

# Strategic Pricing

THE PRICING IMPERATIVE

Healthcare Financial Management Association

**December 5, 2006**

## HFMA'S WINTER SEMINARS

Chicago, IL: December 4-7

Phoenix, AZ: January 22-25

Charlotte, NC: February 12-15

# Agenda

- ❑ Core Initiatives and Desired Future State
- ❑ Strategic Guideposts
- ❑ Premium Trends & Analysis
- ❑ Pricing Benchmarks

# Pricing – Core Initiatives

- ❑ Commercial margins must fund charity commitment, satisfy cash requirements for capital expansion, and subsidize under-funded public programs
- ❑ Must have *ability* to differentiate CDM pricing by site and service
- ❑ CDM pricing must be in “logical” alignment with complexity continuum
- ❑ At some tipping point, commodity pricing must align with consumer value perceptions
- ❑ Functional roles/capabilities across Network must be integrated to support the new pricing paradigm

# Desired Future State

Differentiation<sup>1</sup> and optimization of pricing may be based on:

- NOI targets
- Capital needs
- Complexity
- Scarcity/capacity
- Market position/share
- Barriers to entry for new competitors
- Consumer value perceptions

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<sup>1</sup>-Chargemaster and contracted price differentiation. The billing system needs to be able to accommodate more complex and differentiated billing structure.

# Strategic Guideposts

- **Margin shift to proprietary and complex service lines**

Aggressive pursuit of higher margins on inpatient care and push margins on commodity services until market demonstrates price sensitivity to commodity services. *This approach assumes a lower rate of growth for commodity service pricing.* Market growth overall and natural share of commodity services will drive higher overall profitability and support margin needs of capital expansion plans in the interim.

# Strategic Guideposts

- **“Complex Care” defined**

IOM complexity flags (and inpatient services to complex patients) as well as proprietary care options drive the classification of *inpatient* services

Market analysis and market characteristics will drive the designation of proprietary vs. commodity *outpatient* service lines

# Strategic Guideposts

## ■ Retail Pricing Approach

Phase in strategic pricing principles for retail pricing as regulators mandate transparency

Closely monitor progress towards “retail tipping point” which will further dictate retail pricing approach, *and* potential differentiation of “commodity” service pricing by site

# Strategic Guideposts

## ■ **Balancing Profitability versus Share**

Drive share through customer experience, nursing excellence, complex care business model, brand loyalty, access/convenience – not price

Maintaining market share is critical to leveraging commercial insurance pricing position

Target 40% - 50% share in all three trade areas (North, Central, South)

# Strategic Guideposts

- **We will not react to predatory pricing with a lower price response**

We must, however, distinguish between “predatory” and “market-based” pricing by competitors.

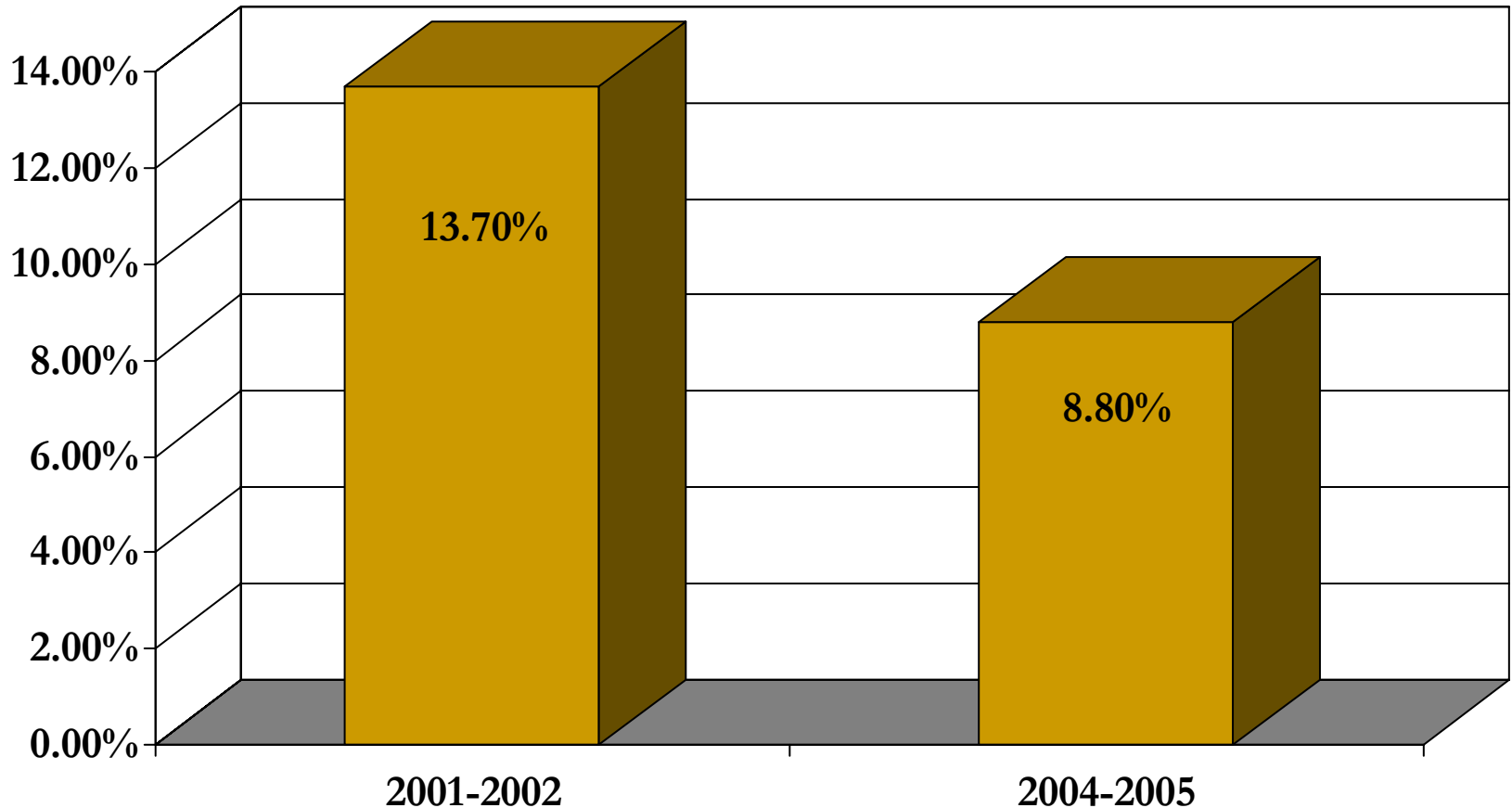
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# Premium Trends & Analysis

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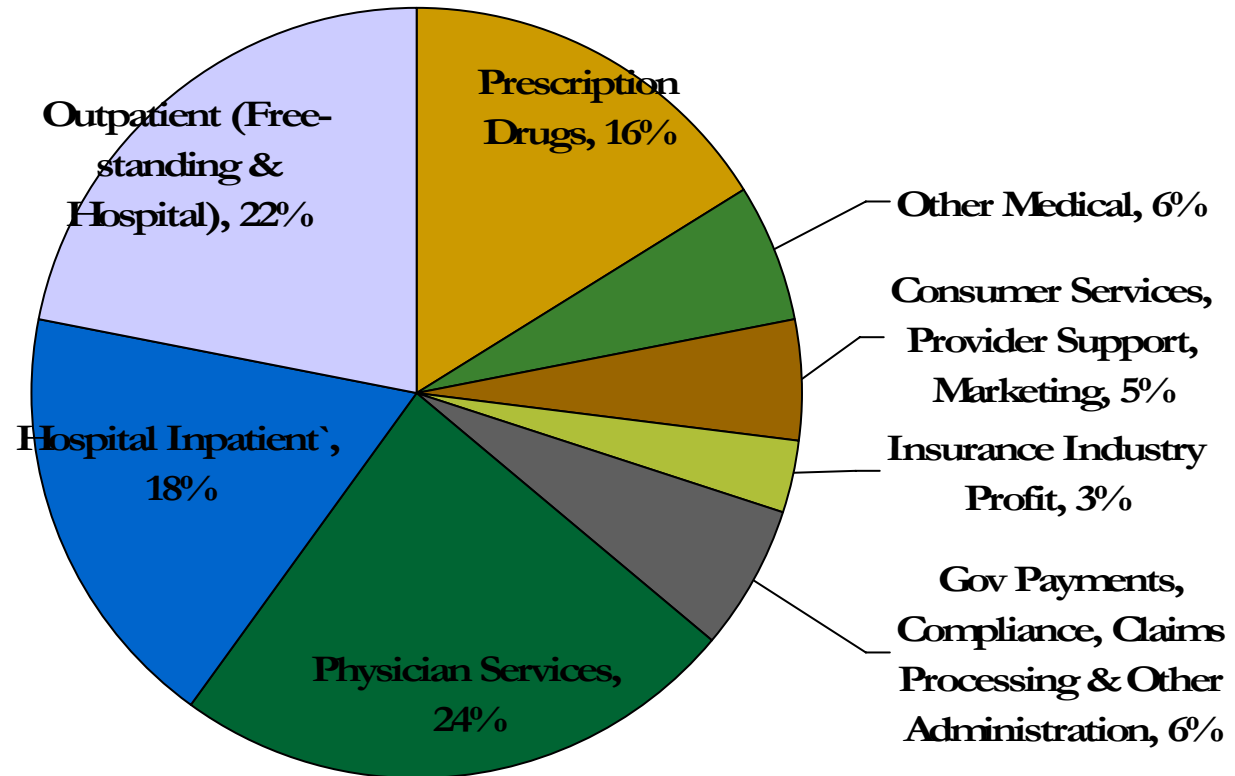
Pricing in the Context of Patient  
Premiums

# Increase in Health Insurance Premiums 2001-2002, 2004-2005

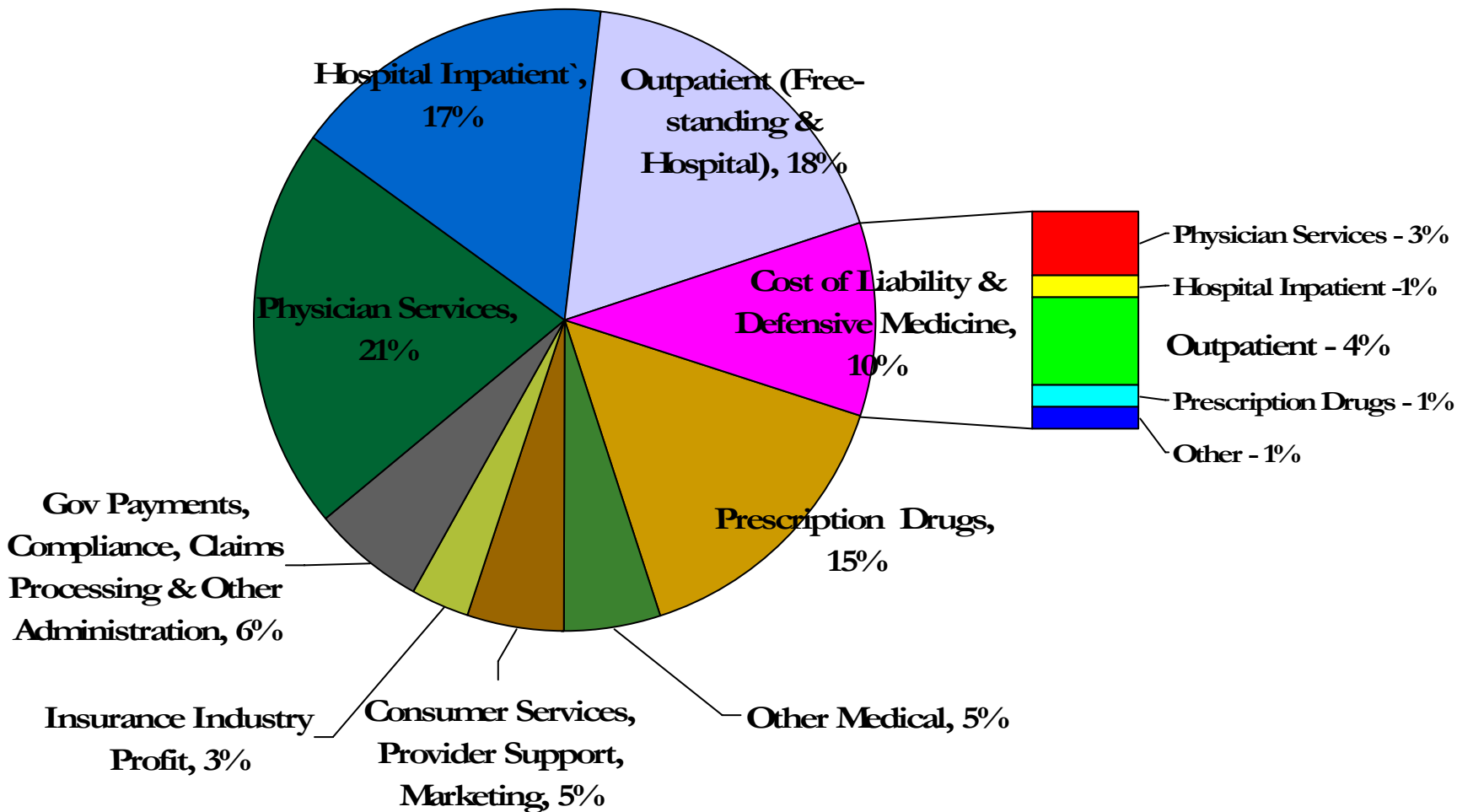


# Premium Analysis

Estimated Breakdown of Insurance Premiums

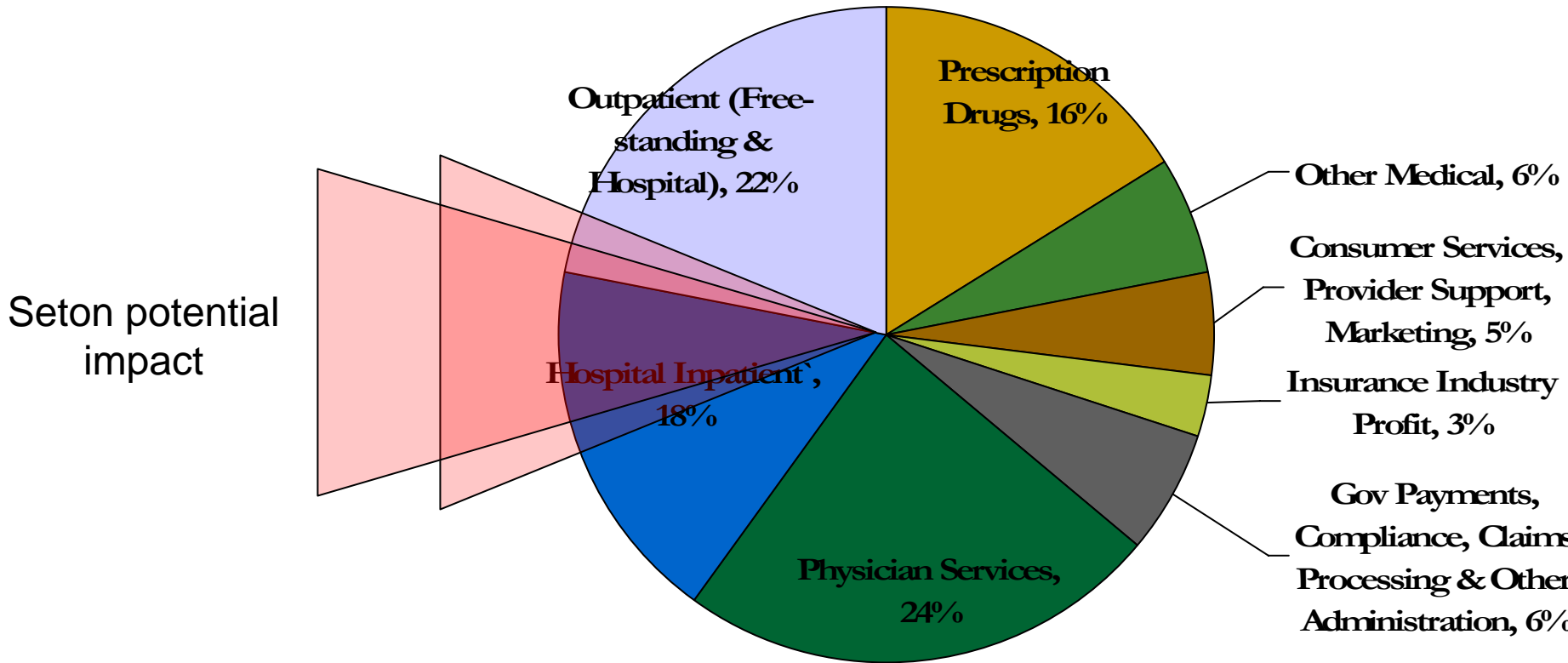


# Hidden Costs – Liability and Defensive Medicine



Sources: Adapted from Centers for Medicare & Medicaid Services, National Health Accounts, 2005 and Midwest Business Group on Health, April 2003

# Seton Potential Premium Impact



## Growth in Health Insurance Premiums by Components

**NOTE:** PWC estimates that cost shifting from public providers and the uninsured to private payers increased premiums by **0.5%** in 2005.

COMPONENT	SHARE OF HEALTH INSURANCE PREMIUM	SPENDING GROWTH RATE	Percentage Point Contribution to the 8.8% Increase in Health Insurance Premiums
<b>PHYSICIAN</b>	<b>24%</b>	<b>7.8%</b>	<b>1.9</b>
CPI		2.4%	0.6
Price Increase in Excess of Inflation		2.3%	0.6
Utilization		3.1%	0.7
<b>OUTPATIENT</b>	<b>22%</b>	<b>13.6%</b>	<b>3.0</b>
CPI		2.4%	0.5
Price Increase in Excess of Inflation		4.0%	0.9
Utilization		7.2%	1.6%
<b>HOSPITAL INPATIENT</b>	<b>18%</b>	<b>7.5%</b>	<b>1.3</b>
CPI		2.4%	0.4
Price Increase in Excess of Inflation		4.0%	0.7
Utilization		1.1%	0.2
<b>PRESCRIPTION DRUGS</b>	<b>16%</b>	<b>8.6%</b>	<b>1.4</b>
CPI		2.4%	0.4
Price Increase in Excess of Inflation		1.1%	0.2
Utilization		5.1%	0.8
<b>OTHER MEDICAL SVCS</b>	<b>6%</b>	<b>7.3%</b>	<b>0.4%</b>
CPI		2.4%	0.1
Price Increase in Excess of Inflation		2.6%	0.2
Utilization		2.4%	0.1

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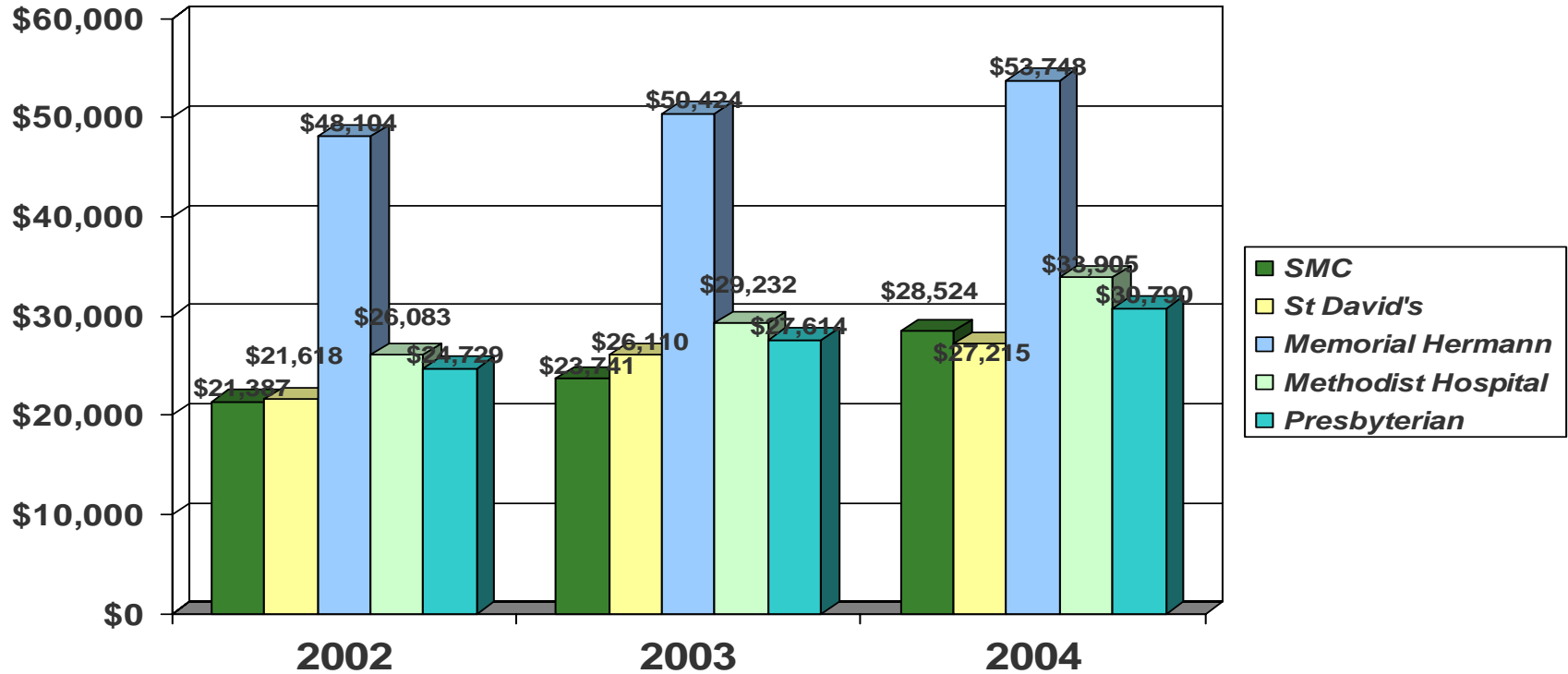
# Retail Pricing Benchmarks

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Impact of Seton Price Setting on  
Competitive Position versus Texas Peer  
Facilities

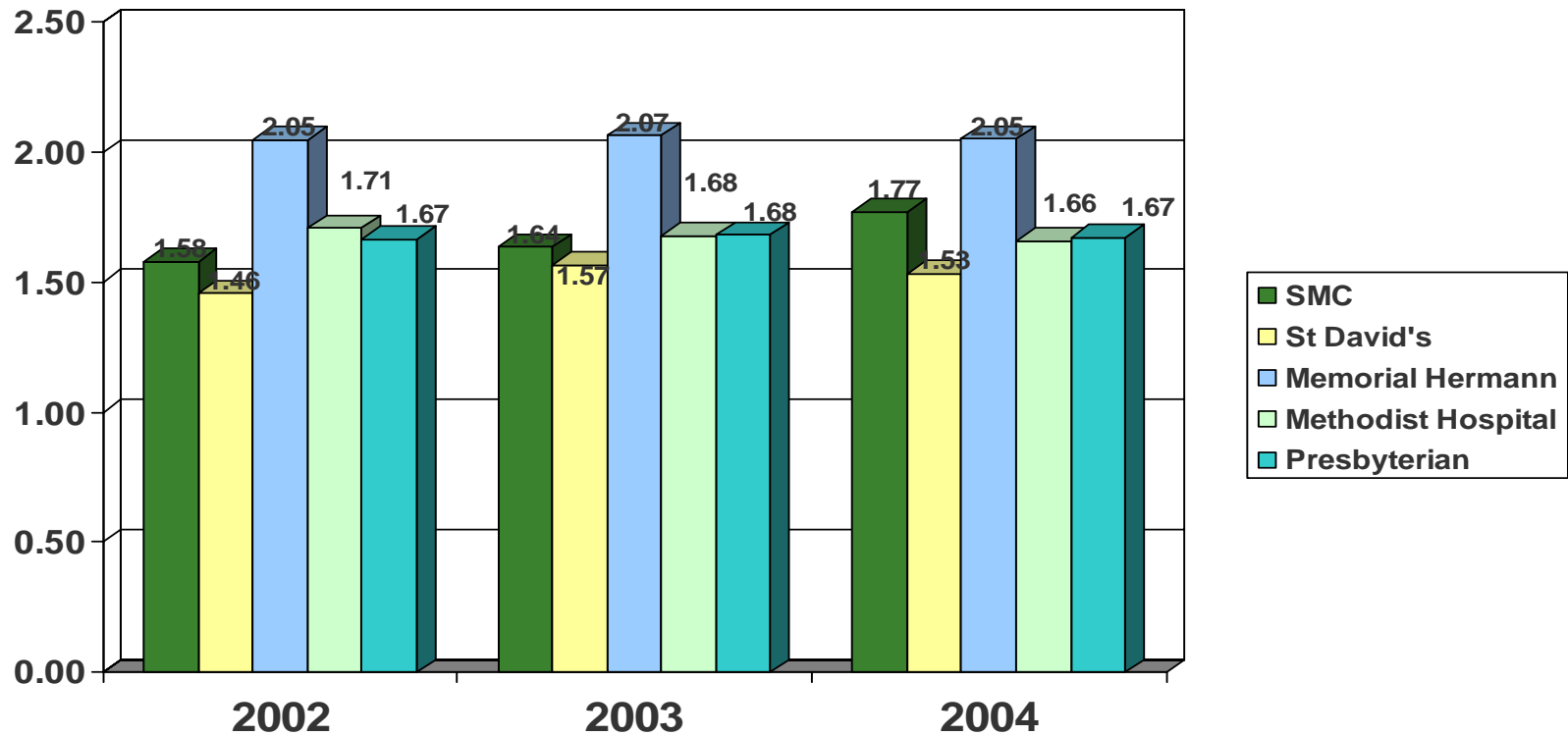
# HFMA'S WINTER SEMINARS

## Unadjusted Average Inpatient Charge



Annual Change in Total Charges		
Facility	2003	2004
SMC	11%	20%
St David's	21%	4%
Memorial Hermann	5%	7%
Methodist Hospital	12%	16%
Presbyterian	12%	12%

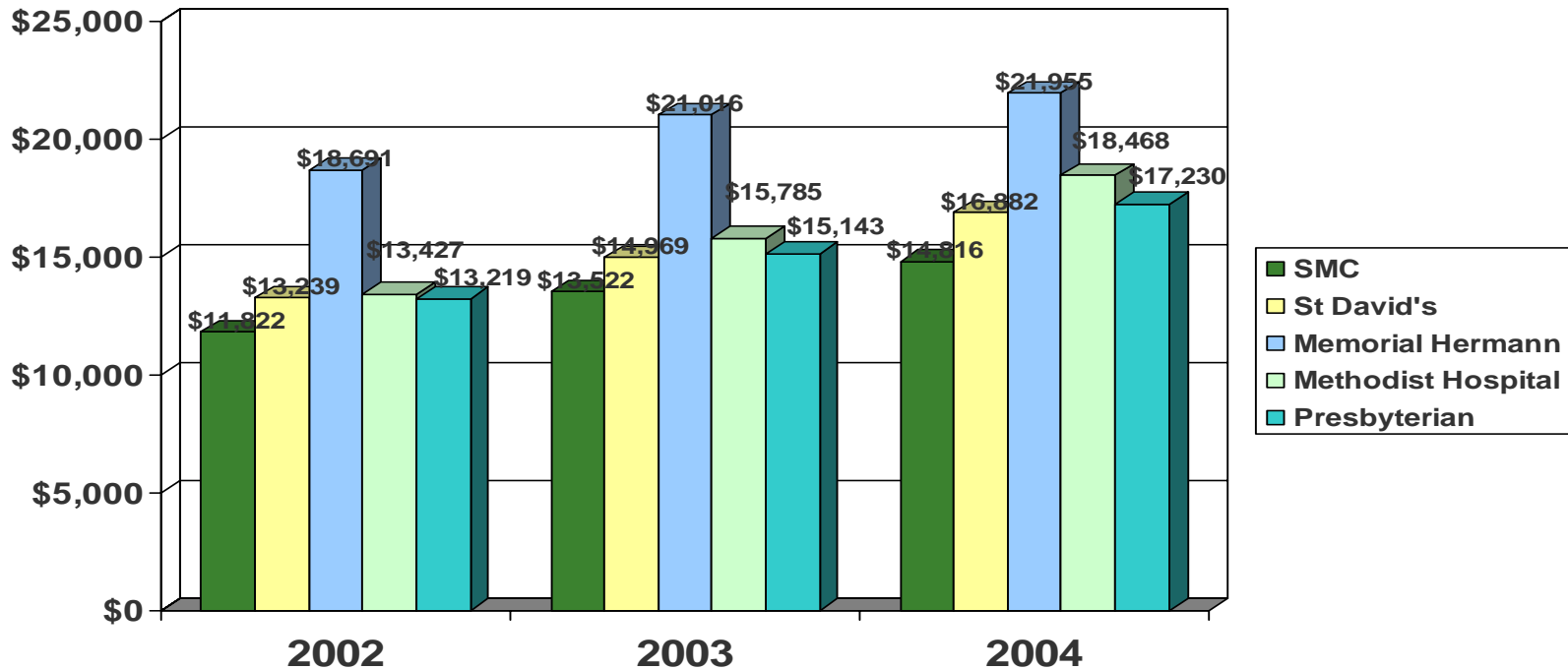
# Case Mix Index



Facility	2003	2004
SMC	4%	8%
St David's	7%	-2%
Memorial Hermann	1%	-1%
Methodist Hospital	-2%	-1%
Presbyterian	1%	-1%

## HFMA'S WINTER SEMINARS

# Case Weight Adjusted Average Inpatient Charge



Change in Case Weight Adjusted Inpatient Charge		
Facility	2003	2004
SMC	12%	10%
St David's	12%	3%
Memorial Hermann	20%	19%
Methodist Hospital	18%	17%
Presbyterian	14%	9%

# Next Steps

- Consequence of Shift from Wholesale to Retail – Merchandising
  - Promotion – Messaging
  - Product Differentiation – Value Drivers
  - Placement – Physician Channels
  
- Dealing with Excess Capacity - North Natural Market
  - Steer Patients to Capacity without Changing Prices at Other SHN Facilities
    - Natural Share Pricing
    - Recheck-Referrals From Other SHN Facilities
    - UTMB Benefits and Features
    - Increased Transfer Prices from Competitors To SMC, DCRMC, Brack
    - Strengthen Corporate (Relationship) Outreach