



The Health Care Value Chain: Producers, Purchasers, and Providers (Hardcover)

by [Lawton R. Burns](#), [Wharton School Colleagues](#)

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Burns and several of his Wharton School colleagues collaborated on this book as well as a subsequently published book, *The Business of Healthcare Innovation*, which I also highly recommend. In the later work's Introduction when explaining the value chain perspective, Burns observes that it "analyzes the entire sequence from raw materials (input) market to final customer (output) market. The sequence is labeled a 'value chain' because each link in the chain adds value to its inputs. Each link seeks to maximize its contributions to the total product's value added, thereby capturing as much profit as it can. This may involve focusing on only those links which add the greatest value (and let other firms focus on links that add less value), or encompassing as many links as possible in order to maximize the total profit captured (and leave as little as possible for other firms to divide up)."

This is a key point because whatever decision is made, there can be -- and almost always are -- significant consequences insofar as gross volume, net income, and market share are concerned. In this earlier published volume, Burns and his Wharton School collaborators focus on a large segment of the health care industry which, until now, has not received the attention it deserves. They rigorously examine "the trading relationships between [and among] the producers (manufacturers) of health care products, the purchasers of these products (group purchasing organizations, wholesalers/distributors), and the health care providers (hospital customers) that are the end users of those products -- hence the title of this book."

This is by no means an "easy read" but, as does *The Business of Healthcare Innovation*, it generously rewards those who absorb and digest the material, then carefully consider appropriate ways by which to apply what they have learned. Obviously, the relevance of the material will ultimately be determined by its practical value to each reader but it may be helpful if I suggest some of the questions to which Burns and his Wharton School collaborators respond.

1. What does the health care value chain consist of and how does it work?
2. What are the major pathways and stumbling blocks to improved value chain operations?
3. Which are the most effective strategies used by manufacturers in pharmaceuticals, medical devices, and medical-surgical product areas?
4. Which are the most effective strategies used by group purchasing organizations and wholesaler/distributors?
5. What do the health care value chain and the "extended enterprise" found in the auto industry share in common? So what?

It is important to keep in mind that this book was published in 2002. There have been several significant developments within the health care industry since then, several of which Burns and his Wharton School collaborators examine in *The Business of Healthcare Innovation* (published in August, 2005). I take this opportunity to recommend, also, Steven J. Spear's article, "Fixing Health Care from the Inside, Today" which appeared in the September 2005 issue of *Harvard Business Review*.

For whom will this book be most valuable? In my opinion, there are two separate groups. The first consists of teachers and students associated with undergraduate, graduate, and post-graduate programs such as those offered by the Wharton Center for Health Management and Economics. The second group would include senior-level executives of organizations which are (a) producers of health care products, (b) purchasers of these products, or (c) health care providers that are the end users of these products. I presume to observe that decision-makers in any one of these three categories would be well-advised to understand its inter-relationships with the other two.

In the concluding chapter of this book, Burns and John R. Kimberly suggest that in order to avoid the failure of prior organizational innovation (e.g. integrated health care), "the revamped health care value chain must find parties willing to pay for it." Given the nature and extent of the investment required, it seems imperative that all of those involved share the costs as well as the benefits of organizational innovation. According to Burns and his Wharton associates, there is no acceptable alternative.

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The author can be forgiven for writing a book that reads a little more like a formal academic paper, given his illustrious credentials. However, it is a surprisingly comfortable read given the complexity of the industry (if you could call it one industry) and the material covered. His analysis is as comprehensive as it is thought provoking. He does an excellent job of portraying the myriad of complex relationships between various evermore technologically sophisticated players within the health value chain. I would have preferred more coverage and discussion of specific company/organizational profiles. But, his artful and deft handling of the complex subject matter presented in a way that gives the reader many "aha" moments makes this book a must-read for anyone serious about the business of healthcare.

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For anyone working in the manufacturing or distribution industry within pharmaceutical, diagnostic or medical device companies, this book offers an excellent oversight. Its very helpful for anyone doing business analyst work in a technology department who is new to the industry, but wants to come up to speed rapidly. I recommend it for everyone in my department.

Its rare that a good overview of an industry value chain is available and so accessible to help someone understand how an industry operates.

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This is an ace book that will unfortunately only appeal to those wanting to bring all areas of professional health care into a commercial but patient focused new paradigm.

My firm has created a business operating system (all the non clinical stuff) for dentists in Australia - we do everything from the tools to assist them to credibly advise of pharmacy level home care products, to FactSheets on complex services for better and higher levels of compliance to treatment plans, and to achieve all those economies of scale that small businesses can never secure.

It is a well structured book and presents a (psudeo Porter)value based way of looking at health care in a readable and logical way.

If you want to make a branch of healthcare work and you have the energy to think your way through the issues (and to overcome the existing Luddites), this book will assist you greatly.

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