

Price-Related Marketing Strategies



David Marlowe
Strategic Marketing Concepts
Ellicott City, Maryland

Agenda

- Factors Indicating Increased Consumer Price Shopping
- Provider Price Related Approaches
- The Value Equation – Price vs. “Quality”
- What to Do Now

Indicators/Drivers of Consumer Price Shopping



⋮

Uninsured Levels Grow

- Today – 46.6 Million(2005)
 - Up by 1.3 Million from 2004
- Among “moderate” to “middle” income individuals:
 - 28% w/o insurance in 2001
 - 41% w/o insurance in 2005

⋮

Uninsured Levels Grow

- 2015 – Projected at 55 million
 - 25% of the work force may go without health insurance provided by an employer.
 - Many of these consumers will have health needs – and the incentive to shop services based on price.

⋮

Consumer Directed Health Plans

- Primarily Health Savings Accounts (HSA’s) but the concept also includes Flexible Savings Accounts.
- HSA’s create a fund that if not used rolls over and (at age 65) can be taken out and used for other purposes.
 - The objective is to give enrollees incentive to be sensitive to the price of services.

⋮

Consumer Directed Health Plans

- Estimated over 4 million enrollees nationally by late 2006.
 - Growth projections vary significantly and there is a lot of debate over the effectiveness of this approach.
- For 2007, Medicare will begin to allow enrollees to sign up for Medical Savings Account options.

⋮

Other Indicators

- There is also an increase in high deductible health plans (>\$1,000).
 - Aimed at younger consumers
 - Wal-Mart type options for lower income employees.

⋮

Other Indicators

- Changes in technology that allow for more direct to consumer marketing of health services:
 - Laser eye surgery
 - Complementary medicine
 - Fast CT scans
- All being aggressively marketed (often on PRICE) in most markets.
 - One by-product – consumers are getting used to health services being promoted on a price basis.

⋮

Other Indicators

- Public “Price” Battles:
 - High profile case in a Western state in 2004.
 - HMO publicly announced service “prices” of two competing hospitals, hoping to drive volumes to the preferred hospital.
 - Hasn’t shifted much volume (yet) but has significantly raised public awareness of price differentials for similar services.

⋮

Other Indicators

- 2004 – CMS rules that Medicare restrictions on providers (requirements to collect co-pays, etc.) do not apply to uninsured patients.
- 2006 – Close to 30 states either require hospitals to post price-related information or do it for them (“Transparency”)

⋮

Other Indicators

- 2005 and continuing – Hospital and consumer price shopping articles appear in:
 - Health Leaders
 - Modern Healthcare
 - Wall Street Journal
 - New York Times
 - USA Today
 - Many Others (9/28/07 – Minneapolis StarTribune)

⋮

Other Indicators

- 2006 (April) – HealthGrades to begin providing price information on 50+ procedures (for a fee).
 - Expected out of pocket (people/insurance)
 - Ave. price negotiated by insurers in area
 - Average amount charged by provider (uninsured)

⋮

Other Indicators

- August 2006 – CMS begins to post Ambulatory Surgery charges and payments by county for the entire country.
- 2007 – A handful of US hospitals are now posting or providing actual prices (not just gross charge “ranges”).
 - Allegent - Nebraska

⋮

Other Indicators

- 2007 – Third party entities pop up to help consumers with price information and/or help them negotiate a price.
 - Mymedicalcontrol.com

⋮

Foreign Competition?

- First seen in 2004, now increasing in visibility.
- Hospitals in India, Singapore, Thailand, Manila promote major surgical procedures (including open heart) on the basis of **price**.
 - Very modern facilities, US trained physicians
 - One-quarter or less of price in U.S.
 - So far they are attracting patients from Europe and Asia but few from U.S (but that is starting to change).

⋮

Foreign Competition?

- Now labeled as “Medical Tourism”
 - Projected at \$4.4 billion per year by 2012 for Asian providers alone.
- New locations
 - South Africa, Israel, Spain – IVF
 - Costa Rica – Oral and Cosmetic Surgery
 - Mexico?? (For-Profit chains trying to start up along the border).

⋮

Foreign Competition?

- Case Example:
 - Female, age 48 from Atlanta
 - Using a special travel agent, goes to South Africa for plastic surgery.
 - All clinical care, travel and 3 weeks of post surgery accommodation in a high end resort = \$11,000 (half the cost of the surgery alone in the US).

Source: Travel & Leisure July 2006

⋮

Foreign Competition?

- Case Example – Bumrungrad Hospital (Bangkok)
 - JCAHO Accredited
 - U.S. trained doctors
 - Very user-friendly web site with travel support available
 - Prices are quoted in detail (some extras possible, could change upon doctor exam)
 - Diagnostic Coronary Angiogram - \$1,184
 - Face and Neck Lift - \$3,207
 - C-Section Birth/3 Day Stay - \$1,627

⋮

Consumer Price Shopping Research

- Questions asked in 15+ consumer surveys over the past 24 months.
- All across the U.S.
- Total samples =12,000+ consumers.

⋮

Consumer Price Shopping Research

- Percent of those who “price shopped” a health care service in the prior year:
 - Range of 9% to 24% (average of 15%).
 - Younger consumers (Under age 45) were more likely to indicate price shopping for health services (Range of 10% to 28%)

⋮

Consumer Price Shopping Research

- Services most commonly “shopped”
 - Outpatient Surgery
 - Physician services
 - Diagnostic imaging
 - Lab tests
- But almost everything was mentioned (even cardiac cath).

⋮

Market Research Indicators

- “Haggling for Healthcare”
 - Recent Harris Online Survey – 2,118 adults
 - 13% negotiated with MD’s (54% success)
 - 17% negotiated with Pharmacists (48% success)
 - 12% negotiated with Dentist (47% success)
 - 10% negotiated with Hospital (45% success)

⋮

Market Research Indicators

- Recent RAND study:
 - 14% of people who searched for health care information in the past year searched for price information.

⋮

High End/Image

- Rolex, Jaguar
- Health Care??? (Exclusive Spas? High End Dental Practices?)

⋮

High End/Image

- Corollary – In most industries, the leading “Brands” can usually charge more vs. generic commodities.
- Will providers with higher “quality” be able to charge more???
 - Hopkins vs. Community Hospital in Baltimore

⋮

Incentive

- Reduced per diem to direct employees to a specific network.
- Reduced prices to use services off hours – Diagnostic Imaging, Lab, etc.
 - One hospital reported giving discount if people come in for elective DI after midnight.
- “Two for One” – Contact lenses, massage therapy visits

⋮

Introductory

- \$\$ off for the first 100 users of
 - A real offer from a Cosmetic Surgery practice.
- Offer of discounted rate for a new Bariatric Surgery program in order to capture enough cases to ensure accreditation.

⋮

Loss Leader

- Optical shops (Lower price exam if you get glasses).
- Dental practices (Low price cleaning to get other services).
- Free or low price health screenings???
 - Yes, this is a public service but it is also a loss leader.

⋮

Convenience

- A premium for convenient access to a desired item.
 - Buying sun tan lotion at the hotel gift shop – and paying \$3.00 a bottle more than you would at Target!
 - Prices at your lobby-based health products store and pharmacy (5-10% over competitors to take advantage of convenience).

⋮

Market Share Capture

- Using deep pockets to buy share with a low price.
 - Use lower prices in managed care negotiations to keep a competitor out of the network.
 - Using income derived from other services to allow for lower prices for a more competitive service to capture/retain market share.

⋮

Price Lining

- Chevy, Pontiac, Buick, Oldsmobile, Cadillac
- 4 Levels of Health Club membership?

⋮

Skim Pricing

- Take advantage of cutting edge newness or exclusivity to skim off a quick profit
 - Play Station 2
 - First 64 Slice CT in town
 - First PET/CT scanner in the market.

⋮

Year End Cafeteria Plan

- Unique to health care (so far)
- Use up pre-tax cafeteria benefits before the end of the year.
 - Resulting in lots of elective-service advertising in December.

⋮

Access Pricing

- Paying a “seat license” for the right to buy a block of tickets to a pro team.
- Paying \$X per year for access to a boutique medical group (e.g. - \$3,000 for a family gets immediate access).
- Variation - \$25 per month “administration” fee (Seattle-based PCP’s).

⋮

Cash Only

- A small but growing number of physicians will take cash only – no insurance.
 - Okay, checks and some credit cards too but you get the idea.
- One practice charged \$79 for an office visit and got \$43 – up to 120 days later.
 - They now charge a flat \$50 visit fee, payable at the time of the visit.

⋮

Money Back Guarantee

- If we don't achieve X, you get your money back (or at least some of it).
- Used by IVF providers for a number of years.

⋮

Non-Par Pricing

- Some providers (largely physicians) opt to go “non-par” with insurers because they actually get paid more!
 - But it can mean that the consumer has to pay more as well (higher co-pay/deductible for being out of network).
 - Providers who opt to waive consumer payments get into legal battles with insurers.
 - Insurers respond by making payments to consumers, not the non-par provider (the provider has to collect all from the consumer).

⋮

Other Systems

- Barter
 - Electrical power for health care (Missouri)
 - Individual services (auto repair, carpentry) for health services (Maine)
- Gift Cards
 - Others can pay for your health care.
- Zero Interest Credit or Loans
 - Elective surgical procedures

⋮

Pay for Performance

- Pay for Performance – Payor Controlled
 - Not truly a “pricing” model, but certainly related.
 - Payors set rates or pay incentives based on achieving certain desired outcomes or objectives.

⋮

Pay for Performance

- Pay for Performance – Provider Controlled
 - Fees are adjusted based on provider achieving certain results.
 - Simple – Cash back for minor service delivery problems (cold food, TV not working, etc.)
 - Complex:
 - % off bill if IVF clinic fails to result in a baby.
 - Graduated payments for amount of weight lost

⋮

Integrated (Bundled) Pricing

- Again, not a pure “price” model but certainly related.
- Essentially the ability for a consumer to get a **single** price from all parties in the care.
 - Hospital, surgeon, anesthesiologist, etc.
 - Example – Bariatric Surgery

⋮

Beyond Price – Price Information

- Providers are generally poorly equipped to provide price related information in a timely or meaningful way.
- This is frustrating for price-shopping consumers – and may drive them to providers who can provide a “sure” (if not necessarily cheaper) price.

⋮

Beyond Price – Price Information

- Recent California Healthcare Foundation study used mystery shoppers to check hospital prices (by phone and live) for elective procedures (N = 622)
 - Over two thirds required multiple calls or visits to get the price
 - One quarter were never able to get an actual price quote or estimate.

⋮

Beyond Price – Price Information

- If providers do not control price information others will...
- ...witness the HealthGrades effort to provide basic price information.

⋮

Beyond Price – Price Information

- The future:
 - Price quotes for service by phone via customer service representatives?
 - On-Line price information?
 - Price-related advertising?

⋮

Complications and Issues

- The transition from the current health care pricing system to a more “market-driven” model is just now under way.
 - And much of what we do is still driven by contracts and arrangements we have had for years.

⋮

Complications and Issues

- Illustration:
 - An HSA patient wants a services from a cardiology group – and wants to know the price.
 - The group has negotiated with the insurer for prices, even if the consumer is paying.
 - The group has to get information and check with the insurer to get confirmation of the price – and that can take a while.

⋮

Complications and Issues

- Entering the “pricing” world means living with laws that other industries live with:
 - Anti-Trust/Collusion
 - Predatory Pricing

⋮

Beyond Price – Price Information

- Phone Quotes:
 - ProHealth Care (Waukesha) - Estimates
 - St. Luke’s (Kansas City) – Actual prices but takes checking, not immediate
- On Line:
 - Alegent Health - Nebraska
 - Wisconsin and Oregon Hospital Assoc.
 - Healthgrades (paid service)
 - CashDoctor.com – Has limited information so far, relies on voluntary provider participation
- Price Related Ads – Already exist (elective OP services)

⋮

The Value Equation



⋮

Price vs. Quality

- “Quality” is a major factor for providers today...
- ...but it is being done in the near total absence of the “price” of services (in contrast to virtually every other sector of the economy).

⋮

The Value Equation

- Value = Price x Perceived Quality
- Example – Consumer Reports on Refrigerators.
 - You look at the features within the context of the price of the item.

⋮

The Future?

- Consumers currently don’t widely look at health care quality this way.
- But the odds are good that they will in the future if “price” becomes a real factor.

⋮

The Future?

- Is a CT Scan at the “University” Medical Center worth \$400 more than the CT Scan at the private, freestanding center?
 - How much “quality” is needed to overcome noticeable price differentials?

⋮

So What Do We Do Now?



⋮

What Do We Do Now?

- Get familiar with the whole issue of “Transparency” – National and your State level.
 - Price
 - Quality indicators

⋮

What Do We Do Now?

- Get a handle on local market factors:
 - How many employers are going over to HSA or high deductible plans – or no insurance at all?
 - To what degree are consumers price shopping now – and what for?
 - Are any local providers initiating pricing related strategies?

⋮

What Do We Do Now?

- Get a handle on internal factors:
 - How many inquiries for price are coming in now? And for what services?
 - How are these inquiries being handled?
 - What are the margins by service?
 - Which services are more impacted by price and price shopping?
 - What are the legal or contractual limitations?

⋮

What Do We Do Now?

- What is the organizational mindset towards pricing as a strategy?
 - Wait and See – Is this really going to happen?
 - Defensible Pricing
 - Reduce risk of public scrutiny
 - Benchmark prices against cost, Medicare, etc.

⋮

What Do We Do Now?

- What is the organizational mindset towards pricing as a strategy?
 - Budget Oriented Pricers – Increase rates to fill net income gaps.
 - Long Term Strategic
 - Price is part of a multi-year strategy
 - Use price to optimize revenue, defend market, drive activity.
 - Look at price by service, customer segment, etc.

⋮

What Do We Do Now?

- Initial Pricing Efforts:
 - Are there any services that are “ready for prime time” relative to some possible pricing strategy efforts?
 - Actively discuss price as a strategy, not a by-product or accident.
 - Look into methods to provide price information to consumers (a la St. Luke’s KC, Aurora, Dartmouth-Hitchcock, Alegent, forient providers).
 - Start to monitor the price/value equation, not just the consumer impression of “quality”.

⋮

Interesting Sources

- www.treas.gov/office/public-affairs/hsa/
- www.hsinsider.com
- www.healthwise.org
- www.hsafinder.com
- www.cmwf.org
- www.bumrungrad.com (Foreign hospital)
- www.cashdoctor.com
- www.cms.hhs.gov/HealthCareConInit/

⋮

Contact Information

David Marlowe, Principal
Strategic Marketing Concepts
Ellicott City, Maryland 21043
410-997-8033
dmarlow1@ix.netcom.com
