

Price as a Healthcare Marketing Strategy - Implications for Marketers

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The Role of “Price” in General

- To create an “image” for a product or service.
- To generate revenues and income.
- To give customers incentives or disincentives to use a product or a service.
- To capture market share or squeeze out a rival.

So Why Is “Price” Not A Core Factor in Health Care Marketing?

- A long, complicated discussion but some reasons include:
 - Historically very little consumer interest or need to know.
 - Reliance on nearly impossible to figure out “Charge Masters”.
 - Lack of real cost accounting capabilities (until recently)
 - Pretty much limited to wholesale negotiations between insurers and providers (fee schedules, per diems, etc.)
- The upshot is that with limited exceptions (think Dentistry), the health care field has relatively little experience using “Price” as a strategy.



Price Axioms and Issues

Price Axioms and Issues - 2015

- “Price” as a driving factor is (finally) here to stay. And it isn’t going away.
 - 10+ years ago – 30,000 foot semi-theoretical discussion.
 - 5 years ago – 10,000 foot discussion
 - Today – We are almost at the ground floor
 - 5 Years from now – A dedicated track at Conferences???
- But - Price “Transparency” is only **half** of a strategy. Don’t confuse being able to provide price information with having a pro-active, planned approach to pricing.

Price Axioms and Issues - 2015

- The inclusion of price changes the definition of “value” and changes the impact of quality related information (more on this later).
- “Value-based” pricing is probably long overdue in the Health Care field – but so far the impact is largely at the wholesale level (Payor and Provider).
- There is something of a “disconnect” in the current mantra of “moving from volume to value”. If we don’t have any volume (however it is defined) who do we provide “value” to?

Price Axioms and Issues - 2015

- Historically, the focus on price in health care (to the degree there was any) was at the wholesale level.
 - With some minor niche exceptions.
- The future is likely to include both wholesale and retail pricing strategy decisions. And retail will likely grow as more cost responsibility is pushed to consumers and more plans are bought individually via exchanges (defined contribution).
 - Insurer and Provider – Wholesale
 - Provider and Consumer – Retail
 - Insurer and Consumer – Retail (HIX purchases)

Price Axioms and Issues - 2015

- Today (2015) being able to provide an accurate price (Price Certainty) may be as important as any relative price position.
 - But going forward being able to provide a certain price will become a “table stake” for being in the game.
- Going forward, “price” in health care is likely to focus on:
 - Wholesale Level – Value for service rendered.
 - Retail Level – Specific “price sensitive” services and HIX products.

Price Axioms and Issues - 2015

- What is a “Price Sensitive” Service? What are the price increments that can impact usage? Does the nature of the service even allow for price sensitivity?
 - Seeing a doctor in an Urgent Care Center vs. an NP at a CVS/Walgreen Retail Clinic?
 - Getting a CT scan at an AMC owned/branded center vs. a doctor owned freestanding center.
 - Going to a hospital that charges over the “reference rate” approved by the insurance entity?
 - Flying to the Cayman Islands for Hip replacement surgery vs. staying at a local hospital.
 - Trauma neurosurgery after an auto accident?????

Price Axioms and Issues - 2015

- Price has a very real potential to impact Brand Position for many providers especially if price becomes a normal part of the consumer usage decision.
 - Will you be Fairfield, Courtyard, Marriott or Ritz Carlton?
- Challenge – Who is going to determine and manage pricing strategies?
 - In many other fields, Marketing is responsible.
 - In health care, we (including the CFO's) have very little experience with this.



Indicators of Price Shopping and Price as a Factor Today



Growth of High Deductible Plans

- High Deductible Plans have grown rapidly over the past 10+ years as a way to (a) shift some of the rising costs of healthcare to enrollees and (b) to give consumers some “skin in the game”.
- High deductible health plans provide a strong incentive for consumers to “price shop”, at least for services that will come in under the deductible level.



Growth of High Deductible Plans

- HDP's have grown from 4% of employer-sponsored health plan enrollees in 2006 to 20% in 2013 (Kaiser Family Foundation).
- One-Third of employers plan to offer only HDP's in 2015 (National Business Group on Health).
- Almost all of the “Bronze” and “Silver” plan offerings on HIX are high deductible – and these are the most popular plans.
 - There is a proposal in the works to add a “Copper” Plan with a \$9,000 deductible (but even lower premiums).



Pressure for “Transparency” Grows

- The pressure for price (and quality) transparency is not new but it has gained significant momentum in the past 2-3 years.
 - ACA has provisions that require hospitals to disclose “charges”.
 - January 2015 – CMS announces that it will provide information on what Medicare pays individual doctors upon request (Freedom of Information Act).



Proprietary Research on Price Shopping

- SMC (my firm) includes a question about consumer “price shopping” for health care services in virtually every client survey.
 - 15,000+ consumers over the past 3 years.
 - Question goes back well over a decade.



Proprietary Research on Price Shopping

- General Pattern of Results:
 - 12% to 20% report “price shopping” in the past year – **up from 6% to 10% in 2004/2005.**
 - Higher among younger consumers (up to 25% for those under age 44)
 - Often higher among (a) better educated and (b) higher income consumers.
 - 40-50% report that price was a key decision factor in using a specific provider and/or a specific service.



Proprietary Research on Price Shopping

- Leading “Price Shopped” Services (Top 5, order varies by market):
 - Diagnostic Imaging (top service 75% of the time)
 - Physician office care
 - Lab services
 - OP Surgery
 - Dental Services
- But.. virtually every service gets mentioned including cardiac cath, obstetrics, joint replacement, etc.



Third Party Price Information Sources

- There has been a noticeable (and recent) growth in third party entities trying to use insurance-based information to provide on-line price information to consumers (actual out of pocket costs depending upon their plan specifics).
 - Health Care Cost Institute – Guroo.com
 - Castlight
 - Transunion Healthcare ClearQuote
 - New Choice Health
 - myHealthcost Estimator (United Healthcare)
 - Clear Health Costs
 - Change Healthcare
 - Fair Health (New York State)



Providers and Price Information

- A number of hospitals and health systems have been offering “actual” price information for a while (Fairview Hospitals, North Shore LIJ, Integra, Evergreen Health, etc.).
 - But these still represent a minority of hospital and provider organizations.
 - Moreover, the range of price information is quite wide – from “charges” to actual OOP payments based on individual insurance plan types.

HIX Insurance Plan Pricing

- After a year we are seeing a very wide range of insurance plan prices by geographic market – even within the same “category” of health plan (e.g. – Platinum, Gold, Silver, Bronze).
 - AARP recently did a study and found a range of \$488 per month (Alaska) to \$166 per month (Phoenix) for the same “Silver” level plan.
 - **Speculation – True “price strategy” in health care may evolve more clearly for health insurance products than for health care services.**

Medical Tourism

- Has been around for 15+ years but has seen noticeable gains in volume in the last 5.
- India, Thailand, Philippines, Netherlands – a growing number of locations.
 - **Now Ascension Health in the Cayman Islands!**
- JCAHO (International) Accredited hospitals, (usually) American trained doctors.
- Heavily surgery oriented care.

Medical Tourism

- Total volumes estimated at 750,000 to 1,250,000 cases from USA per year.
 - Some are foreign nationals in USA going home for care or Americans based in foreign locations getting care but most are Americans traveling for care.
- Many of these entities have pushed “quality” but few people are traveling 10-16 hours by plane for better perceived quality. The driver is price (often 50-60% of available USA price including travel, post surgery hotel stay, etc.).



Price Strategies - Wholesale



Existing (Long Term) Models

- The usual suspects:
 - Fee schedule
 - Negotiated discount from charges
 - Per Diem
 - Per Case
 - Capitation
 - % of Premium

Bundled Payment

- Generically a price model where there is a single payment made for a full “case” covering all service elements (doctors, hospital care, etc.).
 - Gives payors with a high degree of cost “certainty” and significantly less payment logistics.
 - Give providers a known revenue level against which to manage costs.
 - Requires some degree of “integration” among providers to handle distribution of revenues.
 - Can be an effective differentiator if coupled with strong quality indicators and enrollee incentives (\$0 direct cost) to use the arrangement (e.g. – Cleveland Clinic and Lowes).

Reference Pricing

- A “pricing” model where a payor creates a “standard” price for a drug, procedure, service, etc.
 - Members pay anything above that “reference” price if they opt to use a provider that charges more.
 - Incentivizes members to price shop.
 - Most notable example is CALPERS (1.3 million lives in California).



Reference Pricing

- Results (at least from CALPERS example):
 - A reduction in overall costs for the Plan as consumers opt to use providers at or below the reference price.
 - Forces providers to be “transparent” about their prices – at least for the specific services covered by the reference price.
 - Pushes prices of more expensive providers down toward the reference price (if there is enough volume at stake).

Value Based Pricing

- Takes in a number of formats and approaches but in a nutshell, price and payment is tied to the achievement of some specific metrics.
 - Never events
 - Patient satisfaction goals
 - Achieving specific clinical outcomes for X% of the patients
 - Population health improvement targets
- Currently almost totally a “wholesale” model but that may change over time.

Narrow Network

- Not a “price” model per se but it supports the ability of some organizations to offer lower priced insurance products by having a limited network of providers:
 - Lower cost providers
 - More efficient providers
 - Better quality providers????
- Price also comes in to play in that entities not in the narrow networks have an incentive to lower prices to get in.



Price Strategies - Retail

Comparative Pricing

- Maintaining a relative position compared to competitors.
 - Always 10% higher than the competition based on perceived value in the market.
 - Used in managed care (per diem) negotiations but can be used in more “retail” situations.
- Problem – You need to know their prices.
- Problem – You need to make sure it does not look like collusion.



Discount Pricing

- For volume, for cash on the spot, for pre-payment of fees, etc.
 - \$249 each for Heart, Chest and Abdominal CT's – but \$60 off if you take all three together. (Bundled package).
 - 40% discount for orthopedic surgery if fees are paid prior to service delivery.

High End/Image Pricing

- Using price to either build or support a “high end” brand position.
 - Rolex watches are never “discounted” (at least not legally) in order to maintain the image of the brand.
 - High end health spas, certain dental and cosmetic surgery groups that don’t take insurance – maintain a high price to support a certain image.
 - Not aware of any main-stream hospital or health system examples – **yet.**

Incentive Pricing

- Using price as an incentive to drive (or prevent) specific actions.
 - “Two for one” offers (contact lenses, etc.)
 - Free preventive care visits and services if you take Plan X.
 - Reduced prices to use services off hours – Diagnostic Imaging, Lab, etc.
 - One hospital reported giving discount if people come in for elective DI between 12AM and 6AM

Introductory Pricing

- A temporary price reduction designed to drive initial usage and garner publicity.
 - \$20 seats on a new route for an airline (for the first 2 days).
 - \$X off for the first 100 patients in a new Cosmetic Surgery practice.
 - Offer of discounted rate (35%) for a new Bariatric Surgery program in order to capture enough cases to ensure accreditation.

Loss Leader Pricing

- Offering a service at break-even or even less than break-even as a way to draw people in to the organization with the hope of use of other services.
 - Optical shops (Lower price exam if you get glasses).
 - Dental practices (Low price cleaning to get other services).
 - Major cardiology group (70+ doctors, 30 sites) offers \$125 cardiac scans.
 - Free or low price health screenings??? Yes, this is a public service but it is also a loss leader under a classical marketing definition.

Convenience Pricing

- A premium for convenient access to a desired item or service.
 - Buying sun tan lotion at the hotel gift shop – and paying \$4.00 a bottle more than you would at Target!
 - Prices at your lobby-based health products store and pharmacy (10-15% over competitors to take advantage of convenience).
 - InQuickER – Paying a “convenience fee” to book an ER time slot.

Price Lining

- A series of “stepped” prices for a line of products or services (usually the same core entity with various features or benefits).
 - Classic – General Motors (Chevrolet, Pontiac, Buick, Oldsmobile, Cadillac).
 - Fitness Center – Full benefits; gym only (no pool); mornings only; etc.
 - Now – Bronze, Silver, Gold, Platinum Plans
 - Future (Near) Primary Care – On-Line; Micro-Clinic; NP/PA Retail Clinic; Primary Care Physician??

Skim Pricing

- Taking advantage of cutting edge newness or exclusivity to skim off a quick profit before competitive options become available.
 - Classic – Newest game console or iPhone
 - Health Care:
 - First 256 Slice CT in town?
 - First Proton unit in the region?
 - First Unique surgery capability? (Think Laser Eye or Bariatric)



Year End Cafeteria Pricing

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

Access Pricing/Concierge

- Paying a “premium” price for better access to a product or service.
 - “Membership” (donation?) in the Symphony guarantees access to the best seats.
 - Concierge Medical Practices – A number of models exist but essentially a consumer pays a fee for quick access, more time with the doctor, management of health issues, etc.
 - Low end – Qliance (Seattle) - \$65 per month
 - High end - \$15,000 to \$20,000 per year (doctor will travel to you).
 - Are “Platinum” Health Plans an example of Access pricing?

Bundled Pricing (Retail)

- Same concept as the Wholesale version except aimed at individual purchasers rather than an insurance entity or major employer. One price for the full spectrum of care required for a specific case.
 - East Coast Hospital and Plastic Surgery group – one price for elective surgery cases.
 - Surgery Center of Oklahoma (also combined with cash payment up front).
 - Selected Ohio hospitals aimed at specific (religious) communities (interested in cost and simplicity, willing to pay up front).
 - Most “Medical Tourism” surgery cases are bundle priced (including travel, hotel stay, etc.).

Value Pricing (Retail)

- Historically very few examples in health care – so far.
 - Small \$\$ off or back for hospital service quality problems (cold food, etc.).
 - IVF Provider – Partial money back guarantee if not successful after 2 attempts.
- Will we see more of this – for elements of “value” to consumers – as more consumers price shop?
 - \$X off visit (NP/PA Clinic, Urgent Care) if the wait is longer than 60 minutes?

Other Models

- Barter
 - Electrical power for health care (Missouri)
 - Individual services (auto repair, carpentry) for health services (Maine)
- Zero Interest Credit or Loans
 - Elective surgery (Laser Eye). Works during low market interest periods.
- Cash Only (okay, a check or credit card – but no insurance).
 - 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.



Price Shopping Cases (Consumer-Retail)

Case 1 - Shopping for a CT Scan

- Joe Smith needs a fast CT scan (requested by his cardiologist due to specific symptoms). And he has a high deductible plan so this is coming out of his pocket (\$\$).
- Cardiologist provides choice of 4 or 5 sources for the scan – all are “okay” with him in terms of quality and timeliness. (Quality metric).
- 2 sites are equally convenient for Joe – Site A is owned by a major AMC, Site B is a radiologist owned provider.
- Joe calls both sites to get availability and pricing. Availability is pretty equal but Site A can only quote a range of \$600 to \$1,200 while Site B quotes a specific price of \$450.



Case 2 - Shopping for Insurance via an Exchange (Private)

- Don Smith just turned 26 years old and is no longer eligible to be covered under his parent's health insurance plan.
- Don has a job that pays more than would make him eligible for any subsidies – but his job doesn't provide insurance. His parents may provide some support for the premiums.
- As a result, Don turns to a private (BCBS) exchange to examine health insurance options (next slide).
- In reviewing these options, Don has to do his own “mental modeling” to decide the best choice given monthly premiums, maximum OOP and other benefits of each plan.

Case 2 - Shopping for Insurance via an Exchange (Private)

- PPO Type Plan/HSA Eligible

Plan	Monthly Premium	Co Insurance	Annual Deductible	Annual OOP Limit
Bronze	\$147	20%	\$3,500	\$6,350
Silver	\$193	30%	\$1,500	\$5,500
Gold	\$243	20%	\$500	\$3,750
Platinum	\$313	10%	\$0	\$1,800

Case 3 - Shopping for an NP Retail Clinic

- Jane Smith gets an annoying case of poison ivy while clearing some weeds on her property.
- Jane has a high deductible plan and has not met the deductible yet, so this is coming out of her pocket.
- The ER isn't needed, her PCP can't see her for a week and the nearby urgent care center will cost \$150 or more. A quick check on line shows that an NP staff retail clinic can handle the job.
- There are 3 such clinics nearby – Walmart, CVS and Walgreens (all within .5 mile of each other and virtually equidistant from her home).



Case 3 - Shopping for an NP Retail Clinic

- The same on-line examination shows that the estimated treatment price is virtually the same at all 3 centers (within \$5 of each other).
- So... price shopping occurred and that was a differentiator between Urgent Care and a retail clinic – but other factors decided which of the 3 centers to go to.
- Is this an indication that retail clinics are (or have the real potential to become) commodities?



Price and the Value Equation



Price and the Value Equation

- Value = Price paid x Perceived Quality of service or goods received.
- “Value” Equation – An individual (or organizational) mental calculation factoring in quality, benefits and price. It may be highly quantitative or highly qualitative.



Price and the Value Equation

- Most other sectors offer a reasonable degree of objective information to determine “value”.
 - E.g. – Consumer Reports profiles of refrigerators, which provides information on price, features, reliability (quality) and energy usage.
- But until recent years, there has been very limited information available in the health care sector to allow similar “value equation” calculations.



Price and the Value Equation

- Over the past 6-8 years there has been a significant emphasis on “quality” data, albeit at times challenging to use. But without a focus on “price”, the concept of a value equation was marginal at best.
 - Value based pricing at the wholesale level is changing this.
 - Price sensitivity at the retail (consumer) level will significantly impact this.

Price and the Value Equation

- When an individual's OOP is perhaps \$20 or \$40, “value” can be measured in terms of quality ratings and individual experience.
- But that changes when there is a notable individual price:
 - What is the “value” of a service with a “5” rating costing \$1,000 vs. one with a “4” rating costing \$500?
 - What is the “value” of surgery at a hospital that is \$10,000 over the approved reference price?
 - What is the “value” of a plan allows access to a highly rated specialty provider – but costs \$75 per month more?



Next Steps for Marketers



Next Steps for Marketers

- Examine the current level of “price shopping” in your market.
 - Consumer research (are they price shopping and for what).
 - Internal inquiries (Finance, individual departments, individual practices).
 - Level of high deductible plan penetration and HIX insurance purchasing in your area.



Next Steps for Marketers

- As part of the Service Portfolio analysis (share, quality, depth, image, etc.) look at which services are more price sensitive and price impacted.
 - Which services are losing volumes due to price?
 - Which services have a greater potential for decisions to be impacted by price? (DI and Lab vs. Neurosurgery for example).



Next Steps for Marketers

- As part of any segmentation analysis, look at the level of price shopping and price sensitivity within different consumer audiences.
 - Stage of life
 - Health status
 - Education level
 - Income level
 - Geographic market
 - Other factors?

Price Sensitivity Modeling

- A research/testing methodology long used in other fields to determine the “break point” at which an increase in price causes enough loss in sales to actually drive revenue down instead of up.
 - Is the brand equity of Heinz Ketchup worth \$1.00 per bottle more than the store name variety? \$1.25 more?
- We have very little experience doing this in healthcare – but if retail price shopping becomes the norm we likely will see more attempts.



Price Sensitivity Modeling Example

- Methodology – Focus Groups
- Assumes consumers paying out of pocket (high deductible plans).
- Objective – How much more will people pay for an AMC brand DI test vs. a freestanding DI site?
- Modeling done via different features (hours, location, quality data) and levels of cost differential.
- Result – AMC brand DI was worth only \$100 to \$150 more.



Next Steps for Marketers

- How “ready for prime time” is the organization in terms of:
 - Being able to provide price specific information (and not just a charge master range) in a timely manner.
 - Is there any proactive, data driven strategic approach to pricing at the wholesale and retail level? (Any internal experience or expertise?).



Next Step for Marketers

- Examine what inhibits a more pro-active approach to price strategy.
 - Inertia
 - Lack of experience
 - Lack of a cost accounting system
 - Contractual limitations



Next Steps for Marketers

- What is your “price competitive” status? We mystery shop access, quality, etc. – why not price?
 - At the retail level for more highly price-shopped services.
 - At the HIX level if you have an insurance product.
 - On price profiling services (Castlight, Transunion, etc.).

Next Steps for Marketers

- Consider starting proactive price strategy efforts in 1-2 services that are price sensitive and heavily price-shopped.
 - Price shopping levels in the market
 - Segmenting services and customers by “price sensitivity”.
 - Comparative prices currently (vs. other options)
 - Price decision modeling (price tested with other factors to determine decision cut points).
 - Formulate a specific strategy.