



Closing the Gap between Buyer and Seller Product Design: The Importance of Complete Bundles

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The Free Market Medical Association and its members have defined and stand behind the three pillars of a free market: price, value and equality. These pillars are not window-dressings; they are foundational to the well-functioning of any market where price represents the agreement of value to buyers and sellers. Today's focus is the importance of product design; the underlying reasons why it is so wrong today and how the free market pillars correct it.

First let's define a few terms to ensure there is a common understanding....

Prices in Competitive Markets:

In any free and competitive market, the fundamental basis of any transaction occurs when a willing seller and a willing buyer agree on a transparent price of a defined product. The keys here are 'transparent price' and 'defined product'.

Products from a Buyer Perspective:

When buyers need to get a job done, "they hire a product or service to do it for them". As Professor Theodore Levitt used to tell his students, "People don't want a quarter inch drill--they want a quarter inch hole." Accordingly, buyers analyze products by their ability to satisfactorily solve a problem or, as Professor Clayton Christensen teaches, a 'job-to-be-done'. When shopping for a solution or 'job-to-be-done', buyers compare sellers' products by 'job-to-be-done' attributes: completeness, fit, ease of use, location, quality, etc.

Product Failure in Fee-For-Service Healthcare:

The art of medicine has produced many incredible advances and a wide variation in care and outcomes, both patient and financial. One of healthcare's most glaring failures is the dearth of 'jobs-to-be-done' products, which is shocking. Many large sellers price and bill according to whatever specificity suits their needs and bottom line. In today's fee-for-service market, each service is contracted and priced discretely. In this model, discrete services (such as surgery or anesthesia) do not completely solve the buyer 'job-to-be-done' and it is nearly impossible for a buyer to know all of the services needed for the 'job-to-be-done'. The result is sellers create custom solutions that sometimes include unnecessary and costly services. Yet in 2016, one would expect for sellers build 'jobs-to-be-done' products to compete for volume like most other markets. Two important culprits are top-down pricing of discrete services by network intermediaries and rent-seeking and gaming behaviors by sellers striving to survive. Combined, both impede the creation of 'jobs-to-be-done' products and competitive pricing.

Everyone Pays the Cost:

Let's look at the details to see how product failure is the cause of wasteful spending. The Institute of Medicine estimates that unnecessary services represented about 10% of all U.S. health care spending — nearly \$300 billion a year. Additionally, both sides engage in a tit-for-tat battle to defend against, and outmaneuver, each other's tactics; the cost of which is estimated by Dr. Don Berwick to be 9% of all U.S. health care spending — nearly \$270 billion a year. Lastly, this mess produces another costly problem: excessive pricing by a small number of sellers. This last category is estimated to represent 5% of all U.S. health care spending or \$150 billion a year. All told, the cost to the U.S. is 24% of all U.S. health care spending or \$720 billion per year.

Free Market Medical Products (i.e., Bundles):

On the other hand, free market medicine sellers define their products in medical bundles (e.g., hernia) which seek to more completely solve a buyer problem (e.g., hernia). In the case of a hernia, a typical bundle includes all the services needed to care for the patient problem. In this way, sellers design bundles to compete based on solving the buyers 'job-to-be-done', greatly reducing buyer confusion and fear. Bundles standardize many routine medical solutions including surgical and medical treatments. This standardization will lead to an increasing focus on the underlying costs. With full knowledge of the underlying costs, sellers will price with confidence that each bundle covers those costs and includes a reasonable profit.

Note: Not all medical solutions ought to be bundled. Diseases or conditions that are not well-understood or do not have well-defined treatments are examples. Cystic fibrosis or intractable epilepsy are two examples.

Free Market Principles at work:

Bundles represent the standardization of buyers 'jobs-to-be-done' and close an important knowledge gap that exists between buyer and sellers.

Buyers can confidently purchase a 'job-to-be-done' product at a transparent price with the knowledge that it solves their problem for a fixed cost.

Sellers can confidently market a 'job-to-be-done' product at a transparent price with the knowledge that it covers their costs and produces a profit.

Working with FMMA members helps tremendously, as their understanding of these concepts is solid. For the others, many are awakening to learn that the old tactics of forcing top-down pricing leads to poor results for everyone. If FMMA members stand behind the free market pillars and explain their bundles and pricing to buyers, they will convert many more to the cause.

Sean Kelley is the President of Texas Free Market Surgery.

Sean Kelley's passion is revolutionizing healthcare. He brings a diverse business background to this challenge. Currently, he is developing new business models and the enabling technologies needed to advance the transition from fee-for-service to value-based healthcare. In 2014, Sean was a member of a talented team working on a

stratified risk HMO based in South Florida. Presently, Sean is focused on building the foundational elements for future marketplace for healthcare delivery products. TexasFreeMarketSurgery.com (TFMS) opened in April 2016 and offers bundled prices for outpatient procedures. TFMS is inspired by Dr. Keith Smith and his partners at Surgery Center of Oklahoma who have blazed a trail for us and others to follow. For those who know us, we are going big, fast. We are building an innovative new ASC and signing up high-quality surgeons as fast as we can. Watch for more announcements of our continued efforts to transform healthcare. We are blessed to be working on these challenges from Austin, TX, where technology, entrepreneurship, health care and good music combine to create an environment ripe for revolution. You may contact Sean via email at sean.kelley@texasfreemarketsurgery.com.