

Consumer-Driven Pricing: The New Strategic Imperative

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Healthcare leaders currently have multiple pricing-related pressures to contend with, including accelerating consumer expectations for value, looming federal pricing transparency requirements for health systems, and increased steerage by private payers into lower-cost alternatives. But the mounting external threats are also an opportunity for health systems to transform historically siloed, narrowly focused pricing activities into a consumer-driven, goal-oriented strategic discipline.

As economic hardship continues in the wake of COVID-19, consumers increasingly expect value in the care they receive, regardless of the setting where it's provided. Even before the pandemic, an increasing proportion of consumers were enrolled in high-deductible health plans, elevating awareness of out-of-pocket costs. In addition, many millennial consumers are comfortable shopping for

needed healthcare services among traditional providers, telehealth providers, and retail clinics alike. These generational trends have increased overall consumer shopping activation in healthcare—or the proportion of consumers actively engaged in researching the price of their care. According to NRC Health, 10 percent of consumers say they “always” compare costs when deciding where to go for a healthcare procedure.¹ In addition, 62.7 percent of consumers noted that they would be slightly/very excited to

¹ NRC Health, Market Insights Survey, 2019.

Key Board Takeaways

- **Refocus pricing as a strategic discipline.** COVID-19 has accelerated consumer expectations for healthcare value. At the same time, looming federal transparency regulations are set to go into effect at the start of 2021. Health systems can turn these risks into opportunities by pivoting pricing from a narrowly focused set of activities into a strategic discipline focused on delivering value to consumers.
- **Understand and improve shoppable outpatient services.** Shoppable outpatient services—where consumers typically have plentiful alternative options for care—represent one of the largest potential threats to health system margins. Evaluating and prioritizing shoppable services is a central component of any effective consumer-driven pricing strategy.
- **Support pricing strategies over standalone tactics.** Simply reducing prices is not an effective or sustainable strategy. Consumer-driven pricing should support an overall growth strategy that encompasses all aspects of the value equation: access, experience, and price.

use an online cost estimator from their preferred healthcare facility.

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At the same time, the Centers for Medicare & Medicaid Services is moving forward with new pricing transparency rules that would require health systems to publicly share information about their charges for items and services

Hospital Standard Charges for 2021 CMS Transparency Requirements

- **Gross charge:** The charge for an individual item or service that is reflected on a hospital's chargemaster, absent any discounts
- **Discounted cash price:** The charge that applies to an individual who pays cash, or cash equivalent, for a hospital item or service
- **Payer-specific negotiated charge:** The charge that a hospital has negotiated with a third-party payer for an item or service
- **De-identified minimum negotiated charges:** The lowest charge that a hospital has negotiated with all third-party payers for an item or service
- **De-identified maximum negotiated charges:** The highest charge that a hospital has negotiated with all third-party payers for an item or service

Source: Centers for Medicare & Medicaid Services

starting in 2021.² Starting on January 1, health systems must make public a comprehensive file of standard charges for all items and services, divided into five categories (see sidebar “Hospital Standard Charges for 2021 CMS Transparency Requirements”), as well as a consumer-friendly list of 300 shoppable services.

All too often, the health systems that have pursued pricing strategies have simply attempted to grow volumes through price reductions for standalone services. The combination of rising consumer expectations and looming regulatory pressure underscores the urgent need for a more strategic approach.

Successful consumer-driven pricing strategies are predicated on understanding and meeting consumer demand—with the end goal of delivering the right care at the right place and the right price.

2 Terri Postma and Heather Grimsley, “Hospital Price Transparency Final Rule,” Medicare Learning Event, CMS and the Medicare Learning Network, December 3, 2019.

Developing a Consumer-Driven Pricing Strategy

Identify shoppable services. The consumer value equation is not driven exclusively by price, given the role of access, convenience, and other key variables. From a business perspective, identifying shoppable outpatient services—which consumers often pay for out-of-pocket before they reach

their deductible—is a critical first step (see sidebar “Understanding Shoppable Services”).

Assess your brand's market power. After organizations identify shoppable outpatient services, it's imperative to evaluate how their brand is perceived both in the market writ large and for specific services. For instance, some consumers might visit an academic medical center for a complex procedure or a heart transplant, but would not necessarily consider

it as an option for more routine care needs. Understanding the nuances of brand power can inform subsequent changes in pricing or service offerings.

Improve access, experience, and price together. Being competitive does not mean uniformly lowering prices across all markets. According to Kaufman Hall research, 62 percent of consumers cited convenient

Understanding Shoppable Services

Shoppable services can be understood as services where:

- Competitive alternatives are available:
 - » Consumers have the ability to go somewhere else in the market with a competitive rate.
- Shopping is practical:
 - » The service is often completed by itself or in combination with one or two other services in an outpatient setting.
 - » The service is not completed as part of an emergency room visit or surgery (for non-surgical shoppable services).
 - » Shopping is not prevented by clinical protocol and/or typical clinical patterns.
- There is evidence of shopping or payer steerage:
 - » Consumers are asking for price estimates, making complaints about price, or are exhibiting shopping behaviors.
 - » Major payers or employers have policies and procedures in place to direct consumers to the lowest-cost care setting.
 - » Physicians are directing consumers to the lowest-cost care setting.
- The service mix is of particular importance to the institution:
 - » The service is a common, high-volume service at the health system.

location as a top factor for deciding where to obtain care; only 39 percent cited cost considerations (see sidebar “Most Important Consumer Factors When Deciding Where to Obtain Healthcare Services”). A market-by-market, service-by-service evaluation can uncover shortfalls in access, experience, and price, and help quantify the implications and trade-offs from potential pricing and service delivery changes.

Most Important Consumer Factors When Deciding Where to Obtain Healthcare Services*

- Convenient location (62 percent)
- Appointment availability (49 percent)
- Doctor referral (44 percent)
- Cost compared to other options (39 percent)
- Good clinical reputation (31 percent)
- Easy-to-find price information (30 percent)
- Option to schedule online (25 percent)
- Recommended by friends and family (20 percent)

*Percent of respondents who selected factor in top three

Source: Kaufman Hall Consumer Survey, June 2020.

Develop a plan of attack.

Armed with a better understanding of their ability to deliver the right care at the right place and the right price, health systems can build an action plan to price, grow, and deliver shoppable services for superior value. Specific tactics might include rebalancing services to reduce wait times, building partnerships to enhance retail or virtual care options, and developing lower-cost, higher-quality services. And the entire initiative should be underpinned by a focus on pricing simplicity and transparency—addressing the twin external threats of consumer expectations and regulatory pressure in one fell swoop.

The Governance Institute thanks Paul Crnkovich, a Managing Director leading the Consumer Practice, and Dan Clarin, a Senior Vice President in the Strategic and Financial Planning Practice, at Kaufman, Hall & Associates, LLC, for contributing this article. They can be reached at pcrnkovich@kaufmanhall.com and dclarin@kaufmanhall.com.

