

# Health Care's Technology Cost Crisis

by **Charles Beever, Heather Burns,  
and Melanie Karbe**

In the ongoing national debate in the U.S. about the spiraling price tag for health care, drug costs have received the lion's share of attention. But there's another culprit lurking that will soon attract government and business scrutiny as pressure builds to control spending: the cost of medical technology.

If manufacturers and health-care providers want to play a pivotal role in the coming debate over technology spending, it is time for them to act together to develop a better process for assessing the value of medical technologies and balancing costs against outcomes. At the least, they need to brace themselves for future pressure to reduce spending.

Although the benefits of innovative medical technologies are undeniable (for example, advances have cut the death rate from cardiovascular disease by 25 percent over the last 20 years), innovation comes with a price. Overall health-care costs have outpaced GNP growth by more than four percentage points, on average, in the last five years and now total \$1.5 trillion per year. Spending on medical technology has accounted for about 20 percent of that growth, and now exceeds \$200 billion per year. This spending surge presents a challenge to the U.S. economy and society: How can we control cost increases without sacrificing the benefits of innovation?

There is substantial evidence that overutilization and misuse of

technology lead to spending that exceeds its value for patients. In the diagnostic imaging technology category — which has grown to nearly a \$100 billion business — spending increases are driven to a large extent by the growth in the number of machines installed in hospitals, doctors' offices, and imaging centers. This has led in turn to overcapacity in many areas and has created incentives for doctors to prescribe unnecessary procedures. Duplication of procedures (i.e., a patient receives an MRI, then a PET scan, even though doing both procedures does not help doctors get closer to a diagnosis) and overuse of high-end procedures in situations where they add little value have also driven up technology spending unnecessarily.

We have identified three important reasons medical technology is not being used cost-effectively. First, patients do not pay directly for the health care they receive, so they sometimes make unreasonable demands on physicians for diagnosis and treatment. Second, a new technology may be adopted because of its clinical superiority to existing technologies, but there is no market mechanism to ensure that it will be used where it is clinically most appropriate or where it offers highest value for a patient compared with other treatments. Third, because there is no market mechanism for determining the value of medical technology, there is currently no generally accepted screening process to assess its value; cost-effectiveness is not a criterion for regula-

tory approval of procedures, and manufacturers do not consistently perform studies of the economic benefits of new procedures.

Private medical insurers and companies that pay for health-care plans have started to realize the significant impact of medical technology on health-care costs, and are likely to look for ways to reduce costs without hindering innovation. In principle, given continued third-party payment for health care, there are two options: One is to force a national debate about ways to introduce consistent and generally accepted value calculations into the evaluation of new technologies; the other is to look for targeted strategies that reduce costs in specific areas of the health-care system.

centers that currently perform technology assessments.

A wide range of cost-management possibilities exists at the level of individual health-care plans. Differing levels of co-payments can be introduced, as they have been in some plans, for various diagnostic imaging techniques. Another potential strategy is to align the incentives of payers and providers to reduce overutilization of technology.

All players, especially technology manufacturers and health-care providers, need to prepare for, or even step in to shape, the almost certain changes in the way medical technologies are paid for and deployed. Manufacturers should be thinking about ways to more thoroughly document the value of their

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## Manufacturers should find better ways to document the value of their technology.

The most important question in establishing a value paradigm is the level at which value assessments would be made. One possibility is to use a federal agency, such as the Food and Drug Administration, akin to the national authorities that evaluate new technologies in Canada, France, the United Kingdom, and other countries. Another possibility would be to create a public/private partnership between existing government entities and private health-care groups. Both options have advantages and disadvantages; it seems more likely in the short term, however, that the United States will opt for a smaller-scale approach — for example, contracting the work to several small private entities, similar to the privately run

technology, to better understand what changes in product positioning and pricing may be required, and to critically review product-development portfolios. Health-care providers may want to consider more extensive patient and provider education programs, supported by incentives that better align desired outcomes. Both sets of players should get involved in determining the best way to perform value reviews with other health-care constituencies and in creating joint forums for discussion.

Some may view the push for cost containment in health care as a threat, but it is far more productive to look at it as an opportunity for different stakeholders to work out a feasible solution for all. +

# Four Steps to Corporate Resilience

by Liisa Välikangas

It's fashionable to argue that corporate failure, decay, even death, are natural and essential to keeping an economy adaptable and healthy. Those who endorse this view believe hostile takeovers help cleanse industries, because weak and uncreative companies are subsumed. Similarly, advocates of "creative destruction" say the demise of struggling companies liberates financial and human capital for more productive uses. In the end, say the corporate undertakers, there is always a stronger and better company to supplant the one that dies.

But is this really true? Can a startup ever fully replace the wisdom and wealth accumulated by a 50-year-old company that succumbs to competitive forces or to its own mismanagement? Is society well served when a corporate innovator unable to overcome transitory market challenges dies prematurely? Are takeovers the best way to make a weak company's assets strong again?

Not necessarily. Rather than survival of the fittest, a truly healthy approach to economic adaptation and wealth creation is for companies to become more resilient. Indeed, all companies need to improve their capability to cope with economic downturns and disruptive competition, and to continuously reinforce strengths and resolve weaknesses so they can recover more quickly from mistakes. Think about the innovations in personal computing, design, and entertainment that

would have been delayed or lost if Apple Computer Inc., which several times in its history was declared dead, had failed to revive itself.

Promoting corporate resilience matters because of the huge economic and social costs of corporate decline and failure. Too often, large, venerable companies linger in a coma for years before dying, as Marshall Meyer, professor of management and sociology at the University of Pennsylvania's Wharton School of Business, and Lynne Zucker, professor of sociology and policy studies at

management is founded. Consider the argument of Max Weber, the German sociologist, that those with the most relevant expertise in a given situation or strategy should take the lead in decision making. That principle is why most companies have marketing departments to make marketing decisions, sales teams to control sales campaigns, and so on. Yet recent research suggests that cross-functional decision making gets better results. Managing a resilient corporation requires a greater willingness to access information from multiple sources for richer content, and to avoid guidance by those with a vested interest in the status quo.

The second step is generating a portfolio of strategic options. Resil-

## Imagine the innovations that would have been lost if Apple Computer had failed to revive itself.

the University of California, Los Angeles, indicate in their book *Permanently Failing Organizations* (Sage Publications, 1989). The U.S. and Europe are littered with once-thriving industrial cities laid low by the inability of large local employers to adapt to new technologies, globalization, or competition.

It is never easy for big, mature companies to execute dramatic strategic or operational change, but no matter its age or size, any company can build the capability to continuously renew itself. We at the Woodside Institute suggest four steps that help pave the way.

The first is rethinking the underlying principles on which

ient companies don't just develop a portfolio of product innovations; they build a portfolio of experimental strategies, often mining ideas from all parts of the company. To be resilient, a company should earmark some portion of its capital expenditures — 30 percent or so — to test new strategies and radically innovate aspects of its business model, such as pricing or industry alliances. The transformation can be profound, involving, say, a shift from selling high-margin products to selling services, or involving customers in strategic planning.

The third step is careful examination of resource allocation. Most companies create budgets based on

the legacy principle: If you have been successful, you deserve funds in the future. The resilient solution is to use market-based mechanisms to manage resources so that funding of known opportunities is balanced by an appetite for new ventures.

Finally, resilience is likely to get a boost from more effective corporate governance that not only provides better safeguards against wrongdoing, but also improves leadership. Directors, feeling the heat from shareholder activists, litigators, and regulators, will have to

make sure that management has a plan for the future that doesn't just relive the past, and provides the right resources to promote resilience.

In the long run, the answer to economic adaptation is not to let companies die. We need to apply our ingenuity to drive management innovations from within corporations and seek to define policy reforms that make companies more capable and thus less disposable, so that all corporations, old and new, live longer and more productive lives. +

channels for purchasing financial-services products. Our survey of channel preferences showed that 12 percent of customers seeking a home loan obtained information over the Internet, but 49 percent closed the sale in a branch.

In addition, our research found that 90 percent of a super-regional bank's new customers were acquired in a branch. Equally important, almost all accounts were closed at a branch, with customers providing predictable clues about their intentions: Some made accelerated loan payments or sold an investment property; others complained about the branch operations. This means branches are one of the best lines of defense in identifying and appeasing dissatisfied customers.

But it is not enough for retail banks simply to open up more branches run like existing ones or redesign them to resemble hip retail stores. The successful branch bank of the future must be more like a financial-services resource center: For example, financial advisors conduct seminars after hours on such topics as managing debt or making the transition from "paycheck-to-paycheck" banking to saving and investing. For customers who are already accumulating wealth, the branch offers products and "light" relationship management. Branch customer service representatives handle simple product sales and know when to refer customers to a branch-based specialist. Customers who work with specialists experience the value of consulting a banker. The benefit for the bank: It gets closer to customers when they are planning and setting priorities, not just when they're shopping for products.

To deliver advice and consulta-

## The Right Way to Make Branch Banking Pay

by Paul Kocourek, Aditya Bhasin, and Paul Hyde

**D**rugstore soda fountains, penny candy, and five-and-dime stores may be gone for good, but one relic of a friendlier service era is making a comeback: the local branch bank. After 20 years of letting costly branch banking systems wither, such national consumer banking leaders as Bank of America Corporation and J.P. Morgan Chase & Company (which is merging with the Bank One Corporation), as well as regional players such as Washington Mutual Inc., are coming to a location near you.

Our research in 2003 showed there's a good reason for this revival — branch systems are significant growth engines for retail banks. Indeed, up to 90 percent of customer relationships are won or lost in branches. Moreover, we found a high correlation between branch visits and sales.

But can the large retail banks revive branches without letting them become a costly drag on profits? Absolutely — but only if they reinvent the management model so it can profitably deliver what demanding consumers expect: choice, convenience, and customization.

In the customer-centric "federation" business model we propose, the branch is the hub of an integrated multichannel banking framework designed to maximize local responsiveness. On the basis of our work with several clients, we estimate that banks using the federation model can expect to see revenue increases of between 35 and 65 percent per branch, depending upon their market potential and current performance.

In 2003, we collected data and conducted on-site observations of branch operations that show the enormous value of the branch. For example, there's strong evidence customers favor branches over other

tion services economically, branches must offer a set of standardized packages of products and advice for customers, targeted for different life stages or for immediate needs. Banks can repackage products and information they have on hand, focusing on the 80 percent of the customers who need support as they plan for college tuitions, maximize retirement savings, and so on.

Operating a branch economically also requires aligning customer focus with the profile of the micro-market being served. This profile is typically determined by the age and income of customers along with such factors as population concentration, the branch's proximity to business centers, and customers' ethnicity. The micromarket should drive management decisions regarding branch staffing, skills, product configuration, and customer sales/retention targets.

Further, branches must be the hub of a multichannel offering. Call centers and the Web are fine for routine transactions, but the branch is the best place for customers to get personalized information and attention and conduct complex banking activities. It is also the best channel for encouraging customers to entrust more assets to the bank as their needs change.

For many large banks, the pursuit of scale has come at a huge price — loss of control over local capabilities and costs. Booz Allen's federation model strives for more efficient centralized management and greater responsiveness to micro-markets. Central controls at corporate headquarters help the bank exploit product, infrastructure, and administrative scale, but the branch manager, who knows the local market, is empowered to make

resource, incentive, and pricing decisions locally.

Applying Booz Allen's federation model is not merely a matter of making organizational adjustments. Nor is it franchising. By giving each branch responsibility for managing its own P&L and retaining some centralized management, branch managers can run their own businesses, and they can leverage the brand and infrastructure power of the institution. If branch managers are offered the right incentives through performance-based compensation and perquisites, we believe they will work harder and smarter to make their branch more competitive.

To implement the federation business model, action is required along four dimensions:

- **People.** Hiring, training, and

certification of frontline employees; significantly improving branch management; making major modifications to incentives.

- **Internal Benchmarking.** Understanding branch performance; aligning to micromarkets; increasing readiness for change.

- **Geographic Specialization.** Determining local resource needs and basing the sales focus on demographics, purchasing behavior, and the local growth trajectory.

- **Structure.** Setting up mechanisms to coordinate local versus central decision rights; refining roles and responsibilities within the branch network.

The days of the branch bank as we've known it are over. But something better is emerging in the multiproduct, multichannel bank federation. +

## Volunteering to Be a Better Manager

by Richard Pound and Karl Moore

It's an irony of modern corporate life, but one of the greatest challenges in motivating employees to sustain strong business performance is to make them feel there's a larger purpose to their lives than just meeting financial goals. Although business success and the raises, bonuses, and perks that come with it are intrinsic motivators, money and corporate extras aren't everything for most people.

Corporate programs that encourage employees to work as volunteers for organizations in their community are one way to offer an extracorporate benefit that makes

employees feel pride and satisfaction, and makes them happier and more productive workers. Marc Benioff, CEO of Salesforce.com, promotes what he calls "the 1 percent solution": 1 percent of the company's equity, 1 percent of its profits, and 1 percent of its employees' paid work hours are devoted to philanthropy. U.S. software maker SAS, which for six years has been among the Top 20 in *Fortune* magazine's annual list of the 100 best companies to work for, offers a volunteer initiative that lets employees use flexible schedules to take paid time off for projects in the community, or even work in teams with their managers on a

volunteer effort during business hours.

To our minds, though, volunteer work isn't just an outlet for employees in search of more meaning in their work lives; it provides an excellent way to prepare for a senior executive position. By volunteering for projects in nonprofit organizations, experienced executives can hone their supervisory and leadership skills, and aspiring executives can gain the experience and networking opportunities that could lead to plum positions in the company.

issues, and of the needs and characteristics of different socioeconomic groups, is also sharpened through volunteer experiences. This is important for corporate managers who must increasingly reconcile the various, and often conflicting, demands of a multitude of stakeholders and special interests, many of which they may not completely understand.

Working in civic, cultural, recreational, religious, political, or social organizations, a manager also has the opportunity to meet and establish friendships with people

merely add a credit to their CV begin, in time, to grasp the bigger picture.

Even with all of the advantages of volunteerism — it's good for society, companies, and employees — many employees still resist getting involved. Their main objection is that they don't have the time to volunteer and do their "day jobs." Or they say volunteering is not appreciated at their companies, and it certainly is not viewed as a way to climb the corporate ladder. In fact, some employees feel that by volunteering, they are potentially derailing their chances for a promotion because of the time they'll spend out of the office.

Because of these attitudes, there is a growing recognition in both the public and the private sectors that corporations need to be more proactive in promoting employee volunteerism. To do this, companies must freely provide time off for participation in volunteer programs; publicly acknowledge, either with promotions or awards, employees who volunteer the most and do it successfully; and set up mentoring programs in which senior executives work with employees in one-on-one sessions to help them navigate obstacles that arise during volunteerism.

Only when these approaches and others are used to demonstrate the corporation's full approval of and engagement in volunteerism will these companies inspire reluctant employees and give them productive volunteer experiences that are good for them, for the company, and for the community. +

## Volunteer work isn't just an outlet for employees in search of meaning: It's a leadership development opportunity.

The management environment in volunteer organizations is often extremely challenging. Without the compensation and organizational authority to keep their teams productive and working toward shared goals, volunteer managers must be adept leaders and persuaders as they tackle all the same management issues they face in their corporations: setting objectives, developing strategies, raising and allocating funds, motivating and guiding people, and complying with regulatory structures.

Because corporate managers volunteering in nonprofits don't have titles to define their positions, they have to practice what some call "permission leadership." That is, they have to earn the trust and respect of the people they are supervising.

Executive awareness of social

from a variety of backgrounds and vocations. For younger managers, a stint in a nonprofit organization provides rare chances to socialize with senior executives and work closely with them to learn intangible leadership skills — such as persuading others to follow your vision, mediating between conflicting parties, addressing workers' concerns and insights, and knowing when to spur a team to action and when to let the team relax. Senior, financially secure executives who donate their time and energy with enthusiasm are role models for younger executives.

If helping others and the community is undertaken purely for the opportunity to network, the full and lasting meaning of volunteerism is missed. Some people who approach it with this attitude will surely lose interest. Still, many of those who start out as volunteers to