical therapy equipment. Patient satisfaction with the “single stay” ward has soared and the average length of a hospital stay has dropped by 1 day.
- *Hello Health.* This is a new company that mixes office and online visits to give patients personal

attention from their neighborhood doctor when and how they want it. It is Web-based patient communication, practice management, and electronic health record in one. Designed for office practices, it includes instant messaging, e-mail, video visits, documentation, and scheduling.

- *Highmark.* A Pennsylvania insurer rolled out the nation’s first prepaid gift card designed specifically for health care expenses. It can be used like a debit card to pay for office co-pays, health club memberships, dental care, pharmacy, vision care, and elective procedures. It can be used at any health and wellness businesses that accept Visa debit cards.
- *InstyMeds.* The health care industry’s first fully automated ATM-style dispenser of prescription medications has arrived. This automated pharmacy uses touch screen technology to dispense prescription drugs 24/7 to patients who use credit or debit cards to cover the prescription costs.

With change comes great opportunity. In the midst of this era of change and reform, health care leaders should be asking themselves, “Where are our Blue Oceans?”

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