

# Health care in the Information Age: Why the consumer is king

By James B. Hudak

Better informed, more demanding consumers are transforming the US healthcare industry. To thrive in this stubbornly difficult business, health plan companies must offer options customized to individual needs. Over time, the changes should also mean lower, more controllable insurance costs for patients and for companies that finance employee health plans.

Like most laymen, I usually feel at a disadvantage, perhaps even a little inferior, talking to a physician. He knows everything about medicine, and I know relatively little. When I learned by telephone not long ago that my mother, living in another state, had suffered a stroke, I was, of course, stunned and dismayed. I was also confused about how to talk to her doctor to make sure she was getting the right treatment.

Turning on my personal computer, I typed my way to an Internet Web site, where I learned that the keys to recovery following a stroke are anti-clotting medication and therapy to get the patient moving again as soon as possible. Speaking to my mother's doctor by phone later, I was able to question him intelligently about whether he was following the recommended procedure.

This was my very personal introduction to an important trend that is starting to reshape the health industry: consumer power. We are at the

beginning of an evolutionary process that is going to change the industry drastically, resulting in the shift of an enormous amount of authority away from those who provide health care and those who pay for it and toward the patients. As a result, health plans customized to individual needs will begin to replace the one-size-fits-all variety, just as surely as 401(k) plans, tailored by the individual retiree, have supplanted traditional defined benefit pensions. This evolution will have a substantial effect on both consumers and the companies that finance their employees' health plans.

But the most profound impact will be felt by companies that create, market and operate health plans. Those health plan companies that recognize this change early on and adapt to it are likely to thrive. Indeed, for the companies that move quickly and wisely, this could be the opportunity to distinguish themselves from their competition and thereby find a way to profit in this stubbornly difficult industry.

The health plan business is clearly a laggard in earnings. According to a Lehman Brothers report that tracked 10 plans in 1996, the average profit margin was a mere 2.3 percent. Compare that dismal showing with that of a sister business, the pharmaceutical industry, where the average profit margin was as high as 30 percent.

Or measure the performance of health plan companies against a yardstick we have developed to determine success: the Value Capturer. The concept is simple. What most companies want is high profitability and high growth, and that's what the yardstick measures. Value Capturers are companies that are in the upper third of their industries in both profitability and growth.

Apply the framework to health plans, using free cash flow as an approximation of profitability for not-for-profit organizations. Not a single company in the health plan business is in the top third of the industry in both growth and profitability, so not a single com-



# Cardio-Info

What are the risk factors for heart and vascular disease?

Why are we so unhealthy?

• High cholesterol	• Smoking	• Diabetes
• High blood pressure	• Obesity	• Family history
• Age	• Physical inactivity	• Stress
• Poor diet	• Excessive alcohol consumption	• Sleep apnea
• Autoimmune disease	• Kidney disease	• Pregnancy complications
• Infections	• Radiation therapy	• Certain medications

**Risk factors include:**  
Cholesterol, Blood pressure, Diabetes, Smoking, Obesity, Physical inactivity, Poor diet, Excessive alcohol consumption, Stress, Family history, Age, Autoimmune disease, Kidney disease, Pregnancy complications, Infections, Radiation therapy, Certain medications.



HEALTH WITH CARE

Do you have any of the following symptoms?

Do you have any of the following symptoms?

YES

R

*Robert*

pany in the industry is capturing value effectively. (By contrast, of the 350 financial institutions we evaluated, 16 percent were Value Capturers.)

What can be done to improve performance in this sector? Some analysts think that consolidation—the wave of mergers and acquisitions that has swept the industry during the past five years—will result in economies of scale that will reward the survivors. We're skeptical about the impact of size alone. A fascinating study reported in *The Wall Street Journal* examined 3,000 companies in a variety of businesses. The study looked at 900 or so that held dominant market shares in their industries; only 29 percent of them were more profitable than their smaller rivals. So economies of scale are not by themselves the solution.

#### **Virtual house calls**

The key to success in health care will be somewhat different. It will be the ability to understand and capitalize on the rise of consumer control. In Industrial Age medicine, the doctor was king. He (almost never she) told you what to do and you did it. Even if you did not follow instructions—did not quit smoking, for example—you never questioned his authority.

Today, many patients are challenging the physician's authority. It's not unusual to go into a doctor's waiting room and see patients carrying stacks of Internet printouts, advisories on the latest way to treat their ailments. And sometimes their information is better, or at least more current, than the doctor's.

Doctors rarely made house calls in the late Industrial Age. Today, you can easily summon a doctor to your home—although he or she will arrive in an unfamiliar form. For example, you can click onto a Web site called Cyberdocs. For \$50 (charged to your

credit card) a live doctor will come online and discuss your medical problem. A colleague recently conversed with one of these virtual doctors about lower back pain and got some helpful guidance on over-the-counter painkillers. You can also get advice on medical questions ranging from male pattern hair loss to birth control to high blood pressure. (Caveat emptor, however: These services are not regulated or licensed, and not all virtual doctors are bona fide physicians.)

Another example of a healthcare Web site is the Health Hero Network, a service directed at children with chronic illnesses. In one instance, the network features the fanciful tale of two elephant pals who are diabetic but who nonetheless rescue their friends from a tyrant. In the course of telling the story, the authors supply children with diabetes information about how to manage their disease.

The evolution of consumer choice in health care is likely to go through three stages: consumer-conscious, consumer-centered and, finally, consumer-customized. None of these phases will replace the preceding one entirely; they will build on one another.

We are already well into the consumer-conscious phase, in which patients show up in the doctor's office with an article on the pioneering treatment for a life-threatening condition. What we are also seeing in this phase is a reaction against what much of the public believes, rightly or wrongly, are the unreasonable constraints of managed care. In response, a growing number of plans offer such inducements as access to specialists without going through a gatekeeper doctor and telephone access to nurses who can give medical advice at any hour.

But for now, this is a mass-market approach, offering largely the same level of service to everyone. Health plans have not done well in developing individualized services and are several years behind financial institutions in applying advanced information technology. Compare health insurance plans and banks. When I'm on business in Vienna, say, I simply put my bankcard in an automatic teller machine and the screen asks me in English, "Mr. Hudak, how much would you like?" If I go to a doctor's office with my health plan card, however, the receptionist makes a photocopy and sends it to my insurance company. That's a dumb card.

#### **Segmented market**

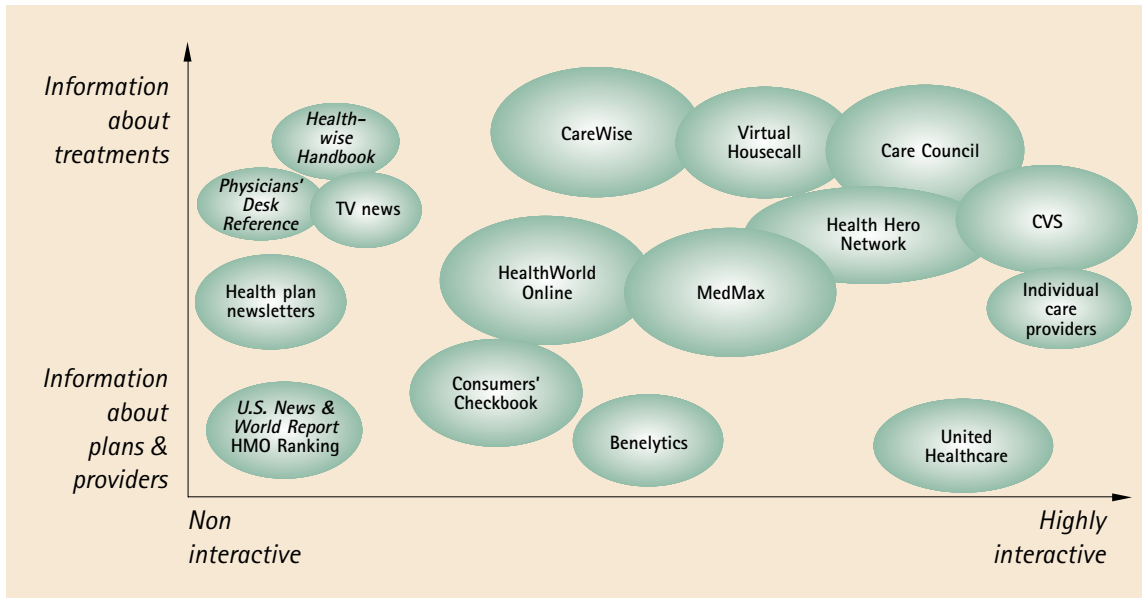
In the next phase—consumer-centered—the successful plan providers will recognize that not everyone buys health insurance for the same reason any more than everyone invests for the same reason. These Value Capturers will catch this wave and the market that it creates.

This consumer-centered market is one of segments. The first is made up of consumers who want only basic care. And even this segment is bimodal, made up of two very different groups. One wants no frills because it cannot afford any more. These are consumers for whom an additional dollar a month makes a difference. Very different are young men with high salaries and few obligations who would rather spend discretionary dollars on a ski vacation. These "immortals" want minimum health coverage, certain it will be somebody else who breaks a leg on an icy run.

The second segment is found at the other end of the spectrum—people who want full coverage and a wide selection of doctors and hospitals and are willing to pay for them. In the middle is a segment we call Affordable Choice.

## Better informed

Consumers are gaining more and better information from a wide range of sources.



SOURCE: ACCENTURE ANALYSIS

These consumers want to have some selection—especially in picking primary-care doctors—but they are willing to give up some choice if the trade-off is a lower price.

To date, there is little evidence that health insurance companies understand the segmentation of the consumer-centered market, that they are trying to determine how large the segments are or that they are analyzing what each segment wants. That neglect is a serious oversight, because the winners in the industry will be those health plans that establish a distinctive competitive position early and shape their business plans accordingly.

The third stage—consumer-customized—will feature plans tailored to individual needs, or as close to individual needs as is practical. They will be designed to fit not only the consumer's health status and values but also the attitudes, behaviors and intentions of the consumer's particular stage of life. Our research sug-

gests that people have as many as 10 "intentions" in their lives—the intention to get married and have a child, for example, or the intention to retire (see related story, page 34). So a health plan must understand its customers—just what it is they want at whatever stage of life they happen to be in.

A model might be a company like Streamline, an Internet online shopping service. After a customer signs up, a Streamline representative comes to his or her home with a bar scanner and records everything on the shelves to get a sense of the customer's needs and habits. When the customer goes online to order groceries, have dry cleaning picked up or select videos, Streamline will note, based on the inventory from the scanning, if there is something the shopper hasn't ordered that might be needed. If you are ordering razor blades, for example, the system will check to see how long it has been since you ordered shaving cream. So it will offer you a free sample or a discount coupon.

What we are seeing is a reaction against what much of the public believes, rightly or wrongly, are the unreasonable constraints of managed care.

The successful plan providers will recognize that not everyone buys health insurance for the same reason any more than everyone invests for the same reason.

If health plans knew their customers as well as Streamline knows its shoppers, they would be able to help their customers anticipate medical problems and thereby prevent them.

This growing power of the consumer means that health plans will have to reconfigure their capabilities and approaches in a variety of ways. If a plan is going to serve what we call the Affordable Choice market, for example, it might use traditional sales and distribution channels; have a tiered network of providers with varying deductibles and/or coinsurance; and perhaps offer broad primary-care coverage.

To serve the high end of the market—those who want the best care no matter what the cost—a health plan might offer an Internet service comparable to Schwab’s One Source for mutual funds. This approach to health coverage would allow consumers to go online and select from among dozens of specialists and hospitals. For that privilege they would have to be willing to pay substantial premiums, co-payments and other charges.

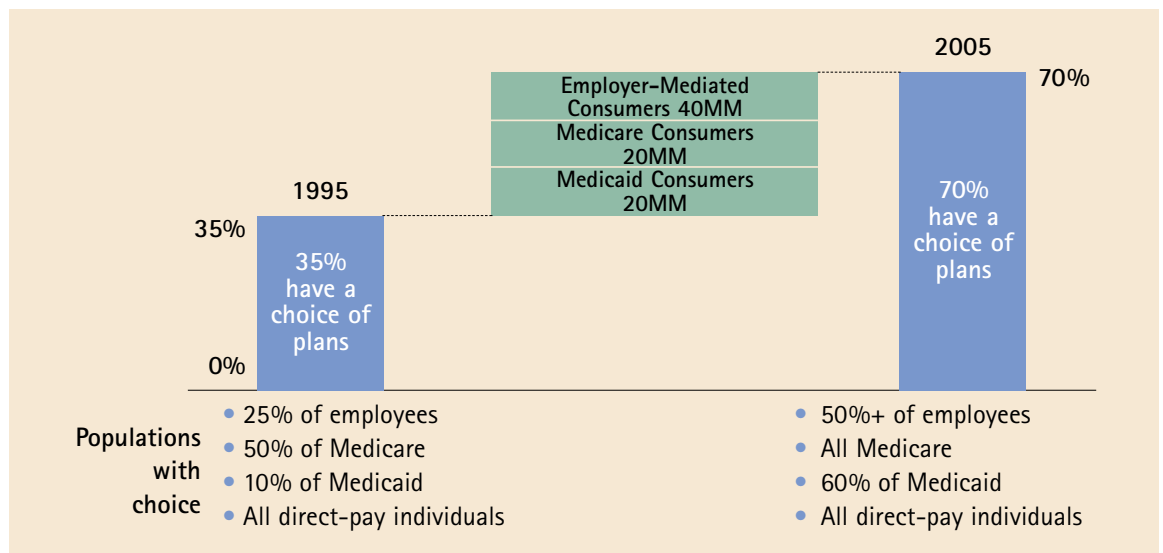
What does consumer consciousness mean for executives running companies that are on the other side of the transaction and buying health care for their employees? There are multiple implications.

In the short run, consumer power could lead to a rise in company costs. The tendency of employees as newly empowered consumers will be to use more services than they need. Also, administering a customized health plan will likely be more expensive than running a one-size-fits-all plan.

Over the long run, however, costs could fall, as consumers learn how to take better care of themselves. The lion’s share of medical costs, as much as 80 percent, are incurred by a relatively small number of people who have serious, chronic diseases, including asthma, diabetes, depression and hypertension. Some of them decline to follow their prescribed therapies. The insurance cost to consumers and the companies that finance their health plans will decline as new information systems help

### More choices

By 2005, more than half of all employees and all those with Medicare will have a choice of plans.



SOURCE: ACCENTURE ANALYSIS

the chronically ill take care of themselves, especially if they start at an early age.

A shift from defined health benefits to defined health contributions, along the lines of retirement plans, would help companies predict and control costs. Instead of promising to provide all employees with the same insurance coverage, an employer might put a fixed sum—say, \$7,000—in each employee's insurance account for the following year. Out of that amount the employee would be expected to buy insurance to protect against a medical catastrophe, like the need for a bone marrow transplant. Beyond that, the decision to buy insurance to pay for eye-glasses or orthodontia or a chiropractor would be up to the employee.

Another manifestation of consumer power is the growing popularity of alternative medicine—acupuncture, naturopathy, the use of herbs. Increasingly, employers, recognizing the diverse attitudes and needs of their workforces, will want to offer their employees a greater variety of plans.

These trends may also mean that, downstream from the health insurance industry, some companies not now in the business will find opportunities. Companies that provide Internet services would clearly play an important role in an online health services network. Fidelity Investments has transferred its skill and experience in tracking and managing individual investment accounts to the management of individual health plans. Many companies with substantial expertise in one-on-one retail marketing would likely find places in the industry in this consumer-customized environment.

More broadly, this evolution in health plans will be a reminder to

purchasers that customization is what they ought to be focusing on in their own businesses. A few years ago, Michael Porter noted that imitation and strategic convergence will ultimately destroy industry profitability. The companies that will be enduringly successful will be those that begin as early as possible to define and embody in their activities a unique competitive position. And there is only one way to define uniqueness, and that is around the customer.

Information and communications technologies are transforming virtually every aspect of our personal and professional lives. The ways that we learn, exchange information and buy and sell goods and services are changing in very rapid and fundamental ways. Health care has not been the sole engine of this revolution. But because of the inherently individual nature of health services, it may ultimately be the most profoundly changed. ■



*Jim Hudak is the global managing partner for Health Services at Accenture. He has consulted with numerous organizations in the health services field, including managed care organizations, medical groups, hospitals, academic medical centers and public agencies. Mr. Hudak has directed efforts to develop overall business strategies, consumer-focused strategies, growth and new market entry strategies, and operating improvements. He is based in Boston.*