



Customer Potential Management Marketing Group, Inc.

# IMPROVING YOUR PAYER MIX

## A CPM WHITE PAPER

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## SECTION 1:

# EXECUTIVE SUMMARY

Full beds, increased expenses, little margin and bad debt. For many hospitals, meeting budget goals is becoming increasingly difficult. In addition, for many providers, the impending capital gap is worsened by demographic trends, aging facilities, emerging competitors, staffing shortages and governmental deficits.

Providers today must look for opportunities to re-engineer their revenue sources and stream. It's time for creative strategies to achieve peak financial performance.

An often-overlooked area to help effect change is the advertising and marketing functions of a health care organization. Many hospitals and health systems still spend a majority of their budget on advertising that reaches non-paying or wrong-paying individuals and for which response and a return on investment cannot be calculated.

The solution is to focus personalized communication efforts on individuals covered by preferred payers for which response and return on investment can be tracked.

This white paper will demonstrate how Customer Relationship Management (CRM) and Patient Relationship Management (PRM)<sup>TM</sup> can help hospitals improve their financial outlook.

## SECTION 2:

# THE PROBLEM

In today's health care market place, it's not uncommon for providers to experience a high census and the resulting need for additional resources, only to find that a more unfavorable mix of payers than budgeted has resulted in lower than anticipated margins.

In fact, it is becoming more common than any one cares to admit. Consider these voices in the news:

- “Over the past six years, U.S. hospitals have faced the challenge of meeting critical obligations with a reduced margin. New data suggest that meeting important future obligations—such as investments in plant, equipment or technology is becoming even more difficult. Between 1997 and 2002, U.S. hospitals saw capital as a percentage of total operating costs decline, on average, by just over 15 percent.” –*HFMA*, May 2004
- “In a nutshell, S & P concluded that uncompensated care—which includes charity write-offs for the poor as well as bad debts from the uninsured—will remain at high levels and, despite efforts by the industry, may never fall back to the normal averages of old.”—*TheStreet.com*, June 2004
- “Providers are emerging from a period of retrenchment. Many have met the challenge of rising costs, successfully reducing length of stay, improving utilization, strengthening supply chain and streamlining overhead. Now, with narrowing reimbursement, margins are expected to remain too thin to finance future capital needs.” - *HealthLeaders*, May 11, 2004
- “The basic issue was that the organization (ViaHealth) was not going to make it without reimbursement increases.” -- *HealthLeaders*, June 14, 2004

Changing demographics compound these problems. Estimates by the National Academies put the number of uninsured Americans at 42 million, and they have crept into the middle class. Eighty percent of the uninsured under age 65 live in working families.

Using advertising as your main marketing strategy can actually make things worse by targeting the wrong individuals with the wrong payer types. In April 2004, the *Milwaukee Journal Sentinel* reported “Milwaukee area hospitals outstripped both fast-food restaurants and banks in ad spending last year, paying out \$7.4 million.” The irony is the article also noted “there is very little evidence that advertising attracts new patients.”

Advertising not only may be ineffective in attracting new patients, but it also very well could attract the *wrong* types of patients. According to a recent issue of *Perspectives*, a publication of the AMA’s Society for Healthcare Strategy and Market Development, “The issue of the uninsured has crept into the middle class, the very demographic mass media targets so well. The ZIP code lists and TV segments we once bought routinely now include enough uninsured consumers to turn an effective campaign into red ink for your hospital.”

While Radio, TV, billboards and ZIP code lists are good at creating a brand, they are too broad to reach specific audiences. At a five percent margin, providers need to attract 20 paying clients for every one nonpayer **JUST TO BREAK EVEN**. Your uninsured ratio can be seven to one or worse.

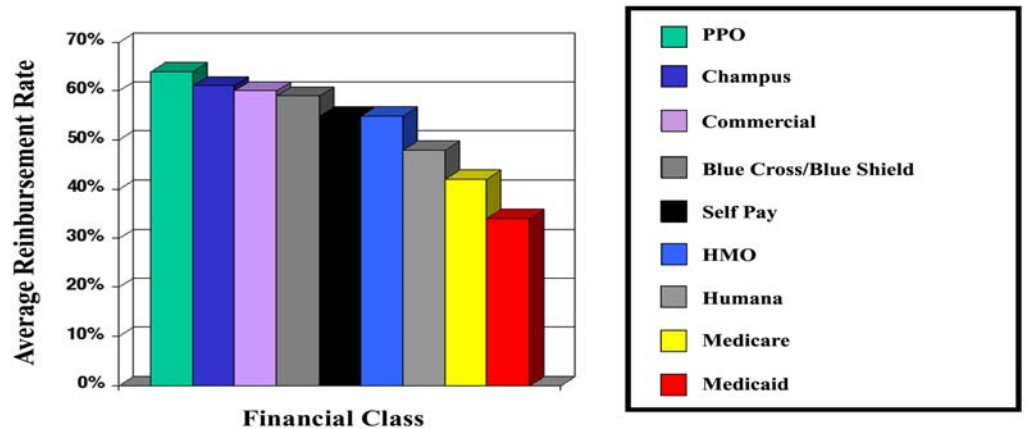
Why hasn’t the industry been quicker to change? Advertising has been a mainstay of any organization or business, and for a while, as in the Milwaukee market, many hospitals found themselves devoting more of their marketing and public relations budgets to it than ever. Providers lacked the tools to make a change, especially with critical market information locked away in hospital IT legacy systems. In addition, hospital IT and marketing/planning departments are just starting to work together. Finally, in most organizations, financial decision makers do not believe marketing can impact revenue.

More targeted and trackable marketing programs address those issues. It's time to shift a majority of advertising dollars to programs that demonstrate a measurable effect on the correct patient mix, patient retention, patient acquisition, and return on investment.

A better financial future will belong to providers who can improve their cash flow, partly by getting rid of bad debt.

## SECTION 3: THE SOLUTION

One way to improve cash flow and bad debt is to send relevant health care communications to individuals most likely to respond and who are in the most desirable payer classes. The following chart shows the difference in reimbursement levels by payer for a Midwestern health system.



Because all payer classes do not reimburse at the same level for the same services, the more individuals you attract with higher levels of reimbursement, the more you will recoup on your costs.

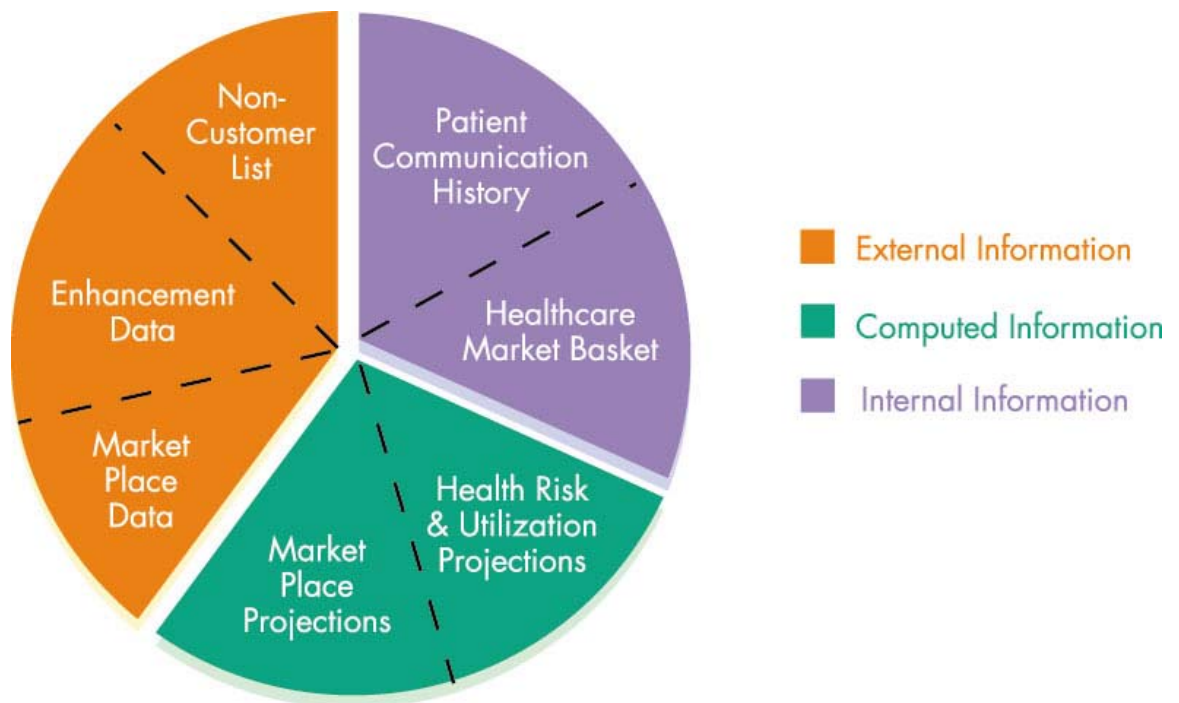
Customer Relationship Management (CRM) and Patient Relationship Management™ (PRM) are solutions that enable you to carefully choose your audience for various campaigns based on health and payer status.

CRM, used successfully in other industries for years, is absolutely critical in health care today. In its simplest essence, CRM is learning all you can about your customers so you can develop programs and services to meet their needs and to track those efforts to refine those programs. PRM is similar to CRM but it focuses on existing patients rather than

prospective patients. In fact, studies show that 75 to 80 percent of your annual revenue comes from existing patients, so these individuals also are a key group for your marketing dollars and efforts.

Both CRM and PRM are database driven. The comprehensive database is pulled together from many disparate sources into a single, standardized resource including internal information, computed information, and external information. The chart below provides more detail on these different types of information.

### Integrated CRM/PRM Database



The database enables several different types of analyses such as current and projected market share, patient utilization, data mining and campaign tracking. These capabilities allow planners and marketers to carefully select the most appropriate individuals for each message to achieve a more desirable financial effect.

In a typical market space, various payer types and uninsured would be represented throughout the market, as shown in the graphic below.



To reach specific individuals within the market based on payer type, the CRM database filters or excludes uninsured individuals and those with undesirable payer status from market lists. The graphic below illustrates the same group of individuals from the first graphic, but identifies who would and would not be selected for a specific campaign based on the database filters. In this example, green, dark blue and lavender individuals **WOULD** be selected for the mailing, and all others would be **EXCLUDED**.



Of course, the payer types and individuals selected or excluded could be varied with each campaign depending on the program goals and objectives.

## THE POWER OF PREDICTION

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To make campaign selection even more potent, marketers can also use predictive modeling to narrow their list further based on projected health needs and disease status.

Predictive modeling is a technique used to predict future behavior and to anticipate the consequences of change. Data is collected, a statistical model is formulated, predictions are made and the model is revised as additional data becomes available. The model can be a simple linear equation or it can be a complex neural network mapped out by sophisticated software.

The goals of predictive modeling for marketing include:

- Identifying individuals who are most likely to need a specific service.
- Improving the efficiency and cost-effectiveness of campaigns by selecting individuals most likely to respond.
- Increasing the ROI of marketing campaigns.

Predictive modeling has dramatically changed the way providers can segment their market for specific program and service messages. Segmentation techniques have evolved from random selection of members in the community to selection based on demographics, to cluster codes that group individuals together based on demographics and other variables.

The fatal flaw of these systems, however, is that they had nothing to do with health care variables. In contrast, the patent-pending Consumer Healthcare Utilization Index (CHUI)<sup>SM</sup> and the patent-pending Patient Disease Index (PDI)<sup>SM</sup> are based on millions of health care variables. CHUI is designed for the entire market, while PDI is for existing patients. When applied to a patient database, a predictive segmentation program can score each individual in the database in certain medical categories to predict the individual's likelihood to require a certain health care service. It's similar to the way a credit rating calculates someone's credit risk. The greater the score, the greater the

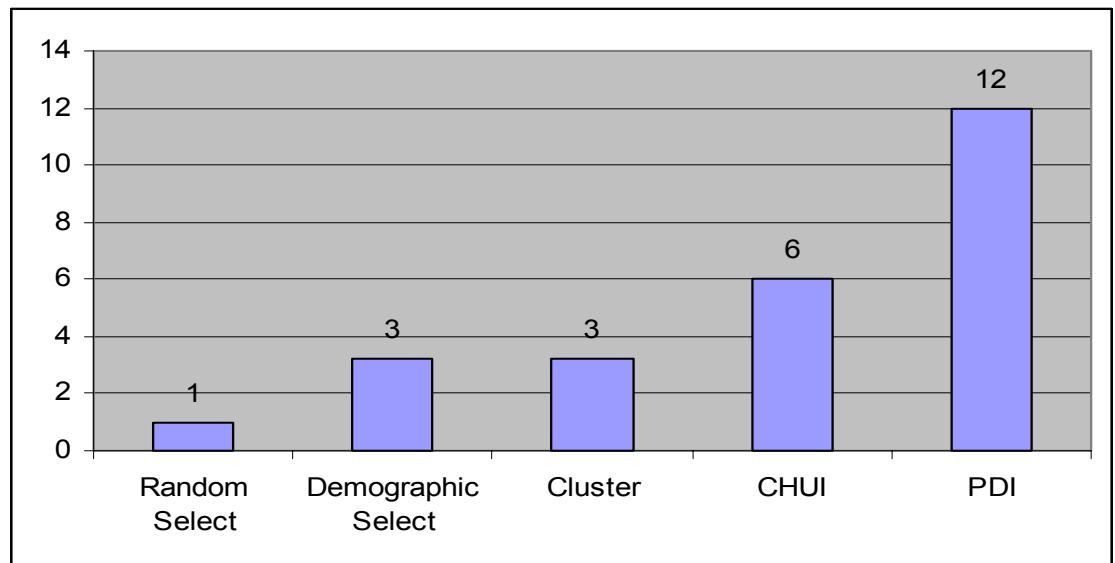
likelihood the individual would need the service in the selected category.

For example, CHUI provides a score from 0-999 to indicate individuals' likelihood to use health care services as defined by the major diagnostic categories (MDC), the ninth edition of the international classification of diseases (ICD-9) and diagnostic related groups (DRG).

PDI predicts the likelihood of your existing patients who have had certain diseases to develop other related health problems. PDI leverages CHUI technology and takes it one step further by adding the ability to predict future diseases based on a person's medical history, such as how likely an individual with diabetes is to develop heart disease or what chance a person with high blood pressure has of developing glaucoma.

Studies have proven that predictive segmentation, such as CHUI, is twice as effective as cluster code and demographic selection methods, while patient predictive segmentation, such as PDI, is four times as effective as cluster codes, as shown below.

### Segmentation System Relative Response Comparison



Combining filters for the right payer mix and adding predictive segmentation scores can improve your cash flow by making your marketing more efficient, cost effective, and more likely to increase your return on investment.

Consider the illustration below for selecting the recipients of a cardiology campaign. It uses the CRM/PRM database to select individuals with higher CHUI/PDI cardiology scores, excludes undesirable payer types, and uses other criteria to develop a highly targeted list.

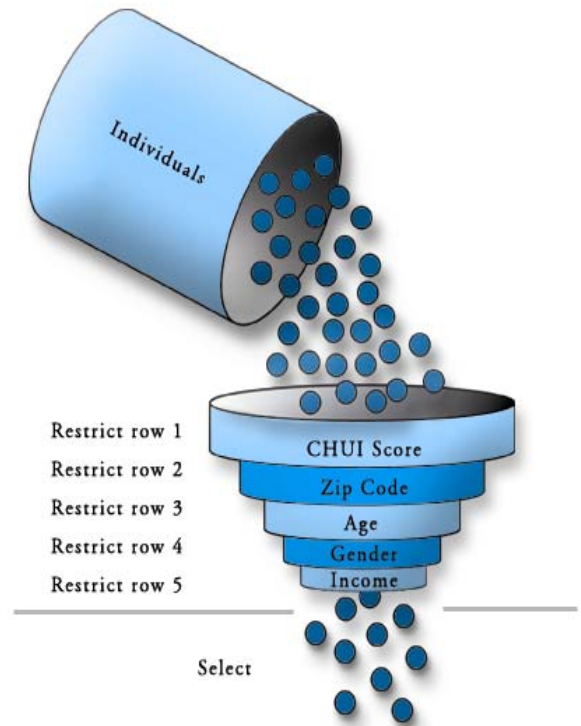
### Using CRM/PRM to Drive Profitable Growth in Cardiology

#### Individuals targeted in this campaign include:

- Market area “prospects” with highest CHUI scores for cardiology
- Current patients with highest PDI scores for cardiology
- Individuals known to work at employers with favorable payers
- Known precursor diagnosis = hypertension, diabetes, etc....
- “Opt-In interest” (from web or call center) = cardiology
- Health Risk Assessment Results = at-risk for heart disease
- Household income > \$50,000 per year
- Occupation type = X
- ZIP codes/location = Y

#### Individuals excluded from campaign:

- Known “bad” payer type = X, Y, or Z
- Individuals who have entered 120-day late payment cycle
- Current cardiology patients (depending on strategy)
- Deceased
- Do Not Solicit



CEOs are demanding more evidence of marketing effectiveness and ROI, even when the patient census is up or steady. For many organizations, that means moving beyond top-of-mind awareness and the preference that advertising has so long sought to perfect, and migrating toward CRM/PRM strategies that drive in the right business, *and* track and prove the results in black and white.

## **THE TOTAL CRM/PRM PACKAGE**

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We discussed the CRM/PRM solution in terms of the database, exclusion abilities and predictive modeling. The following are also components of a total solution.

### **Strategic Planning**

To increase revenue streams, providers must create a link between marketing, IT, operational, quality assurance and financial planning functions. As a strategic planning tool, the CRM/PRM database allows providers to perform comprehensive market research and analysis and then to use the results to drive strategic program expansion or revision, physician and employer research. The goal is more financially accountable and successful marketing programs.

### **Communications Management**

The CRM/PRM database contains an automated campaign manager so you can manage, monitor, and track results of each campaign you do—from single one-step direct mailings to multi-step, multi-channel marketing programs. The campaign manager captures data from every information source in your organization. This intelligent agent sits on your database and interprets the various data that come from different sources in your organization. Together they paint a more complete picture of your patients to define important selling events and key market segments with event triggering.

### **Ongoing Communications**

A regular, ongoing communications program such as Lifetime Connections™, promotes better health and relationships through an automated, but customizable, suite of basic health maintenance communications. It is an efficient and results-oriented approach that offers the most

relevant health information at a time recipients are most likely to need and respond to the message. An ongoing communications program features:

- Screening and immunization reminders triggered by birthday or date of last annual exam.
- Customized newsletters with articles selected by age, gender, health profile and interest.
- Wellness class and seminar invitations.
- New Movers program for individuals new to the community.
- Physician referral mailings for individuals without a personal physician.

### **Variable Digital Imaging**

Variable digital color imaging dramatically changes marketing and allows the true fulfillment of one to one communications. That's because the technology allows you to tailor each communication for each individual in your market. Just as no two individuals are alike, no two printed pieces have to be the same. With variable digital imaging, you can modify the art, custom graphics, offer, photos, and other information to create a unique mailing piece every time.

### **CRM Health Portal™**

The CRM Health Portal™ supports the CRM system by adding two-way communication tools and other enhancements to your existing site. In addition to offering online fulfillment or information for marketing campaigns, the Health Portal encourages customers to obtain, store, organize and personalize their health information in an easily accessible format. The Health Portal also personalizes the health experience by sending information to portal users based on their preferences and health needs. All customer use of and contact via the Health Portal is added to the database to increase the provider's patient knowledge base.

### **Health Risk Assessment**

As a service, a premium, and an information-gathering tool, it's difficult to beat the Health Risk Assessment (HRA). It offers participants an opportunity to improve their health while allowing you the opportunity to gather information about your patients. Available in paper, Internet or Palm formats, the HRA includes questions about health and family history, lifestyle, nutrition, exercise and other variables to determine a person's "health age" and top risk factors. Self-administered but not self-scored, the Health Risk Assessment is based on U.S. Centers for Disease Control and Prevention algorithms.

### **Health2Work™**

Employers in your community are grappling with high benefits and turnover costs while trying to increase employee productivity and loyalty.

You can counteract these trends and lead change by forming strategic partnerships with key area employers to implement a comprehensive wellness program focusing on employee and corporate health. The Health2Work™ program features an identification of top employee and organizational health needs and a measurement of costs associated with health care, absenteeism and turnover. Using that information, you can develop customized wellness services for each employer, including screenings and educational programs, the Health Portal and ongoing health maintenance communications. Track participation over time to evaluate program effectiveness and refine the program as necessary. This program also is valuable to implement within your own organization.

## SECTION 4:

# CONCLUSION

The financial challenges of health care are unlikely to subside any time soon. However, despite the complexity of the issues and health care finance, the common denominator is understood by all: getting more of the right kind of revenue is the ultimate goal. The future will belong to those who can steadily and repeatedly generate a reasonable return on investment by encouraging growth from the most desirable market segments. While there may be fewer ways to improve revenue on the cost side, creating and sustaining increased levels of profitable revenue will lead to more long-term success.

The old methods of advertising to the market at large and reaching a broad cross-section of the population no longer work. They don't reach the right individuals and aren't trackable to achieve or prove that ever-scrutinized ratio of cost to revenue.

CRM/PRM is the only technique available today to ensure the most profitable consumers are hearing your message and are using a higher proportion of your services. It's a no-nonsense approach with bottom line results you can take to the bank and to your CFO.

## SECTION 5

# ABOUT CPM

Customer Potential Management (CPM) Marketing Group is a pioneer in the development of HIPAA-compliant CRM/PRM solutions for health care.

Since its inception in 1981, CPM has achieved international recognition for its integrated solutions that allow organizations to maximize their patient relationships through market analysis, strategic planning, targeted personal communications, and return on investment analysis.

The foundation is an accessible, customer-centric web warehouse that includes comprehensive individual and household data. CPM's suite of software tools provide easy and secure access to the data for individual snapshots of customers and prospects on a "segment of one" basis.

CPM's intelligent CRM/PRM pieces fit together seamlessly into an application framework that produces a single, top-level health care planning and revenue-enhancing strategy.

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