The Evolving Health Care Marketplace: How Important Is the Patient?

by Eric N. Berkowitz

The health care marketplace is evolving from a fee-for-service to a managed care environment. As this change occurs, a major concern has been whether the needs of the individual patient will be lost in a setting of large health care providers contracting with large health care buyers. In this paper, the fee-for-service and managed care setting are examined in terms of the implications of whether being market or customer responsive is necessary. As the environment shifts, the underlying change is a move from indemnity plans of individual buyers to the concentration of purchases among a few buying entities. This restructuring may well lead to health care organizations having to be market responsive for the first time.

The health care system is in a state of major change with regard to industry structure, payment mechanisms, and patient choice. Within this change an underlying ethical question may well be, "What are the meaning and implications of such a change for the patient?" For example, will a managed care environment signal less concern for the patient and his or her needs as providers turn to the concerns of corporations or insurance plans? Will this restructuring imply a system whose performance is judged on the profitability of the plan at the end of the year as opposed to the satisfaction and health status of the patients who interact with the system? Moreover, what is the role of marketing in this new health care environment?

The purpose of this article is to explore the implications to the patient as the health care system moves from a fee-for-service to managed care environment. Although often assumed to be so, it is the contention of this author that patient concerns and needs were not necessarily at the heart of a fee-for-service system. In the traditional fee-for-service system, marketing was a superfluous strategy designed to influence patient and physician performance marginally. It may be that only when health care is restructured in a managed care environment will the patient truly become the system's focus.

As the health care system moves from a fee-for-service to a managed care setting, several ethical concerns have been voiced:

- Patient choice will disappear, thereby eliminating the need for health care providers to focus on the individual patient.
- Organizations will be the major entity to which health care providers will cater all their marketing efforts.
- Whether a health care provider provides good care or not will be subsumed under the concern for cost-efficient medical care.

While these ethical concerns are serious, a closer look at the implications of moving from fee-for-service to managed care is warranted before judgment is made as to which system best addresses these concerns. To do so, I will first describe the fee-for-service environment and identify the patient's importance in such a world, and what marketing has meant in this environment.

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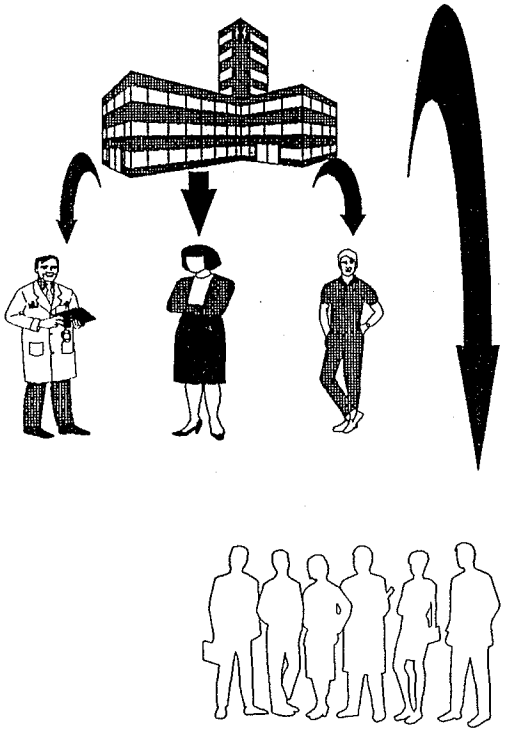
Fee-for-Service Medicine

Many detailed charts and graphs can be drawn to describe the health care system in a fee-for-service world. Yet at the heart of this system has always been three entities: the hospital, the physician, and the patients or community at large. Simply, this structure might be shown as Figure 1.

As depicted in Figure 1, consider the primary target market for the hospital — physicians. In most communities, physicians have been organized in small groups or solo practice. As is often the case, these practitioners have privileges at one or more hospitals in the community. As a result, the hospital administrators have had a single goal: to get physicians to admit patients to their particular hospital. As defined in this setting, marketing has involved selling one particular facility over another to the gatekeeper of patient volume, the physician.

Figure 1

The Fee-For-Service World



The so called "marketing strategies" used by most hospital administrators over the past several years have included building medical office buildings attached to the hospital to make physician access convenient, providing continuing medical education for medical staff, taking doctors on retreats at resorts, or purchasing equipment requested by members of the medical staff. These efforts are undertaken to engender a sense of obligation among physicians to the particular facility. Ultimately, the purpose of these efforts has been to fill hospital beds and cover the overhead.

In this fee-for-service setting, consider the other market — the patients. In traditional fee-for-service environment, the goal of hospital administrators is to develop a hospital to which the patient wants to come for inpatient care. Consider the strategies that have been in place over the past few years such as health fairs, meal selection for inpatient stays, reduction of multiple patient rooms, and cable television in the patient areas. Billboards display the caring, concerned attitude among the staff of a particular hospital. These marketing tactics are implemented in the hopes that the patient will comply with a doctor's hospital recommendation and that once there, the patient will be satisfied. Moreover, patient satisfaction is increasingly monitored with a form upon release.

In this environment marketing is equivalent to sales. A traditional definition of marketing is "marketing is the process of identifying the market's needs, of planning and developing a service to meet those needs, and of determining the best way to price, promote, and distribute the service." (Berkowitz 1988) In the fee-for-service scenario described above, no real marketing has occurred. The only need is to fill hospital beds. To accomplish this, physicians are provided indirect enticements and patients are given superficial additions like meal choice. Nowhere in this environment is an attempt made to assess the needs of either the patients or physicians. No programs or plans are changed; rather, beds are sold. More important ethically, the nature of the typical fee-for-service environment has addressed

neither the individual physician nor the individual patient as important. Herein is the underlying reason why the fee-for service environment has meant little real marketing by health care providers.

The Achilles Heel of Fee-for-Service Medicine

In the traditional fee-for-service environment, then, persuading physicians and patients to come to a particular hospital is the underlying goal of the hospital's "marketing" efforts. To appreciate how important or unimportant meeting patient are in such an environment, one must recognize that the foundation of fee-for-service environment is the traditional indemnity plan. In this world, patients have their own health insurance coverage and are free to choose their hospital. This patient choice is often considered the real loss in a managed care environment.

Consider, however, the importance of the customer to the health care organization in a world of indemnity medicine. From a business perspective, each patient can be viewed as representing an individual unit of business. How much business is lost, then, if the patient (customer) is unhappy with a particular hospital setting, decides never to seek treatment at that facility? Simple accounting suggests the loss is one unit of business — that patient. If the patient tells others, perhaps two, four, maybe five units (customers) will never return.

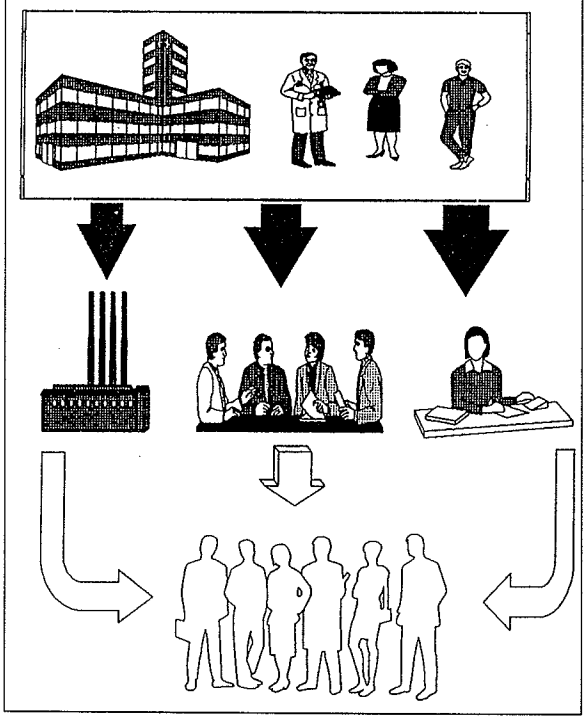
From an organizational perspective consider, then, the customer or patient's importance in that world. While no organization or hospital wants a dissatisfied customer, every hospital administrator in a fee-for-service indemnity world knows that a few dissatisfied patients will not cause bankruptcy. In a fee-for-service environment, the hospital administrator can also recognize that on any given day some new patient will use the emergency room and be admitted. This influx of new customers will offset the loss from any one dissatisfied unit of business, i.e., the patient. In this world, customer responsiveness or adherence to the meaning of marketing to identify customer needs and respond by changing programs is relatively unimportant. As a result, the marketing strategy often has consisted of transparent efforts at changing food, sprucing up rooms, conducting patient satisfaction surveys, and planning advertisements in the local media.

An indemnity world allows the organization to view each patient, not as a person with inherent dignity, but as an individual unit of business. No one unit of business (customer/patient) represents a significant enough amount of business to warrant focusing strategies to address the needs of patients beyond the clinical issues, which present themselves at the time of treatment. Thus ethically, the heretofore vaunted fee-for-service ideal loses some of its traditional luster. A managed care world, however, suggests a different ordering of priorities with regard to meeting patient needs and being market responsive.

The Managed Care Environment

The restructuring of the health care environment to a managed care setting suggest interesting changes. Consider the diagram presented in Figure 2 .

Figure Two
The Managed Care Market



At the top of the figure are doctors and the hospital. The major change from the fee-for-service environment (Figure 1) is that the doctors and hospital are within the same organizational box.

In many health care publications today, this box is being referred to as an integrated delivery system. At the bottom on the diagram are the patients or the community, as in Figure 1. Now, however, a new organizational entity has come between the patent and provider system. This could be the managed care companies, employers who direct contract for health care for their employees, or the government, which might be giving out contracts for Medicaid or Medicare recipients. This framework typifies the managed care environment evolving in many metropolitan areas today. The core question, then, is how important is it to be market or patient responsive in this setting? To understand whether this health care environment will dictate a more market-responsive orientation by health care provider systems, and, in my view, a more ethical model, the implications of this type of market structure must be described further.

This marketplace of large health care provider organizations is being approached in many major metropolitan areas such Minneapolis-St. Paul or Dallas, Texas. In these communities, three or four large, dominant provider entities integrating physicians and hospitals have formed. The interesting shift in the marketplace is occurring at the middle level of Figure 2. These organizations represent the buyers of health care services. These groups will decide which eligible providers will be offered to their employees. In many markets, there is also consolidation at this level in which buying entities like employers are realizing that they can negotiate better prices if they join together as a buying group. Similarly many managed care plans are also consolidating. Pilgrim Health Care of Massachusetts has joined with Harvard Community Health Care, Community Health Plan of New York has merged with Kaiser, US. Health Care has been acquired by Aetna. One can envision in a few years in many metropolitan areas there may be three or four providers and only ten or fifteen large buying entities representing tens of thousands of patients In this environment of concentrated buyers and a few providers, how essential is it for any health care organization to be truly market responsive?

To appreciate the importance of the individual patient and the need to be market responsive, this scenario must be extended through one year or a buying cycle when contracts with health care providers would be up for renewal by buying entities. Assume that the marketplace looks like the diagram shown in Figure 2 in which there are three provider organizations and ten buyers. Assume also that patients are employed or networked to one of the buying entities. In the first year that the world looks like this, each buying group decides to offer all three provider entities to their employees for twelve months, the length of the typical contract with a managed care organization. Now assume that one of the provider systems is not patient responsive during the contract period. Individual subscribers who try to access the primary care provider find they cannot get an appointment very promptly. When they see a primary care doctor, they find that referrals to specialists aren't handled smoothly. As a result, dissatisfaction builds among the patient population of a particular Integrated Delivery System. There is so much dissatisfaction that many employees go to their employers asking when they will be able to switch out of the plan that they have selected.

As health care moves to managed care, we might find that the ethical emphasis on patient needs and concerns comes to pass for the first time.

Large employers or buyers who hear about dissatisfaction from their employees or members may decide that a particular provider system is more bother than was anticipated. Some of these

buyers also have difficulty in trying to deal with a particular provider system. The implications are dramatic. On January first of the next year, when all provider contracts are up for renewal and renegotiation, four of the ten buyers have decided to drop one health care system from the list of eligible providers because of the dissatisfaction experienced by the patients. One provider system finds that forty percent of its gross patient revenue disappears within a twenty-four-hour period.

In a managed care environment, the single unit of business represented by the indemnity patient of the past is gone. With the shift from a single unit of business to a large bulk buyer of health care who can shift large volumes of patient care during the period of contract renewal, the cavalier attitude toward the customer often displayed by many health care systems must also change. This switching might well occur because dissatisfaction was created among the users of the system, the patients or subscribers.

The Need for Customer (Patient) Focus

Is it important to be market responsive in a fee-for-service world? The answer is found within the organizational ethics of the institution, that is, if it is within the benevolence of its mission to do so. In terms of business realities, however, the risks for not being customer responsive are not that great. It is only as we move to a managed care environment in which the power of the providers is now equaled (or even surpassed) by the power of the buyers does a patient responsive approach assume importance. Here creating dissatisfaction among users/patients could lead to an employer's switching large volumes of business to other providers, thereby driving the offending provider system to bankruptcy. Organizations must now focus on a customer-retention strategy. Health care provider systems will recognize that being the preferred provider of satisfied subscribers may be the best strategy to equalizing the power of large buying entities. It is the rare company, government agency, or buying coalition that will want to deny access to satisfied patients. As health care moves to managed care, we might find that the ethical emphasis on patient needs and concerns might come to pass for the first time.

References

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