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The Shift to a Retail Health Care Market

*Webinar with Booz Allen Hamilton
Senior Vice President Gary Ahlquist
and Vice President Rick Edmunds*



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Booz | Allen | Hamilton

Our Speakers: Gary Ahlquist and Rick Edmunds



- ▶ **Gary Ahlquist** is a Senior Vice President and managing partner of the firm's commercial global health business. Gary's client work spans the health and insurance sectors with an emphasis on corporate and business unit strategy. He is one of the pioneers of the consumer health movement in the United States and speaks frequently at leading forums on the topic. He is widely published and was one of the authors of "Health Care's Retail Solution" in the Spring 2007 issue of *strategy+business*.

Contact:

Tel. 312/578-5708

ahlquist_gary@bah.com



- ▶ **Rick Edmunds** is a Vice President in the Global Health Practice based in McLean, Virginia. As head of the North American Life Sciences sector, he works primarily with leading pharmaceutical and medical product companies. Rick's primary areas of expertise are in strategy, performance improvement, organization, and mergers and acquisitions. He was a driving force behind Booz Allen's recent research on consumer and physician readiness for a retail health care market, and has authored a number of pivotal articles on consumer-driven health care including "Health Care's Retail Solution" in the Spring 2007 edition of *strategy+business*. He speaks on this and other topics at industry events—most recently at the World Health Care Congress.

Contact:

Tel. 703/377-0770

edmunds_rick@bah.com

Today's discussion—an emerging retail healthcare market

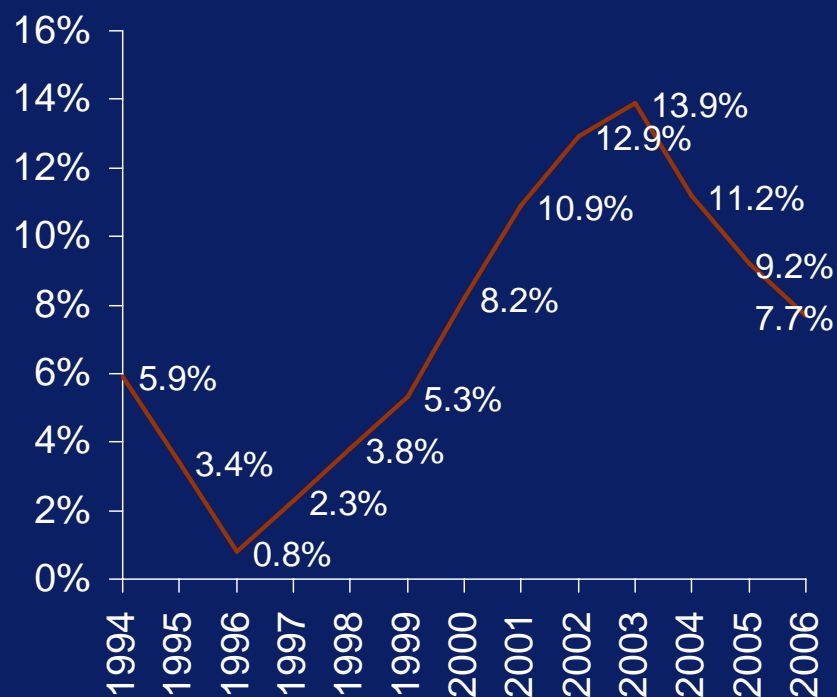
- ▶ Historical perspective
- ▶ Trends and future evolution of the healthcare market
 - Demand
 - Supply
 - Intermediaries
 - Competitive environment
- ▶ Implications for industry participants

Discussion Topics

- ▶ The Retail Healthcare Landscape
- ▶ Implications for Industry Participants

Continued healthcare cost increases—inherent and structural issues

Annual Growth in Employer-Sponsored Health Insurance Premiums¹



(1) Annual health insurance premium for a family of four

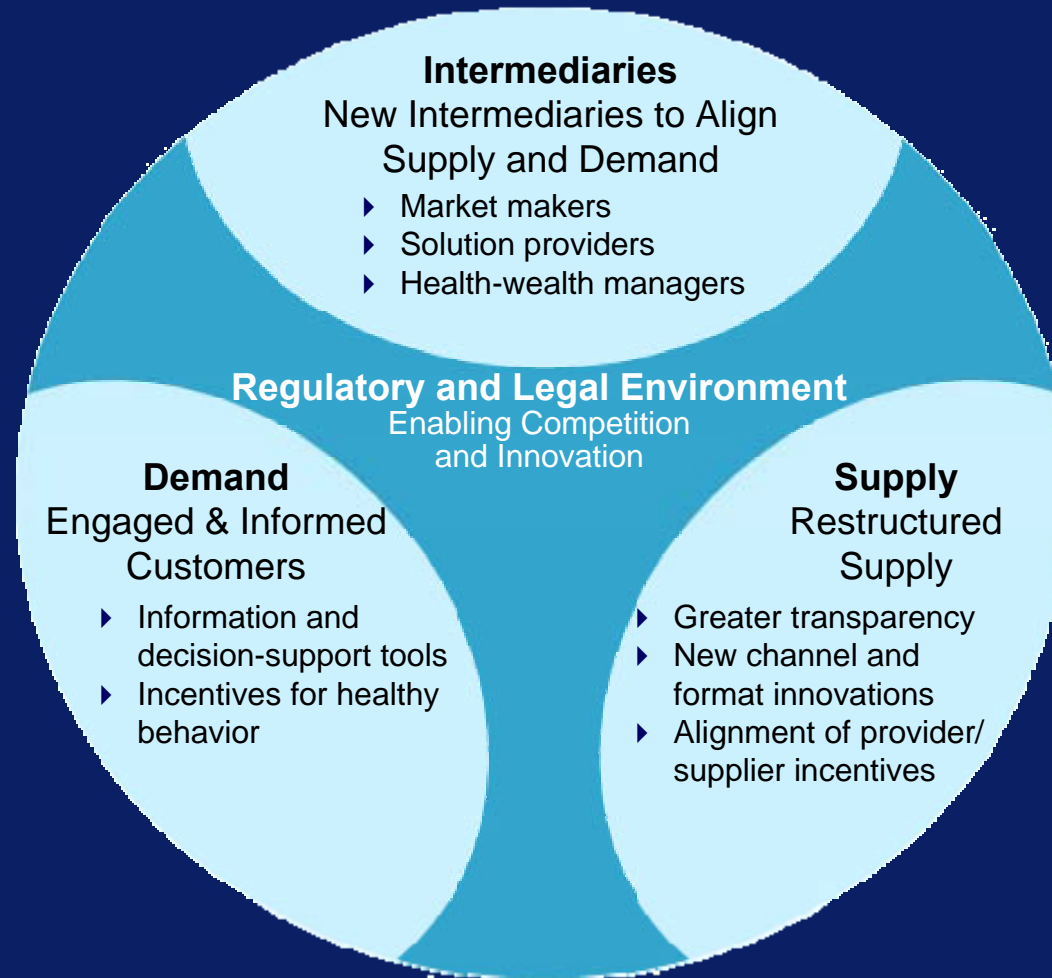
Source: Kaiser / HRET Survey of Employer-Sponsored Health Benefits 1999-2006, Booz Allen Hamilton analysis

Inherent and Structural Issues

- ▶ Benefits decisions made by employers and government payors (“wholesalers”)
- ▶ Few financial incentives for consumers to care about value or their own health
- ▶ Hence, passive consumer involvement
- ▶ Limited coordination across healthcare system and misaligned incentives

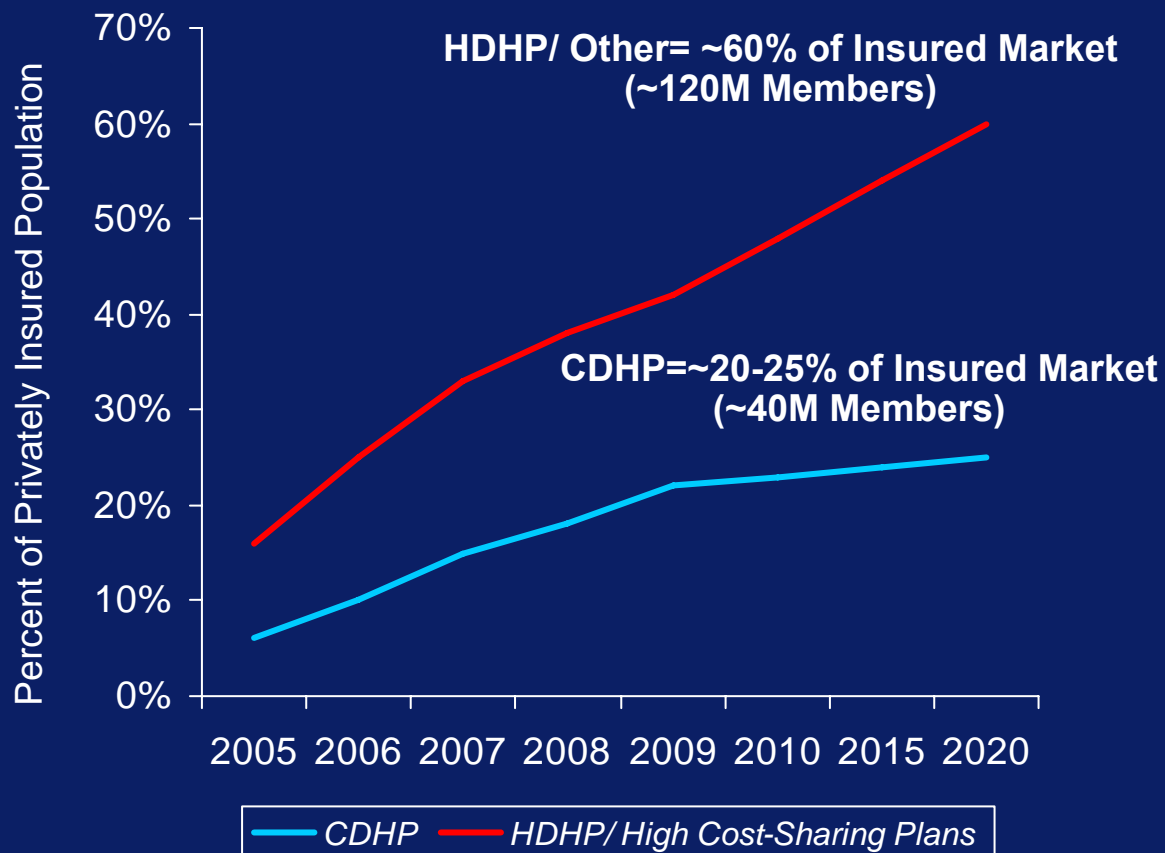
Broad industry shift from a wholesale to a retail healthcare market

Requirements for a Robust Retail Health Care Market



Cost shifting continues – 60% in high cost plans by 2020?

Enrollment Projections for CDHP & Other High Cost Sharing Plans



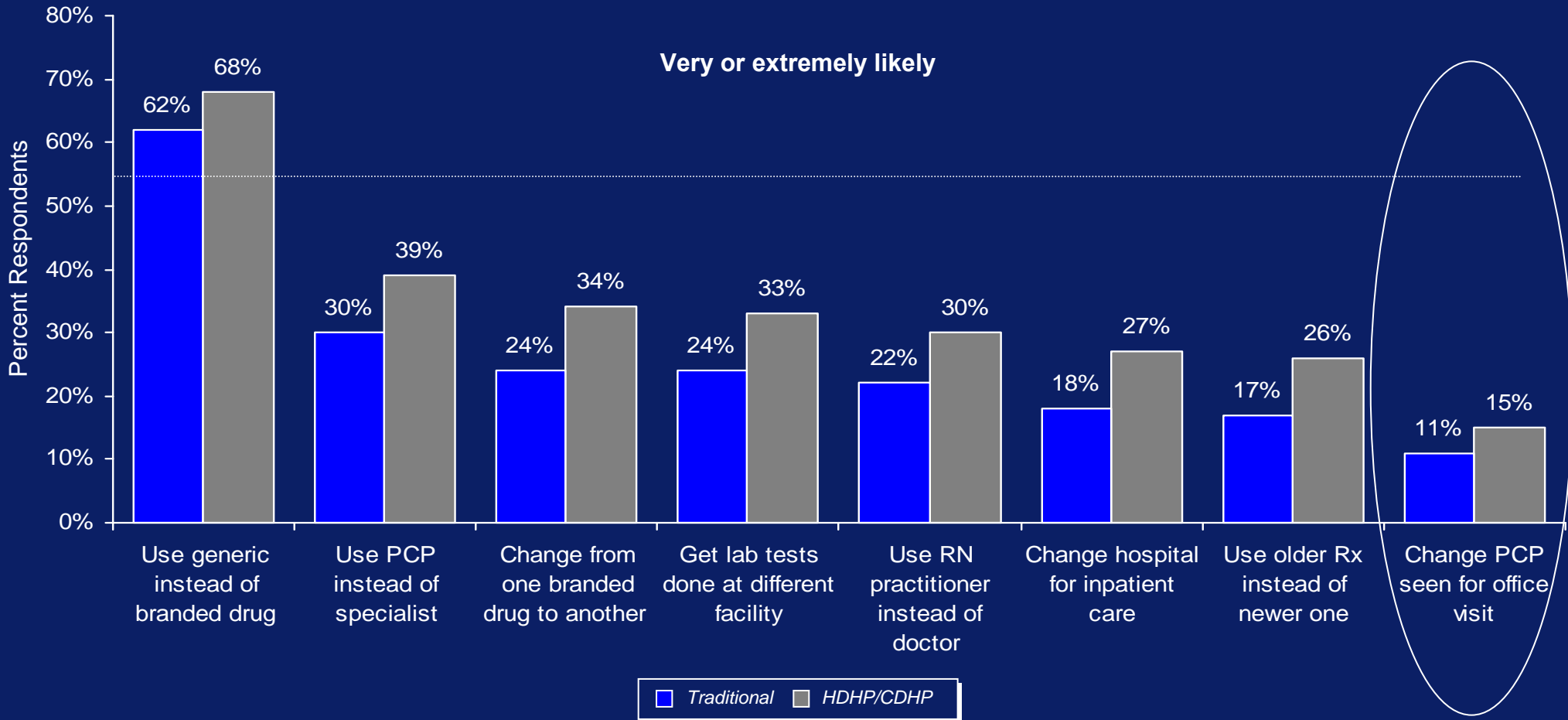
KEY TRENDS:

- ▶ Significant growth in high cost sharing plans—CDHPs, HDHPs
- ▶ Driven by cost increases & efforts for universal coverage
- ▶ CDHP market expected to “cap out” at 20-25% of private market
- ▶ Influenced by government policies, service quality, pricing, portability

Note: projections based on expert interviews and secondary research; should be viewed as directional estimates
Sources: Expert interviews, U.S. Census, OECD Review of Health systems, JAMA and Health Affairs articles

Consumers will shop – won't change trusted PCP relationships

Consumer likelihood to do each of the following in order to get a better price on health care



Source: Booz Allen Hamilton Consumer Survey 2007

Supply side not ready for consumerism —major restructuring needed

CURRENT STATE:

- ▶ Limited transparency and competition, provider-centric view
- ▶ Government & leading employers pushing for greater transparency
- ▶ Payment drives structure—push for fundamental payment reform
- ▶ New care delivery formats emerging—aided by health IT
- ▶ Most of system not connected, “islands of automation” exist

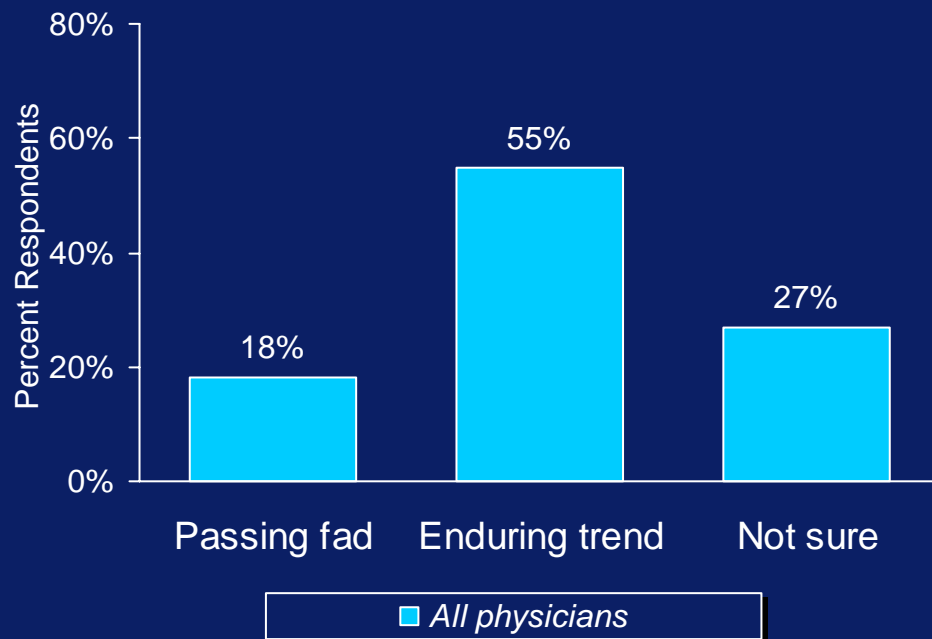
FUTURE REQUIREMENTS:

- ▶ Greater competition, transparency—physicians play a key role
- ▶ More consumer-centric measures—treatment options, outcomes
- ▶ More choice in care delivery—bundling services, more convenience
- ▶ Evolutionary restructuring of payment system—move beyond P4P
- ▶ Government sets standards for HIT interoperability

Physicians see consumerism as enduring trend—have concerns

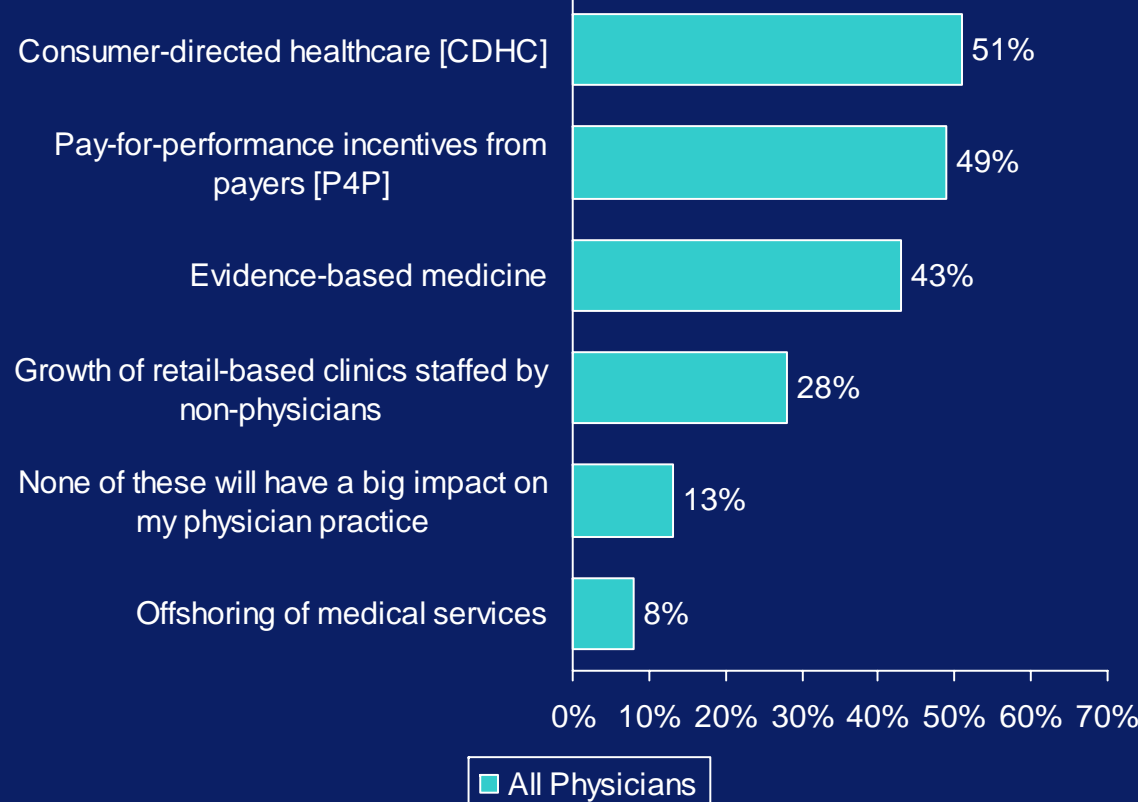
Physician perception of staying power of consumer-driven health care

Share of Respondents



Physician perception of impact of initiatives or trends on their practice in the next 3 to 5 years

Share of Respondents



Source: Booz Allen Hamilton Physician Survey 2007

Push for greater transparency — standards, cost / quality data

CURRENT CHALLENGES: (FROM BOOZ ALLEN RESEARCH)

- ▶ Consumers looking for an *integrated* and *trusted* source for health information
- ▶ Physicians, a highly trusted source, only able/willing to provide quality data
- ▶ Unclear how doctors can play dual role of trusted adviser and supplier of services
- ▶ Players who have historically provided cost and quality advice are least trusted (e.g., plans, employers, govt.)
- ▶ Unclear whether health plans can re-position themselves as trusted advisors
- ▶ Or whether new entrants/others will capture the data and advice role



Reporting quality and price data for hospitals, nursing homes, home health



Beginning to share pricing data (e.g. out of pocket costs), MD and hospital quality ratings



Providing employees with information & tools, requiring plans to increase transparency



Increasing provider participation in standards setting



Establishing agreed-upon metrics for quality, gaining broader stakeholder support

Transparency, technology enable supply-side innovation



Home Care & Monitoring

Greater self-diagnosis, referrals, at home treatment and monitoring
“Smart Toilet”, diabetes monitoring



Hospitals of the Future

- ▶ Specialization and innovation. More convenient locations
- ▶ *Geisinger “Warranty” for Open Heart Surgery*



Retail & Worksite Clinics

- ▶ Convenient locations—routine & chronic care
- ▶ *MinuteClinics, Toyota on-site clinic*



Medical Malls

Doctors offices, diagnostic testing, other services co-located
Legacy Medical Village, Texas

Innovations in Care Delivery



Concierge & Advisory Services

- ▶ Physician and nurse-based models. Broader offerings
- One year concierge services for \$129 (Revolution Health)*

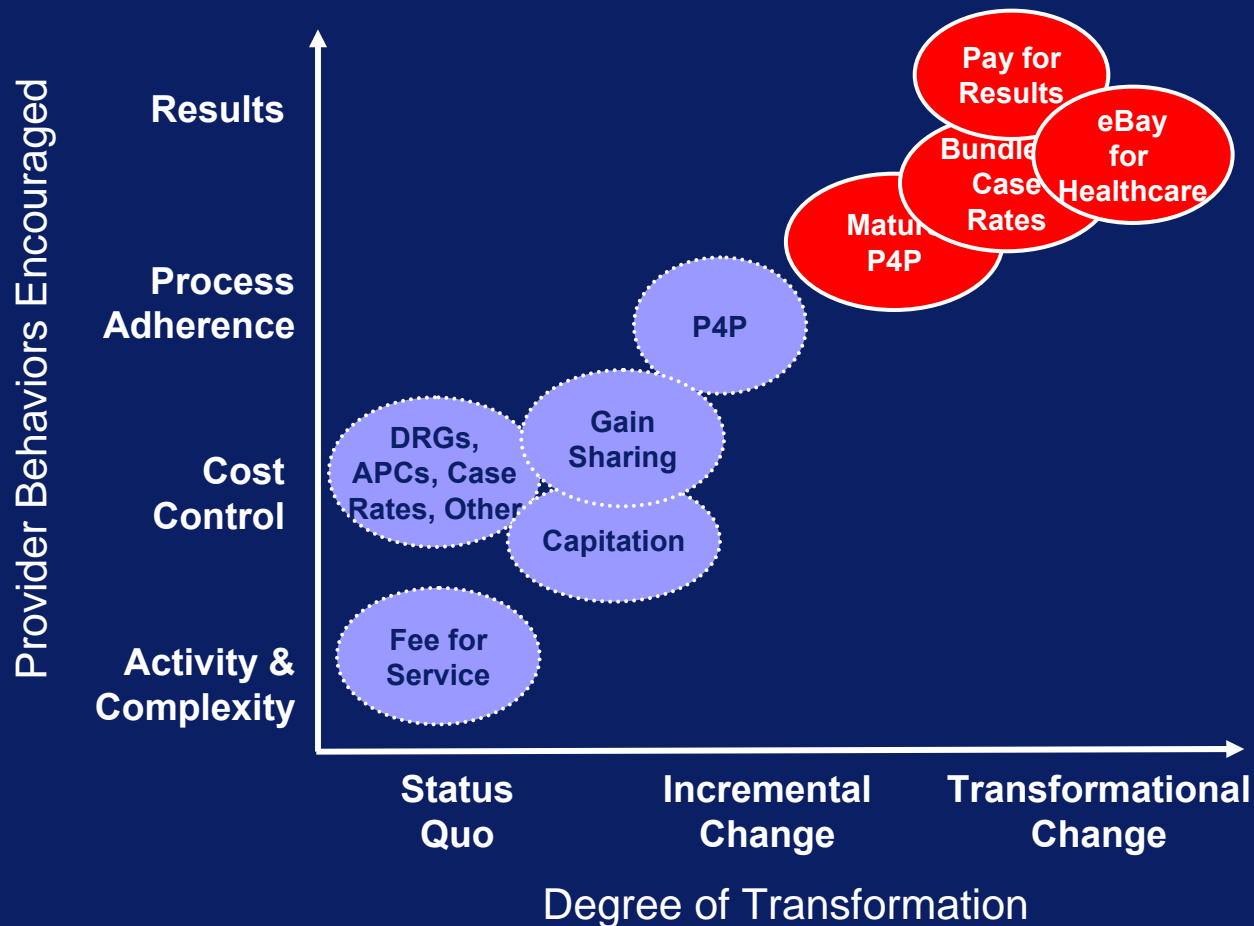


Expanded Physician Offerings

- ▶ More services and procedures done in office. E-visits & house calls
- 20 week pregnancy ultrasound in office*

New payment models needed to drive transformational change

Current and Potential Future Provider Payment Models



FUTURE PAYMENT MODELS:

- ▶ **Mature P4P:** uses FFS chassis with better metrics, transparency, incentives
- ▶ **Bundled Case Rates:** EBM guidelines determine services, case rate set
- ▶ **eBay for Healthcare:** market sets price for health services, value placed on quality
- ▶ **Pay for Results:** pay for maintaining/ improving health or outcomes of acute care

New intermediaries help consumers navigate a complex health market

CURRENT STATE:

- ▶ Payors (employers, plans, govt.) are intermediaries in a wholesale market
- ▶ Intermediary role changing with shift to retail health paradigm-unmet needs
- ▶ Many plans seeking to become “the information company”—trust issues
- ▶ In a post-managed care world, need to better manage care of chronically ill
- ▶ Cost shifting and HSA assets producing health-FS convergence

FUTURE TRENDS:

- ▶ Three new intermediaries required:
 - Market Makers
 - Solution Providers
 - Health-Wealth Managers
- ▶ Battle among payors, NGOs, pharma, others for “market maker” role
- ▶ Solution providers (providers/ others) will package and coordinate care
- ▶ Integrated health-wealth products and total solution providers emerge

Intense battle for the “market maker” role—third parties entering

Organization:



revolution



Key Initiatives:

- ▶ Personal health record (PHR) -- access to personal information and integration of medical claims and plan specific data
- ▶ Web-based tool “Select Quality Care Consumer” comparisons of hospital outcomes
- ▶ “One stop shop” value proposition—information, social networking community, cost and quality information on providers/ plans
- ▶ Publishes user Q&A and ability to rate doctors and hospitals
- ▶ Creates online PHR, and converts paper health records to digital
- ▶ Provides condition reports and treatment rankings on a subscription basis
- ▶ Offers free informational tools to review drugs, compare prices, and find alternatives, i.e., generics
- ▶ Google’s Co-Op platform is the first Google Health initiative (2006)
- ▶ Labeled sites making it easier to refine health queries and locate medical information
- ▶ Allows users to perform searches regarding medical issues— e.g., by symptom, condition

Government has large influence on innovation and competition

CURRENT STATE:

- ▶ MMA and subsequent rulings paved the way for CDHPs—fiscal policy key
- ▶ Federal government promoting HIT and transparency—interoperability & standards
- ▶ MHS, VA & Medicare ahead of many with HIT adoption, innovation
- ▶ Abundance, however, of state laws that constrain competition/ innovation
- ▶ CON, licensing and care provision rules, balanced billing prohibitions

FUTURE TRENDS:

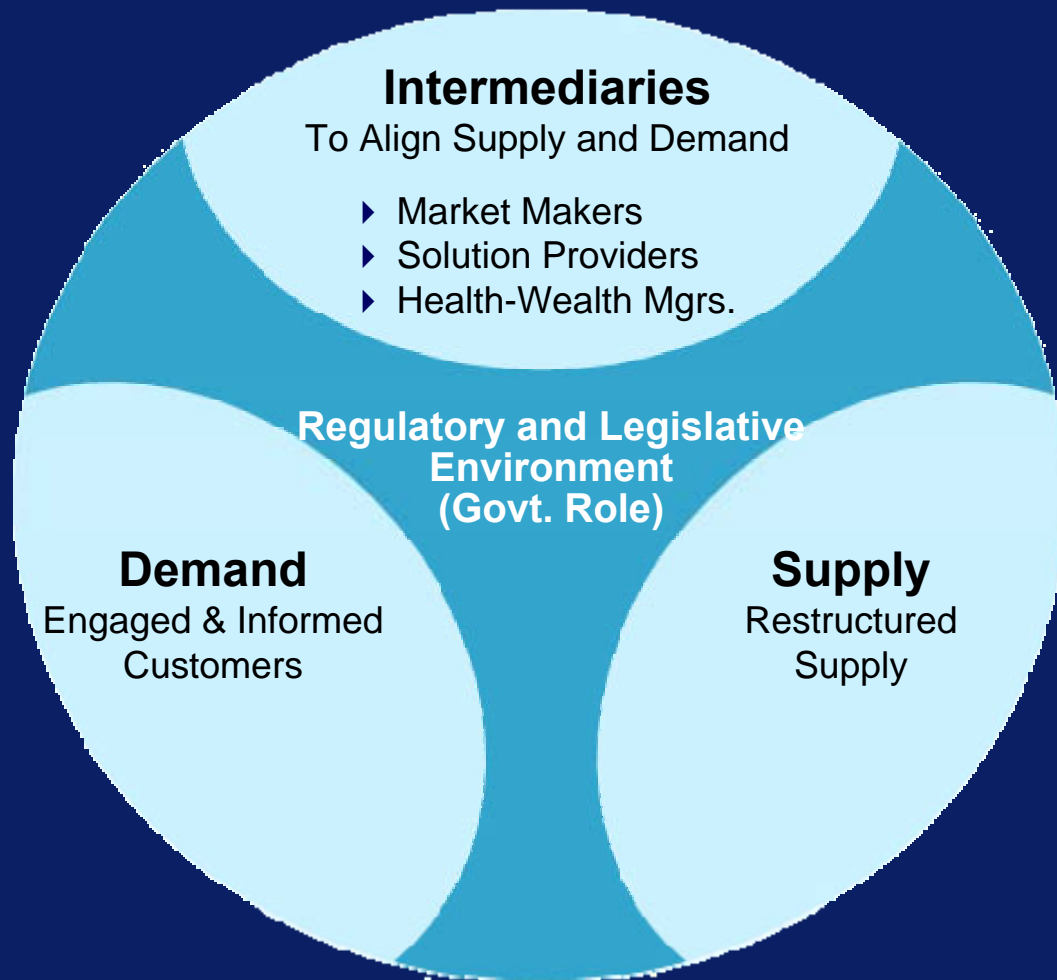
- ▶ Additional flexibility in CDHP rules/ design, but unclear how far it will go
- ▶ Push for safe harbor laws against lawsuits for self-reported medical errors
- ▶ Consensus on high level, outcomes-based quality measures (hospitals)
- ▶ Innovation constrained on physician side due to payment reform issues
- ▶ Mixed bag at state level—some easing, other attempts to constrain new competitors

Discussion Topics

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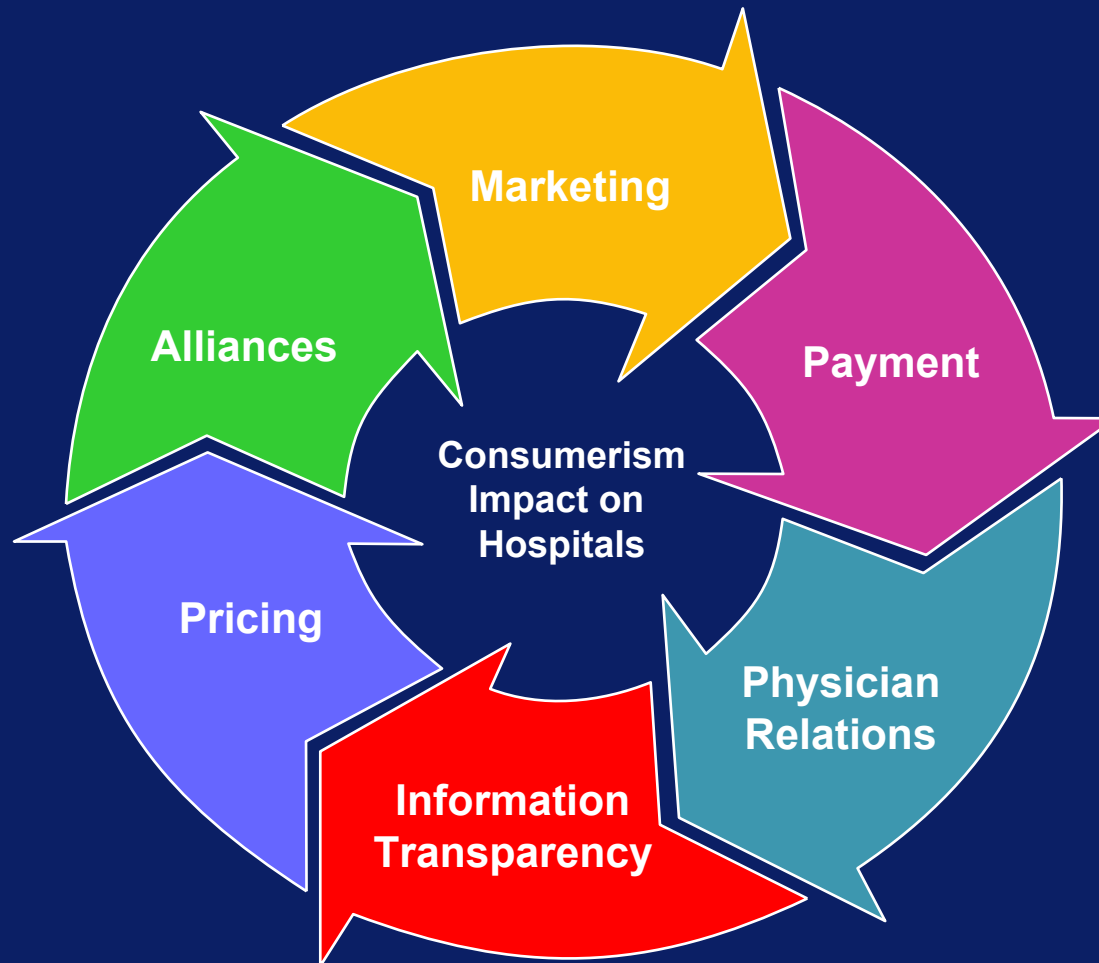
For plans / other payors –what future role to play?



- ▶ Intermediary roles require greater trust, new capabilities
- ▶ Can plans move into this position given their starting point?
- ▶ Are new partnerships required to build credibility/ skills?
- ▶ What role should plans have in provision/ mgt of care?
- ▶ What is the range of health/FS products to make/ distribute?

For providers, “consumerism” intensifies current challenges

Areas Impacted by Shift to a Consumer Oriented Marketplace



For pharma, partnerships needed and new capabilities

Pharmaceutical Company Strategies

- 1 Help physicians address the changing consumer expectations of them
- 2 Increase efforts with important information sources like pharmacists
- 3 Build a true “consumer research” capability across product teams
- 4 Advocate value-based plan design (customized benefits at individual level)
- 5 Build new consumer-oriented, and physician supported, offerings
- 6 Conduct trials/OR more explicitly tied to consumer views on value

Q&A

- ▶ Please type your question/s in the Q&A box (similar to an instant messenger box) on the right bottom hand side of your screen and press send.

Further Resources:

To read the article, “Health Care's Retail Solution,” please use the following link:

<http://www.strategy-business.com/press/article/07107?pg=0>

To read the article, “Prescription for Change,” please use the following link:

<http://www.strategy-business.com/press/article/05301?pg=0>

Slides and recording: A recording of the event and the presentation slides will be posted at:

<http://www.strategy-business.com/webinars>

Contact Information:

Gary Ahlquist, ahlquist_gary@bah.com

Rick Edmunds, edmunds_rick@bah.com

www.boozallen.com/health

Thank you!