Health Care's Retail Transformation

By Rob Tazioli

Health plan leaders are well aware of the market catalysts for consumer-directed health care (CDH) as well as the rationale for building capabilities to attract and retain individual plan members. However, the sense of urgency and call to action for this CDH-related disruption in the traditional supply chain—which can also be viewed as a market opportunity—varies widely from plan to plan.

Daily headlines describe the catalysts for this supply chain disruption. Spiraling health care costs have damaged the balance sheets and competitive advantage of America's employers, and their current financial solution to this crisis mirrors their behavior in the 1980s, when they shifted much of the cost burden and risk related to defined benefit pension plans onto their employees.

Employers remain committed to reducing their health care burden. The Employee Benefit News/Forrester Research 2006 Benefits Decisions' Impact Study of more than 800 employers showed that 48 percent of those companies either currently offer or expect to offer within the next two years a CDH plan, partially as a cost control strategy. In fact, high-deductible plans, health savings accounts (HSAs), and health reimbursement arrangements (HRAs) are growing at a faster pace than 401(k) plans did when they were first introduced.

There are two reasons why the CDH marketplace will likely continue to grow far more rapidly and broadly than the emergence of the 401(k) market. A primary driver is the Internet, which has reshaped the supply chains and eliminated intermediary functions in many businesses, such as travel and entertainment and property & casualty insurance. Travelocity.com, Geico, and scores of Internet-based businesses continue to flourish at the expense of traditional service agencies.

The secondary driver of rapid growth in the CDH marketplace is generational. Individual freedom remains the battle cry of baby boomers. Boomers demand information, choice, and attention, and they have raised their children and grandchildren to expect the same. Historically though, health providers have been slow to address those boomer demands.

A Challenging Market Scenario
This perfect storm of cost control, technology, and cultural change presents a challenge for health plans. Senior managers who see an emerging consumer-driven marketplace are examining several "what if" scenarios to map out competitive strategies. To many, the most challenging view of the future involves a marketplace in which health plans are in competition with a new type of intermediary—whether it be Google, WebMD, Revolution Health, American Express, or Bank of America—that possesses or establishes the credibility, trust, and service infrastructure to build health care-related relationships with individual consumers and to maintain their brand loyalty.

Plans now face significant branding hurdles in their attempts to win the hearts and premium dollars of the individual market, including consumers' negative perceptions of insurance generally. The future scenario that plans may confront is a market structure in which new intermediaries with a strong retail consumer franchise first establish health-related relationships with a significant number of individual consumers—by providing information and/or services—and then apply the same formula on a bundled, "mass customized" basis to Fortune 1000 employers, thereby becoming large-scale aggregators of individual members.

This new supply-chain model could eventually shift the entire health care administration burden from employer to intermediary, and one of the key functions would involve health plan selection. In this scenario, the health care intermediary chooses which specific plans are offered to employees and health insurers could be limited in their ability to independently grow individual plan membership under their own brand names.

Major Changes Required

Transitioning to a retail focus is no easy task. The magnitude of cultural, operational, technological, product design, marketing, staffing, and silo-based challenges is the major reason why many plans that see the CDH train leaving the station are choosing to proceed slowly.

But moving too slowly may present a risk. According to McKinsey & Company, “by 2011, the fate of $550-$600 billion of premiums will be in the hands of individual decision makers…not employers, or the government.” Further, McKinsey expects that within the next five years, 54 percent of Americans with health insurance will be making their own decisions about health care, up from 42 percent today. This number includes:

- 14+ million individuals transitioning into retirement;
- 20+ million individuals moving into high-deductible plans; and
- 5+ million individuals purchasing their own coverage.

Booz Allen Hamilton estimates that more than 13 million people, or 7 percent of the population covered by private insurance, are now insured by consumer-directed health plans (CDHPs) and that the number has been doubling annually since 2004. At that rate, according to a 2007 Booz Allen study, “CDHPs in the United States will reach the tipping point—generally defined as 15 percent penetration—within the next year or two; once that happens, we’ll see the entire market…respond with a more consumer-centric approach, or be left behind.”

Early Entrants in the CDH Market

One of the health plan pioneers that long ago recognized the market impact of consumerism is Jacksonville-based Blue Cross Blue Shield of Florida, which currently serves more than 4.1 million members, representing a 30 percent share of the Florida health insurance market. To address the needs of an emerging CDH market, BCBSF built internal capabilities that enabled individual consumers to transact business whenever and however they wanted, on a 24-hour, 365 day-a-year basis. This meant creating distribution channels that supplemented, rather than replaced, their traditional field sales force.

In 2000, rather than either joining health insurance portals or delaying Web-based initiatives, BCBSF aggressively launched an independently branded online sales capability where consumers could—within a single Web-based interface—interact with licensed agents and complete the entire quoting and application process online.

This early foray by BCBSF into direct-to-consumer distribution broke new CDH ground in several respects, including:

- customer-friendly access, featuring multichannel options, including phone, e-mail, and online interactive “Click to Chat”;
- seamless integration of customer relationship management (CRM) technology, which captures customer information and makes that data available to agents on a real-time basis to facilitate sales and improve the member experience; and
- telephone-based licensed agents, available to assist with any portion or all of the sales and customer service processes.

BCBSF’s direct-to-consumer investment delivered immediate and tangible results. Over the past seven years, the plan has significantly increased the number of individual plan members; ensured a professional, consistent customer experience; shortened speed to market; lowered customer acquisition costs relative to traditional channels; and heightened incremental sales.

CDH Impact on Sales Channel Mix

A number of other plans—including Aetna, Definity Health, and Humana—began to apply similar multichannel capabilities, with varying degrees of functionality and sophistication, but with similar results in terms of brand positioning, individual plan sales, and per-member acquisition costs.

Notably, as plans seeking individual members have increased the consumer-direct portion of their sales distribution mix, they have achieved significant savings through lower operating expenses, particularly involving sales commissions. In recognition of the potential multimillion-dollar savings in operating expense and increased profitability, a number of large plans have moved aggressively to reduce their reliance on field agents to service the individual and small group markets. In some instances, plans are working toward a channel mix ratio of 70 percent consumer-direct versus 30 percent traditional broker, which reverses the current ratio at most plans.

This transition to direct methods, however, has also served to benefit field agents because Web-based inquiries have increased the number of qualified leads from individual consumers, especially the over-65 population, who still require a more personal, high-touch sales process.

The Emergence of CDH 2.0
Increasingly, health plans with a commitment to CDH are reinvesting the savings generated by lower acquisition costs back into technology and customer retention, as a means to increase competitive advantage.

In the emerging world of CDH 2.0, Web and phone capabilities are integrated with software that provides plans with features and benefits such as:

- user-friendly elements including click-to-talk and co-browsing, which immediately connects Internet customers with a live agent or service rep to assist with the transaction;
- real-time customer data that facilitates the sales process and builds brand loyalty by delivering a positive customer experience;
- data analytics that provide critical insights into customer preferences, enabling insurers to design, price, and rapidly bring to market tailored plans for specific market segments; and
- quantitative evaluation of marketing spend, including which methods (such as direct mail, TV, Internet), messaging, creative, and timing have the most impact, ensuring a higher return on investment in future marketing campaigns.

Most significantly, CDH 2.0 involves the application of CRM technology to apply plan member data to improve their health and to reward members who maintain a healthy lifestyle. At least one large insurer, for example, as an incentive for its diabetic members to adhere to scheduled eye exams—an important health maintenance step for that disease—eliminates the co-pay requirement for those exams.

This insurer is one of many that foster the perceived plan value and loyalty of members with no claims experience by offering deep discounts at local health clubs. Tailored incentives and rewards such as these deliver better wellness outcomes and lower costs and also demonstrate a plan's concern for its members' quality of life, which increases retention.

Broader Commitment Required
According to industry newsletter Inside Consumer Directed Care, "virtually every health insurer offers some form of account-based health coverage to address the emerging CDH market." A much smaller number of insurers have made the level of investment in technology, operations, and marketing necessary to establish a meaningful brand presence in the individual plan market. However, even a CDH 2.0-level of commitment—if CDH is viewed as a distinct retail business unit—may prove insufficient.

McKinsey's Vishal Agrawal, a leader in that firm's health care practice, believes health plans must make a commitment well beyond CDH benefit designs alone to succeed as the market evolves. He says, "The traditional payer value chain faces increasing commoditization. Winning health plans will become consumer-centric organizations, on par with the world's best retail companies, in terms of product development, marketing, distribution, and customer service."

Managing the pace and commitment to consumerism remains the greatest challenge for health plans as the industry shifts from a wholesale to retail orientation. If other industries that have undergone a similar retail transition provide any insight, the competitive landscape of America's health plans will be reshaped dramatically over the next five years.

Rob Tazioli is chief development officer at ConnextionsHealth, a business process outsourcing firm in Orlando, Florida.