

# HEALTH CARE CONSUMERISM IS REAL—AND PROVIDERS NEED TO ADAPT

By Sanjay Saxena, MD; Will Nolen; Brett Spencer, MD; and Lara Koslow

**T**ODAY'S HEALTH CARE CONSUMERS have more money at stake, more choices to make, and more information (and noise) to consider than ever before. The movement of the consumer to the forefront of health care decision making has been driven largely by three factors: a growing number of health insurance products that shift more financial responsibility onto consumers; the emergence of private and public insurance exchanges; and the proliferation of tools, websites, and rankings that offer greater transparency into price and quality. Because consumers exert greater control over decision making, providers are positioned to gain or lose significant share and consumer loyalty: every provider should, therefore, be developing a robust, consumer-focused strategy to survive—and thrive—in this new landscape.

To create a sound strategy, providers need to understand how consumers select health insurance plans and care providers, especially when financial tradeoffs are introduced. BCG recently completed a survey of health care consumers (supplemented by a

series of consumer focus groups) in ten major metropolitan markets across the US. Our survey revealed that consumers' health care priorities have changed significantly in recent years and that providers need to shift their strategies accordingly.

## How Consumers Select Health Plans and Providers

In the current complex health care environment, consumers face two critical decisions when they are shopping for coverage and care: the selection of a health plan and the selection of a care provider. Our survey revealed important insights into how consumers evaluate tradeoffs associated with a number of key factors (including cost, quality, and provider choice) when they are making these pivotal decisions. Although, to a certain extent, consumers have always considered these factors, the proliferation of health insurance products with high deductibles and copayments has accelerated in recent years, and price considerations—typically relating to premiums, deductibles, and out-of-pocket costs—have gone from

being virtually irrelevant to consumers' decision making to being among the most important.

**Most consumers will accept limitations on where they can go for care—for the right price and “narrow” network.** In the abstract, most respondents said that they value access to a wide range of primary-care physicians, specialists, and hospitals. However, when offered 10% to 25% savings on out-of-pocket costs, 72% said they would be willing to purchase a narrow-network plan with fewer choices in at least some circumstances. Although, in their most recent health plan selection process, more than half of respondents said they had researched whether a specific doctor or hospital was included in the networks under consideration, a significant portion (23%) indicated no loyalty to any health system, and 48% indicated that one particular system was “essential” to have in their network.

These findings pose a dilemma for many providers. On the one hand, there is clear consumer demand in every market for low-price narrow networks, and providers that choose not to respond to this demand risk losing significant share to competitors that do. On the other hand, nearly half of respondents said they are loyal to just one system, so when two systems compete with dueling narrow networks, each competitor is likely to retain members who are already loyal to its system in the first place—but at a discounted rate.

So, from an economic standpoint, what should providers do? First and foremost, providers should determine empirically which network configuration will enable them to leverage brand equity while consistently delivering high quality and value. Second, providers need to determine whether and when to launch an aggressive narrow-network offering. The answers will vary by market, but our simulations demonstrate that in markets where a significant competitor has already launched a major narrow-network offering, it is almost always in a provider's best interest to respond with a major offering of its own.

Even in markets where competitors are not actively participating in narrow-network products, it can make sense for a provider to make a preemptive offering.

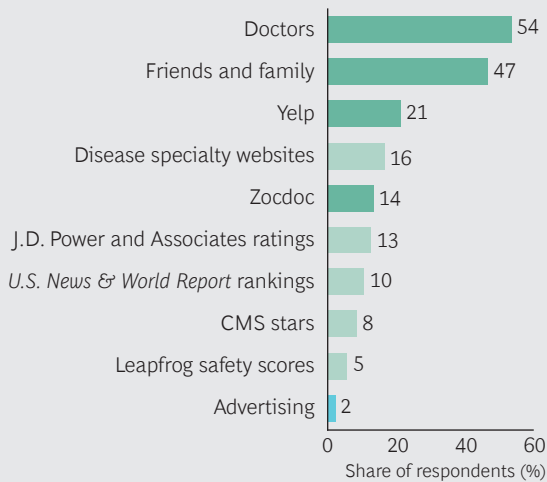
**Despite the many ways consumers can compare providers, word of mouth is as important as ever.** In the past, most consumers would select doctors on the basis of recommendations from friends and family. Furthermore, when they needed hospitalization or a specialist, their doctors would simply tell them where to go and whom to see. Now consumers are being asked to take a more active role in provider selection, and new resources have emerged to help them. These resources include friend networks (for example, Facebook), social ratings websites (Yelp), private rankings (*U.S. News & World Report* rankings, J.D. Power and Associates ratings), and government transparency initiatives (Centers for Medicare & Medicaid Services' Hospital Compare website). We surveyed consumers to understand how likely they were to seek information before booking minor and major procedures. Although consumers are still most likely to consult their physicians, friends, and family, they are also quite willing to consult social ratings websites. In contrast, consumers are indifferent to independent, third-party sources of comparison, such as *U.S. News & World Report*, and hardly any consumers rely on advertising for help in making decisions. (See Exhibit 1.)

There may come a day when consumers trust more objective rankings over word of mouth, but providers shouldn't count on it. Although maintaining a strong ranking (or avoiding a precipitous decline) is a worthwhile objective, health systems would be well served to invest more of their resources in delivering a differentiated experience that generates brand advocacy among consumers.

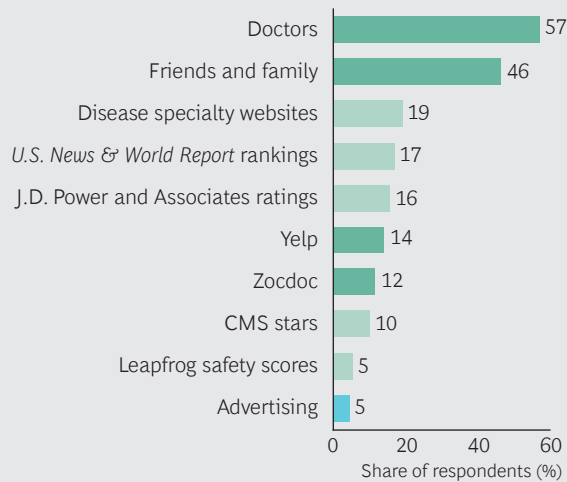
**Consumers struggle to define quality.** The vast majority of respondents said that their number-one priority when scheduling a procedure is high-quality care, and they rank that 1.5 times more important than out-of-pocket costs. Still, they find it hard to define quality. When making a choice

## EXHIBIT 1 | Consumers Base Their Decisions Primarily on Word-of-Mouth Recommendations

WHERE WOULD YOU GO TO FIND INFORMATION BEFORE BOOKING A MINOR PROCEDURE?<sup>1</sup>



WHERE WOULD YOU GO TO FIND INFORMATION BEFORE BOOKING A MAJOR PROCEDURE?<sup>2</sup>



■ Word of mouth ■ Third-party ratings ■ Traditional advertising

Source: BCG National Health Care Quality survey, December 2015.

Note: Respondents who answered “insurance company” (30% for minor procedures, 28% for major procedures) were omitted because their responses related to price and/or out-of-pocket cost factors. CMS = Centers for Medicare & Medicaid Services.

<sup>1</sup>N = 310.

<sup>2</sup>N = 552.

before a procedure, many consumers use specialization as a proxy for quality. After a procedure, their evaluation of quality is based on their doctor’s exhibited expertise, ability to explain things clearly, and time he or she was willing to spend with them. When consumers were forced to make tradeoffs in selecting a provider for a major procedure, they rated the importance of out-of-pocket costs at 36%, health system brand at 22%, distance from home at 17%, and availability of an appointment at 9%. Quality came in fifth at just 6%. As a consumer in one of our focus groups noted, “What’s sad is there are better statistics on automobiles than there are on hospitals.”

**Demographics and segments do not overlap very well.** In developing marketing and branding strategies, many health systems rely heavily on demographic stereotypes, such as *Seniors are highly loyal to their PCPs* and *Women, in particular, really want their doctors to listen to them*. Although there are some consumer preferences that skew modestly along demographic lines, these correlations are not common or sig-

nificant enough to justify basing marketing efforts on demographics alone. A better approach to segmentation is to cluster consumers on the basis of their preferences and attitudes. In Exhibit 2, for example, we have clustered consumers into five groups on the basis of their needs. (Each of the five clusters contains a fairly similar demographic mix.) This, of course, is just one way to segment consumers; each market requires a tailored approach.

**All markets are not created equal.** Although many consumer preferences are consistent across markets, some significant variations do exist. In Miami, Florida, for instance, consumers selecting an insurance plan rate the carrier as more important (24%) than the hospitals included in their network (14%), whereas in Atlanta, Georgia, consumers place more importance on the hospitals in their network (23%) than on the insurance carrier (15%). Further variations exist in market behavior. Consumers in Miami are more likely to shop for the best price, for example. Chicagoans are more likely to research in-network

## EXHIBIT 2 | Consumers Can Be Segmented into Five Preference Clusters

	DEDUCTIBLE FOCUSED	LOYAL TO DOCTOR	SEEKING ACCESS	LOYAL TO INSURANCE BRAND	SEEKING HASSLE-FREE EXPERIENCE
Share of respondents (%)	32.1	22.2	22.1	15.8	7.8
Key factor for consumers (% of respondents)	<ul style="list-style-type: none"> <li>• Deductible = 67</li> <li>• Median = 41</li> </ul>	<ul style="list-style-type: none"> <li>• In-network doctor = 29</li> <li>• Median = 8</li> </ul>	<ul style="list-style-type: none"> <li>• Access to multiple health systems = 38</li> <li>• Median = 15</li> </ul>	<ul style="list-style-type: none"> <li>• Insurance carrier brand = 49</li> <li>• Median = 11</li> </ul>	<ul style="list-style-type: none"> <li>• Referral not required = 22</li> <li>• Median = 2</li> </ul>
Other factors (% of respondents)	<ul style="list-style-type: none"> <li>• Carrier = 10</li> <li>• Systems = 10</li> <li>• Doctor = 6</li> <li>• Savings = 5</li> <li>• Referral = 2</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Deductible = 32</b></li> <li>• Systems = 17</li> <li>• Carrier = 12</li> <li>• Savings = 6</li> <li>• Referral = 5</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Deductible = 30</b></li> <li>• Carrier = 13</li> <li>• Doctor = 10</li> <li>• Savings = 6</li> <li>• Referral = 3</li> </ul>	<ul style="list-style-type: none"> <li>• Savings = 17</li> <li>• <b>Deductible = 15</b></li> <li>• Systems = 13</li> <li>• Doctor = 4</li> <li>• Referral = 2</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Deductible = 26</b></li> <li>• Carrier = 17</li> <li>• Systems = 17</li> <li>• Doctor = 11</li> <li>• Savings = 7</li> </ul>

Across all consumer segments, *deductible* is one of the top two concerns

Source: BCG National Health Care Quality survey, December 2015.

providers before booking a major procedure. And Bostonians are less likely to delay care.

### Implications for Providers

These findings suggest several imperatives for providers.

**Develop a consumer-oriented insurance strategy.** Providers must develop and execute a consumer-oriented strategy focused on narrow-network insurance products. Even in markets where narrow networks have not yet taken off, consumer demand exists, and the risk of losing share as a result of doing nothing is high. In developing an insurance strategy, providers should address the following questions:

- How do local consumers view the various provider-branded and payer-branded health plans?
- From the consumer's perspective, which providers add the most value to our network? How much of that value can we—rather than other health systems participating in the network—capture?
- How can we design plans that appeal to consumers and also create sufficient

incentives for them to engage actively in health care decision making?

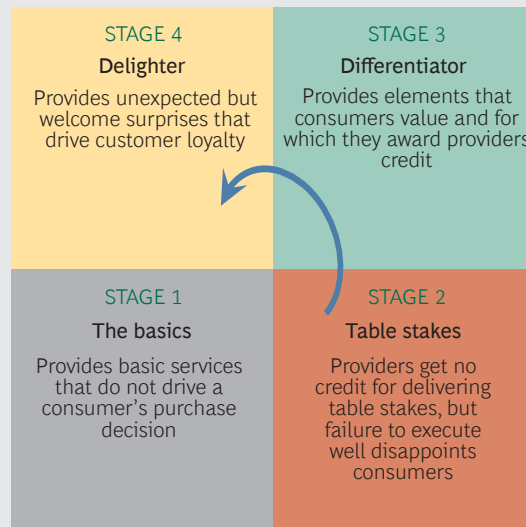
- To gain or maintain share, how aggressive do we need to be in pricing products?
- Should we build a provider-sponsored plan on our own, or should we partner with an insurance carrier?

### Deliver a high-quality consumer experience.

Providers need to determine which elements of the consumer experience actually drive loyalty and word-of-mouth referrals in their local markets. Exhibit 3 provides a framework that can be used to plot and quantify four stages of the consumer experience. In our view, providers should focus first on the table stakes, moving on to the differentiators and, finally, to the “delighters.” Many providers invest a great deal of money and other resources in wide-ranging initiatives designed to improve the customer experience, but the harsh reality is that many such initiatives either fall into the low-priority category or are overshadowed by shortcomings in table stakes.

**Build focused brands.** Providers must build focused brands that will cut through all the noise related to quality, rankings, and which

### EXHIBIT 3 | Progressing Through Four Stages, Providers Can Build Loyalty



The priority for providers is to cover table stakes and then, progressively, become differentiators and delighters

Source: BCG analysis.

provider has the best doctors. The world's most successful brands focus on a very specific target consumer. Most of today's providers vaguely promise to be everything for everyone, yet the average consumer cannot readily discern how one health care system differs from its competitors. Instead, providers should understand the different segments in their market, choose (on the basis of multiple strategic and operational considerations) one or two to target, and then orient their organizations, operations, and brand positioning to serve that target segment. Providers sometimes object to this approach, citing their obligation to serve everyone. We don't disagree with this. Still, providers can and should focus their brands, because focused brands not only attract more than their fair share of target

segments but also win consumer share from other segments.

**B**Y NOW, MOST providers have come to recognize that health care consumerism is a major force that will reshape local markets. Figuring out how to respond is no easy task: the optimal path varies by market and provider. But in all cases, providers need to develop a deep, empirically sound understanding of consumers in their markets and carefully assess the implications for their narrow-network strategy, patient experience initiatives, and brand positioning.

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