7 challenges for providers in the emerging consumer market

The new reality of consumer-driven health care is prompting hospitals to make substantive changes to their marketing and contracting strategies.

The employer-driven payer market of the past five decades is rapidly evolving into a new retail market with real price sensitivity—where consumer choice, decision making, and engagement are the basic business challenges for healthcare providers. Many healthcare organizations, however, are using antiquated marketing plans and contracting strategies, primarily designed to promote the inpatient hospital and obtain the highest payment for commercial contracts. These strategies are becoming obsolete and must be replaced with new approaches to leverage customer insights, define and communicate community purpose, and deliver a rich and engaging customer experience.

A Changing Marketplace

The world in which healthcare organizations operate hardly resembles that of 10 years ago. Not only have payment structures changed, but also new competitors have emerged and definitions of care have evolved. Following are the key changes that should prompt hospital finance leaders to reconsider their marketing plans and contracting strategies.

The commercial insurance market is being transformed. The employer insurance market is moving to high-deductible health plans (HDHPs) and from employer-sponsored insurance to policies that are available on public and private insurance exchanges. The percentage of workers in HDHPs grew from 4 percent in 2006 to 20 percent in 2013, according to results of a survey conducted by the Kaiser Family Foundation (“2013 Employer Health Benefits Survey,” Aug. 20, 2013). A recent analysis by Accenture projects that by the end of the decade, 40 million employees will be switched from company-sponsored insurance to private insurance exchange (“Are You Ready? Private Health Insurance Exchanges Are Looming,” March 2013.) These employees will be given a defined company contribution and will choose from a selection of products with varying hospital and physician networks.
Although these projections may prove to be optimistic, they are capturing the attention of employee benefit managers across the nation.

**The public health insurance exchanges are growing.** Despite their problematic start last year, nearly 11.7 million people selected or were automatically reenrolled into a 2015 health insurance plan through the Health Insurance Marketplaces during the second Open Enrollment period—a significant increase from the 7.3 million people who selected a 2014 plan. Some 54 percent of the individuals who reenrolled switched plans, presumably to find a product that better met their needs, which indicates consumers are shopping for plans as they might look for car insurance or a better cell phone plan. (U.S. Department of Health and Human Services, Health Insurance Marketplaces 2015 Open Enrollment Period: March Enrollment Report, ASPE Issue Brief, March 10, 2015.) Our own analysis corroborates the projections in the previously cited Accenture report that combined enrollment in public and private exchanges could amount to 70 million people by 2018.

**Price competition and new competitors have arrived.** Retail competition is growing in the outpatient market, where lower-cost, community-based facilities have substantial price advantages over hospital outpatient departments. Encouraged by employers and health plans, patients increasingly are using lower-cost community providers for diagnostic testing, imaging, and ambulatory surgery. Such use cuts into hospital revenue, particularly in cases in which the price for a test or procedure is less than the consumer deductible or the copayment is a percentage of the price rather than a fixed amount.

**Ambulatory care is being redefined.** A number of developments have moved ambulatory care away from hospitals. Walgreens, CVS (being rebranded CVS Health), and Walmart, among other retailers, have launched primary care clinics and are providing services to diagnose and coordinate care for patients with chronic health conditions. Kaiser Permanente and Target are teaming up to establish four clinics in Southern California stores. The Mayo Clinic is experimenting with cloud-based software and walk-in kiosks that allow physicians to see and treat patients in virtual exam rooms. Urgent care centers, which provide after-hours care and an alternative to emergency departments, are now part of the fabric of most urban markets. And telemedicine and remote access to electronic health records allow long-distance patient care.

**New Challenges**

These changes are helping to transform health care from a hospital business to a retail consumer business in which brand, convenience, price, customer service, quality, data analytics and technology, and product design and positioning are keys to success. These requirements have created seven new challenges that take most legacy healthcare providers out of their comfort zones.

**Responding to consumer price sensitivity.** The increasing acceptance by employers and employees of HDHPs and defined-contribution plans, helped by the large number of people enrolling in bronze or silver plans (which carry higher deductibles) on the federal and state exchanges, will require providers to pay close attention to price competitiveness.

A landmark study by the RAND Corporation in 2011 showed that individuals enrolled in HDHPs are more cost-sensitive when making healthcare decisions, and often choose to forgo care—particularly preventive care—when faced with greater up-front costs (Buntin, M.B., Haviland, A.M., McDevitt, R. Sood, N., “Healthcare Spending and Preventive Care in High Deductible and consumer Directed Health Plans,” The American Journal of Managed Care, March 22, 2011). These actions underscore the need for providers to increasingly tie cost and quality together to demonstrate value to the consumers. This effort will require

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*a As of March 2015, 21 percent of the people who selected a marketplace plan using the HealthCare.gov platform selected a Bronze plan and 69 percent selected a silver plan; 6 percent of the people selected a Gold plan; 3 percent Platinum, and 1 percent a Catastrophic Plan.*

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Meeting new “value network” requirements. Based on our experience working in a number of advanced markets, the group health market that traditionally has been served with broad, open-network products is being steadily “re-booked” into so-called “value-network plans”—the narrow, tailored, and high-performance networks that also constitute the majority of the offerings on the various exchanges. As a result, the process for organizing and vetting provider networks will be critical to sustaining success in the emerging consumer market.

In response to this trend, health plans will be wise to partner only with providers that consistently meet standards on quality, patient satisfaction, and health outcomes measures as developed by the National Committee for Quality Assurance and the Agency for Healthcare Research and Quality.

Provider organizations, in turn, will require networks of loyal primary care physicians and specialists, either employed in a medical group or organized in clinically integrated networks (CINs), and must be able to demonstrate to health plans competitive rates, good quality metrics, and high customer satisfaction. (See the sidebar, “Implications of the New Consumer Market for Health Systems.”)

Focusing on the total customer experience. Measuring the quality of the patient’s experience will add another dimension to the evaluation of network performance. For example, accountable care organizations (ACOs) that are part of the Medicare Shared Savings Program (MSSP) are evaluated along a number of domains, including care coordination, preventive health, at-risk population care, and patient/caregiver experience. In this last domain, there are six important variables:

- Patients’ ability to receive timely care, appointments, and information
- The effectiveness of provider communications
- Patients’ ratings of providers
- Patients’ access to specialists
- Health promotion and assistance to patients in healthcare decision making
- Tracking of patients’ health and functional status

These types of measurements will become increasingly common in the consumer-centric market and are likely to be adopted by plans in the government-run exchanges. The MSSP ACO quality and performance standards are gathered from several different systems, including the Physician Quality Reporting System and the annual Consumer Assessment of Healthcare Providers and Systems survey for ACOs, which is the main source of data for patient/caregiver experience.

Employers also are taking new steps to reduce costs and improve employee engagement. When participants in the AON Hewitt 2013 Health Care Survey were asked to prioritize outcomes of their health plans, 76 percent said they would seek to increase employee participation in wellness and health improvement/disease management programs, 75 percent sought to raise awareness and decision making related to health issues, and 65 percent sought to reduce beneficiaries’ health risks.

The AON study confirms a more active approach to managing risk that focuses on requiring employees be more engaged in their health or face higher personal healthcare expenses. The transferring of risk though a private health insurance exchange, for example, will make employees accountable for purchasing decisions that will affect their personal income. The use of “gating” strategies—incentives designed to encourage employees to improve their health—is becoming increasingly common. For example, employers may offer a basic high-deductible plan to all of their workers but make a richer PPO option available to employees who complete a health risk assessment or biometric screening.

Mining “big data” for new insights. The recent Marketing 2020 Study surveyed 10,000 marketers
Implications of the New Consumer Market for Health Systems

To succeed in the new consumer market, hospitals and health systems must:
> Be in networks of major health plans
> Have a network of loyal primary care physicians and specialists
> Be competitive on price
> Have easily accessible locations
> Demonstrate high-quality outcomes
> Maintain a high level of customer satisfaction
> Adjust pricing strategies to reflect the new consumer-driven world and the full range of competitors
> Partner with organizations that bring retail strength and interfaces to accelerate enrollment
> Have consumer engagement tools (e.g., apps, e-visits, telemedicine)
> Bundle prices for routine secondary and tertiary cases
> Create value in quaternary care, if possible

globally about their organizations’ data analytics capabilities, brand management strategies, structures, and capabilities. The survey results, which were published in a recent *Harvard Business Review* article (de Swaan Arons, M.; van den Driest, F.; and Weed, K., “The Ultimate Marketing Machine,” *Harvard Business Review*, July–August 2014), concluded that marketing is using data as a business tool more dramatically than any other discipline except for IT. In our opinion, this observation seems especially true of health care, where the new consumer market will substantially change the public’s buying habits over the next five years.

The Marketing 2020 Study found that companies that are sophisticated in their use of data are growing revenue faster than their competitors. The most successful companies clearly extend marketing throughout their entire organizations, rather than setting it apart as a discrete entity or an adjunct of the public relations/media relations office (which is where it currently resides in many hospitals).

The best performers integrate knowledge of what consumers are doing with knowledge of why they are doing it. This combination of data leads to new insights into customer needs and how best to meet them. In our experience, this holistic approach to customer needs and experience is rare in health care, where the services and products supplied are frequently designed more for the convenience of the service provider than the customer.

Moving toward pricing transparency. The need for greater pricing transparency will be of increasing importance in the new consumer markets. Hospital charges as a proxy for price are no longer meaningful, and do not meet the needs of patients who want to compare prices before selecting services. Media reports of patients who have received exorbitant or unexpected hospital bills have become increasingly frequent. Certain hospital charges, such as a $150 charge for a single dose of liquid Tylenol, discussed at a recent hospital meeting we attended, lessen the credibility of all providers.

Despite the public focus on the issue, our industry’s response has been ambivalent. A recent survey of hospital finance leaders published in *hfm* (Houk, S., and Cleverly, J., “How Hospitals Approach Price Transparency,” *hfm*, September 2014) found that hospitals with lower charges were more likely than other hospitals to emphasize making prices defensible. Finance leaders of hospitals with higher prices were more likely to express concern that price transparency would hurt revenue by forcing them to lower prices.

Industry experience to date indicates it will be a long haul to rationalize pricing and make hospital charges fully transparent. But consumers, insurers, employers, and regulators will increasingly demand such an approach. Most hospital executives support the notion of transparency as being helpful to their community mission, but with the caveat that all the changes in pricing must, in the end, be revenue neutral.

Orchestrating resources to create value. In the new consumer market, there is good reason to believe the most successful healthcare companies will be
those that connect their marketing departments to their business strategies. Effectively making this connection will require a fluid organizational structure that draws talent from across the organization. Marketing now is too important to be left to the PR department, just as technology can no longer be left solely to the IT department.

The research and consulting firm Gartner has been widely quoted as predicting that by 2017, chief marketing officers for most companies will be spending more money on technology than will CIOs (see Arthur, L. “Five Years from Now, CMOs Will Spend More on IT Than CIOs Do,” Forbes, Feb. 8, 2012). As a result, global companies such as SAP, Target, and Kimberly-Clark are creating a new position, chief marketing technologist, to align new marketing technology with business goals and help create new digital business models (see Brinker, S., and McLellan, L., “The Rise of the Chief Marketing Technologist,” Harvard Business Review, July-August 2014).

In the new digital world, health systems are just beginning to use software to engage, respond to, and prospect for customers. Start-ups such as Castlight, Change Healthcare, and the Healthcare Blue Book have entered the consumer market with hospital pricing information to educate consumers and make them more discerning buyers. Interactive, online medical record systems such as EPIC’s My Chart, which allows patients to communicate directly with their physicians and review their medical records online, can improve patient engagement for physicians who are motivated to answer patients queries. Increasingly, interactive marketing and patient care software has the potential to help hospitals build brand and customer loyalty to create a competitive advantage.

**Having a strategic mindset moving forward.** The new consumer market will require coordinated decision making to align performance metrics and ensure a coordinated approach to the market. This means having a plan to decide how you are going to make key marketing decisions and avoid “launching a thousand ships,” as some systems are doing by developing multiple marketing initiatives aimed at every possible market opportunity. Health systems approaching the new consumer market will need to ask themselves:

- Do we have a clear definition of who our target customers are in this new market?
- Do we have a clear approach to the various segments in the target markets?
- Do we have data that provide insights about our consumers’ behavior?
- Do we know what their care goals are?
- Do we have a clear definition of a successful business outcome for our consumers and for ourselves?
- Are our physicians, advance practice professionals, nurses, and other health professionals trained to focus on achieving excellent consumer satisfaction?

To succeed in the emerging market, leadership will need to inspire the workforce to be fully engaged in improving the customer experience, use the right metrics to measure their performance, and build the necessary organizational capabilities to offer real value to both managed care organizations and consumers. Success in the new consumer market will mean having a business plan that is “customer magnetic,” providing tangible value and an emotional connection with the patient.

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