

Overview of Market Forces Prompting the Pricing Imperative

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HFMA'S WINTER SEMINARS

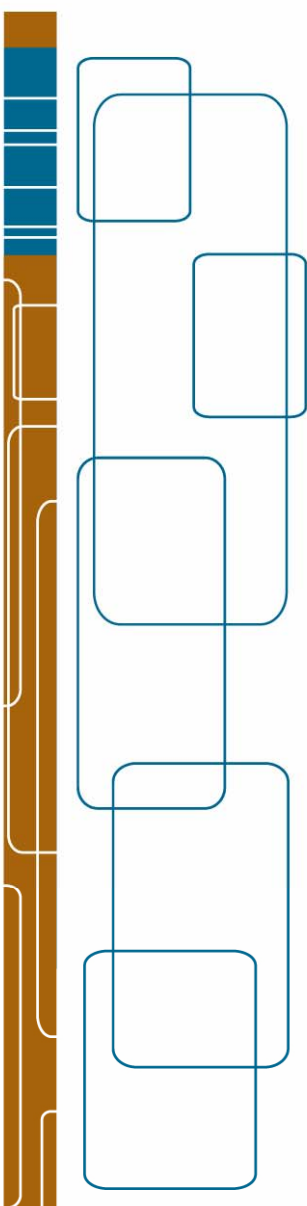
Chicago, IL: December 4-7

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Road Map for Today's Discussion

- **Overview of Market Forces Driving Transparency**
 - Background and basics
 - Why it will happen
 - Who will drive the initiative
 - What it will mean
- **Understanding Your Pricing Structure**
- **Case Study on Defensible Pricing Strategies**
- **Strategic Pricing Opportunities and Case Study**
- **Transparent Pricing Examples/Execution**
- **Considerations/Recommendations: Q & A**



“Even small healthcare institutions are complex, barely manageable places...Large institutions may be the most complex organizations in human history”

~ Peter Drucker

The Imminence of Pricing Transparency

- *The Background and the Basics*
 - *Why it Will Happen*
 - *Who Will Drive the Initiative*
 - *What it Will Mean*
 - *How to Respond*
- *The Practical Implication and Application*
- *What it Signifies on a Broader Scale*

The Reality

Hospitals are under increasing pressure from a variety of groups and organizations to become more transparent and to validate quality and value

Why It Will Happen and Why Does it Matter

- *Outgrowth of the marketing/consumerism push of the 90s and recent years*
- *More economic accountability by consumers/patients*
- *Publicity on “retail” pricing for the uninsured calls attention to overall pricing (return of \$15 Tylenol or \$5,000/day stay)*
- *Begging the question of relative cost/quality issue for healthcare services: rising concern over diminishing value*

Who Will Drive the Initiative

The convergence of multiple interests

- *Insurance Companies (i.e. Aetna, Humana experiences)*
- *Employer push*
- *Consumers/patients*
- *Legislation (i.e. California, Florida)—the Bush Push*

Humana in Milwaukee *An Outlier or a Harbinger*

- *Health plan web site compared estimated prices for 30 inpatient and 6 outpatient operations/tests at area hospitals*
- *Colonoscopy range from \$940 (Milwaukee Endoscopy Center) to \$3,050 (Froedtert Memorial Lutheran)*
- *Hip replacement range from \$20,600 to \$41,800*
- *Key component of plan for the Business Health Care Group of Southeast Wisconsin—effort to “lower healthcare costs”*

Engagement by the Employer *Awaking a Sleeping Giant*

- *Employers facing daunting reality of diminished competitiveness due to rising benefits costs*
- *Response ranges from shifting economic burden to encouraging healthier lifestyle*
- *No more “Mr./Ms. Passive”—just taking what they get*
- *Employers do not view providers as partners—no historic link or affiliation*

Empowered and Informed Consumer/Patient *With Accountability Comes Awareness*

- *Increased out-of-pocket, co-pay and deductibles precipitate heightened interest in comparative costs*
- *Push to HSAs and other consumer-driven market mechanisms increase desire for transparency*
- *Internet proves not only the “democratization of American medicine,” but the commoditization of healthcare services*
- *Publicity on hospital prices increases interest, awareness and concern (i.e. CBS 60 Minutes)*

On the Political Waterfront *Legislative Mandates and State Actions*

- *What's happening at the state levels (California, Florida as bellwethers)*
- *Legislative initiatives at the federal level*
- *The Bush push for consumer-driven mechanisms and market deliverance*
- *HHS, AHA, THA—All the acronyms are in sync and aligned*

The Practical Implication and Application *Understanding the Pricing Configuration*

- *Get clear on the current pricing structure and impact*
- *Review the options and the ramifications*
- *Consider a three-tiered approach*
- *Outline the opportunities for strategic pricing*
- *Profile how the shift would align competitively*

What it Will Mean *Boon for Some, Bane for Others*

- *Likely to catch many hospitals and systems off guard*
- *Competitive advantage to the well-prepared*
- *Market agility and retail acumen come into play*
- *“This changes everything”*

How to Respond *A Plan for All Reasons*

- *Realize it's a matter of when, not if*
- *Understand pricing configuration and variability*
- *Compare pricing among competitors (market position)*
- *Establish communication strategy and channels*

What it Signifies on a Broader Scale

What's This Really About?

- *A move toward price transparency is only the beginning*
- *This represents a possible sea change in healthcare*
- *To follow—quality transparency, retail orientation, extreme competition (i.e. Big-Box healthcare, Minute Clinics, etc)*
- *How will your organization compete under that model*
- *What is the best time to begin the transformation*
- *Pioneer, second-wave or late adopter*

Transparent Pricing: Example and Execution

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ProHealth Care: Case Study in Being Proactive

- Two hospital system; Oconomowoc Memorial and Waukesha Memorial
- Low-cost leader in SE Wisconsin—no competitive benefit
- **2002**—Published the competitive costs in the market (Milwaukee region) for top-12 DRGs in a document called “The High Cost of Health Care”
- Story and info was picked up by NBC Nightly News, labeled as “historic”
- 2003--Incorporated cost/quality value proposition in new brand advertising focused on consumer, “ProCommunity,” “ProActive,” “ProYou”
- Updated the ‘High Cost of Health Care’ to again tout preferred pricing position in the region

ProHealth Care (con): Subsequent Years

- **2004**—Decided to test internal cost data base starting with “most often queried” charges
- From that foundation, developed cost data base and began using call center to answer consumer pricing queries — 420 calls in the first quarter with minimal promotion
- Expanded “High Cost of Health Care” to include quality data as well as pricing differential
- Started distributing newsletter on cost and quality to area (top 500) employers
- 2005--Offered pricing and quality data on re-designed website www.oconomowocmemorial.org : 2,147 hits in two-month period
- Value proposition promoted to local employers through targeted publications; to consumers through direct mail and advertising

ProHealth Care (con): Impact

- Value proposition promoted to local employers through targeted publications; to consumers through direct mail and advertising
- Employers have registered approval with adoption of ideas and encouragement of employees to use ProHealth
- Opened up a dialogue with key audience (employers) that did not exist before—improved relations
- Public has been very responsive, interactive and supportive of pioneering effort in pricing
- Wanted to be ahead of the curve in Wisconsin and “determine and design their own destiny” in terms of state-wide programs or employer mandates

Pricing Pioneers: Others to Watch

- Beth Israel-- CEOs blog seeking solutions and requesting ideas: transparency is the goal
- Froedtert Memorial—Another Wisconsin example
- Oregon Health Sciences University—Leading the charge among the academic centers with relative comparisons and media initiative
- Centura in Colorado—Major system in a highly visible market

Considerations/Recommendations for Pricing Initiatives

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The Pricing Imperative

*Healthcare executives must learn
to adapt to the new market milieu*

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Consider the Imperative in the Broader Context

1. *Reassess and redefine the strategic vision and operational mission of the organization*
2. *How is the managerial mindset relative to the consumer movement and seismic shifts in the marketplace for healthcare?*
3. *How flexible and adaptable is the organization with respect to sudden and substantive change—dynamic or dinosaur?*
4. *What and where are the opportunities to turn this into a competitive advantage for the organization?*

Three Scintillating Scenarios that require consideration.....

- *Status-quo and the Quandary*... a.k.a. “Eventual Meltdown”
- *A Move Toward Nationalized Care*... a.k.a. “The Hillary Step”
- *Consumerism as Crown Prince*...a.k.a. “Market Mavens”

A Futuristic View



Scenario 1: Status Quo: Quandary and Meltdown

- Not much dramatic change in the next three-five years
- Industry continues business as usual—to a large extent
- Increased emphasis on specialized services (drilling down on the service lines)
- More consolidation, economies of scale come to play
- Quality/price become eventual differentiators
- Hospitals either play hard ball or get an expansion team with physicians as key players
- Government plays a more active role, but not radically so, except in pricing
- Employers grouse and take much more active role
- Consumerism limps along, some strides, mostly window dressing



Scenario 1: Implications

- Smaller organizations may struggle
- Differentiation is based on fierce market competition
- Concerted interest in sub-service line planning (emphasis by SG-2, Advisory Board) which makes pricing more relevant
- Thinning margins, graying hair—executives under increasing pressure to perform by market standards
- Physician play becomes the key in most markets
- Cost containment only goes so far—revenue dev. a must
- Government squeezes more on the reimbursement
- Hospitals redefine their approach and distribution venues
- Consumerism brings heightened emphasis on strategy, retail orientation, pricing comparison and competitive advantage

Scenario 2: Nationalized Care: The Hillary Step

- Government begins gradual assimilation of health care industry—Uncle Sam, MD
- Starts out with nationalized insurance or universal
- Most things left unchanged in the near term, except pricing and quality push
- Consolidation of services to low bidder—Centers of Excellence
- Quality measurements as differentiator—CMS the Judge with pricing as paramount
- Expediting of rebasing DRGs—niche players struggle
- Inefficiencies prompt call for greater oversight and pricing/quality comparisons
- Gradual displacement of smaller/rural players
- Big winners- Government agencies, efficient providers, maybe managed care
- Big losers—inefficient providers, niche players, entrepreneurial physicians



Scenario 2: Implications

- Emphasis is on efficiency, quality, pricing
- Clients will need to rethink their approach to patient and market positioning
- Clear understanding of government operations/bidding required to survive
- Operational focus more than market-oriented approach
- Physician play still important in terms of strategic bundling
- Concentration on meeting pre-determined requirements
- Narrowing of services may be essential for survival (gaining contracts through packaged pricing)
- Hospitals reconsider their strategic orientation—back to the future (CON, facility planning, etc)

Scenario 3: Consumer-Crown Prince: Market Mavens

- The market-oriented approach is given a chance to reign
- HSAs and rising consumerism take center stage—pricing role
- Strategic differentiation is based on market factors, such as consumer appeal, convenience, cost, quality
- Consolidation brought about by market discipline—small players and/or financial weaklings are toast
- Insurance companies play reduced role as intermediary
- Emphasis on strategy, marketing, perception positioning, price
- Employers accede role to employees/consumers
- Big winners-marquee names, savvy providers, entrepreneurial players and physicians
- Big losers—small, high-priced, campus-focused providers



Scenario 3: Implications

- Emphasis is on market position, retail/consumer focus
- Clients will need to ramp up their marketing and strategy
- Strategic planning becomes an imperative with pricing key
- Marketing and PR function become kingpins
- Communication becomes crucial as with retail
- Transparent pricing becomes a strong reality
- The Disney approach to patients emerges as crucial
- Hospital and health systems mirror other market-driven-industries
- Physicians and entrepreneurs become even greater competition or more strategic allies
- Prompts the largest # of changes in the C-suite

Considerations: Competitive Advantage or Albatross

Scoring your market position or pricing

- What is your understanding of your hospital's pricing structure/market position? (scale of 1 to 10, 10 highest)
- What is your grasp of your competitors' pricing strategy (1-10)
- How would you rate your hospital on retail orientation and convenience related to pricing? (1-10)
- How is your competitive knowledge/reconnaissance on niche players in your market? (1-10)
- Rate your agility with pricing approach and algorithm (1-

Scoring: 40+ okay, 30-39 fair, 25-29 trouble, 24 or less toast

Recommendations: Don't Wait for *Godot*

- Map out a cogent strategy for pricing
- Consider and plan for several scenarios
- Inform the board, involve the organization
- Establish communication channels and process
- View this market movement/push in the broader context
- Use this as a platform to position the organization for the predictable future
- Rally the troops with the trend
- Assume the “Market Maven” scenario
- Find managers with the market mindset

At the End of the Day...



...Trends with Little Bend

- Strategic planning—ultimate value in the *process*
- Reinvention--emphasis on innovation and new product/revenue stream identification
- Pricing acumen—good idea no matter what the future holds
- Positioning to key audiences based on market drivers
- Service line orientation and structure—optimal model
- Communication—new world, new rules
- Pricing—should be transparent and strategic
- Learn from the experience of other industries



Questions/Discussion

- Modern Healthcare, December 19, 2005, "*By the Numbers*"
- Futurescan, "*Healthcare Trends and Implications 2005 – 2010*"

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