

# COMPETING IN A RETAIL HEALTH CONSUMER MARKETPLACE

*Drug firms need to provide doctors a different set of information and services, designed to meet the new demands of patients who pay for more of their own health costs.*

**BY RICK EDMUNDS, CHARLEY BEEVER,  
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- A new survey shows that the growing number of consumers who pay a high share of their health costs will disregard their physicians' advice to save even small amounts of money.
- But these patients also expect their doctors to provide more comprehensive cost and quality information and to educate them on treatment options.
- Doctors, for their part, don't expect to change their own behavior.
- To avoid even greater pressure on prices, drug companies need to fill the gap, providing doctors with tools to help patients make informed choices.

**W**ith more consumers taking on significant first-dollar cost responsibility, the US health-care system is undergoing a fundamental shift from a wholesale to a retail model. Although there is reasonable debate on the pace of growth and future penetration of consumer-directed health plans (CDHPs), we see these products as part of a larger pharmaceutical-market transformation that, as shown by a new survey we conducted, should not be ignored.

The challenge for drug companies, and the opportunity, lies in the differences in how the two principal decision makers in this new retail world—consumers and physicians—respond to the new patient economics. Patients will increasingly shop for value, looking for more information on the cost and quality of health products and services. They are more likely to view products, including pharmaceuticals, as less differentiated than services, and

they will disregard physicians' recommendations to save even small amounts of money. Paradoxically, these patients appear to expect their doctors to play more of an advisory role—to provide more comprehensive cost and quality information and to educate them on treatment options.

On the other hand, our research suggests that physicians do not see their role changing that dramatically in the future. Some intend to expand the services they offer and provide more cost and quality information—but gaps exist between what patients expect and what physicians are planning to provide.

Overall, the increased cost burden on patients is likely to hurt branded pharmaceuticals, as consumers increasingly opt for generic drugs or for lower-cost brands. Even so, we see real opportunities for pharmaceutical companies to enhance their competitive positioning and capture greater value in this transformed retail marketplace. To do so, they will need to ensure that they are effectively working with the full set of information channels to which consumers will turn, that they enhance their value proposition to physicians by helping physicians meet the needs of the new financially focused consumers, and that they better engage the more involved consumer.

## CONSUMERISM GAINING MOMENTUM

Patients began acting like retail consumers even before CDHPs and other high-deductible health plans (HDHPs) grew in popularity. When customer co-pays for branded products began rising significantly, patients noticed. They responded to financial incentives and became more engaged in product selection. The growth of CDHPs and HDHPs has only accelerated this trend—it and will continue as these plans become more widely adopted.

And they will. Discussions with leading employers across the country suggest that “consumerism” is viewed as a critical strategy to contain health-care costs and improve the quality of care.

Even physicians, who are often cited as the last to embrace major change in the health-care system, expect that consumer-directed health care will be one of the most significant trends impacting their practices. About half of all physicians we surveyed selected consumer-directed health care as the trend that would have the most significant impact on their business over the next three to five years—more than pay-for-performance or evidence-based medicine initiatives.

Our research suggests that consumers in CDHPs and HDHPs are significantly more invested—literally and figuratively—in decisions about their health care than those in enrolled in traditional health plans. About half of all consumers surveyed, including those in traditional plans, are dissatisfied with the level of cost and quality information currently available for prescription drugs, specialists, primary care physicians, and other health products and services.

This dissatisfaction is even more pronounced among consumers with greater cost responsibility. For example, 49% of patients enrolled in traditional plans rate themselves as not at all or only somewhat satisfied with information available on the cost of prescription drugs. That number increases to 60% for patients with greater cost responsibility. Patients express similar frustrations with the availability of data about medical quality. Forty-three percent of patients in traditional plans are not at all or only somewhat satisfied with information on quality of prescription drugs compared with 52% of patients

in both CDHPs and HDHPs.

As they are eager for more robust health information, retail health consumers have begun to form views on the sources that they trust the most. For cost and quality information about prescription drugs, both physicians and pharmacists are at the top of consumers' list of most trusted sources. This finding would suggest that both of these stakeholders could play an enhanced advisory role by providing more health information to consumers. Patients with greater cost responsibility also have high trust in independent groups like *Consumer Reports* for both cost and quality data on prescription drugs. (See *Exhibit 1*.)

It is interesting to note that physicians have a very different view on the "best" sources of drug information. They rank doctors and pharmacists as the best sources for information on drug quality, but for cost data they look to pharmacists and health plans.

With more incentives to seek value for their health-care dollar, patients with more cost responsibility see greater variability in price and quality than those enrolled in traditional plans. Approximately three-quarters of all CDHP and HDHP members see a fair to great amount of variation in the cost of drugs prescribed for the same condition, compared with 64% in traditional plans. Unfortunately for pharmaceutical companies, patients see far less difference in quality than they do in price of these prescription drugs. (See *Exhibit 2*.)

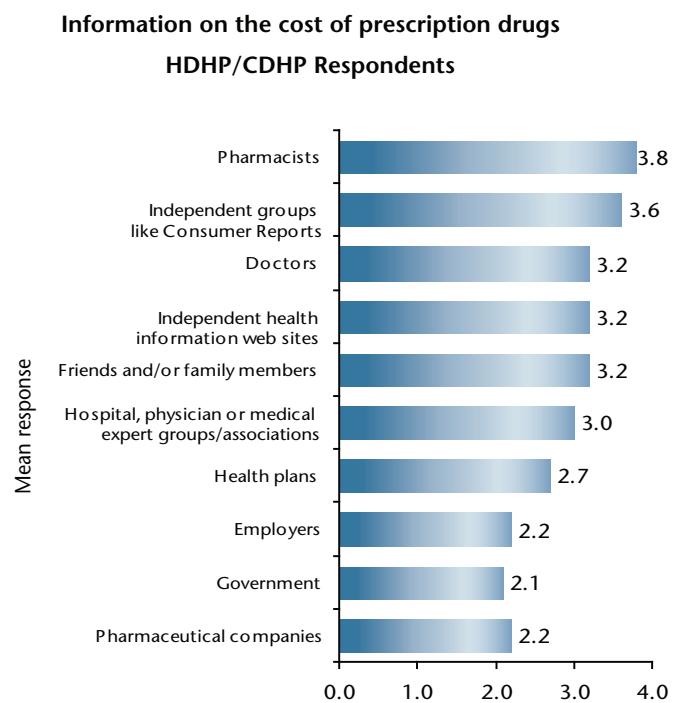
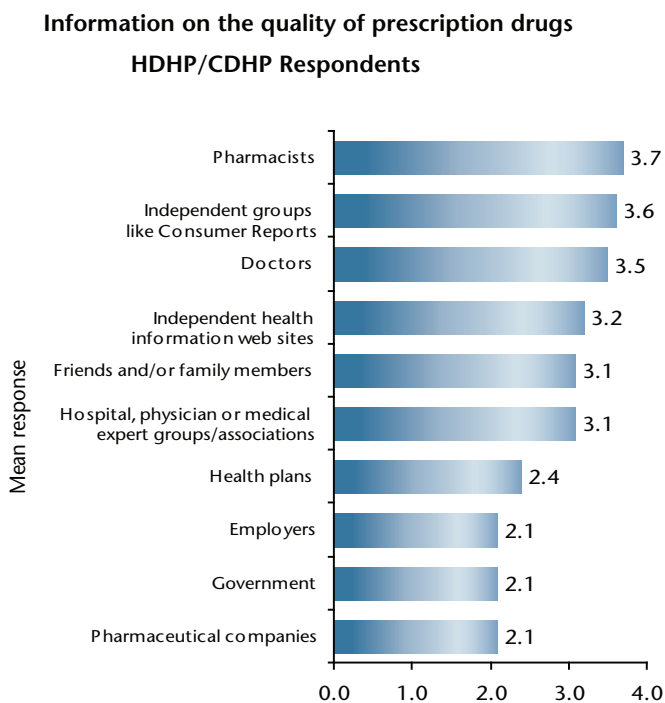
These cost-sensitive patients are also more likely to ask about costs up front, to try to negotiate prices for health-care products and services, and to substitute lower-cost options for items they

Exhibit 1

## Who Do Consumers Trust?

### Degree of Consumer Trust in Health Information Sources for Rx

(On a scale of 1 to 5: 1 = "do not trust at all"; 5 = "trust completely")



Source: Booz Allen Hamilton Consumer Survey 2006

view as undifferentiated. While relatively few patients do these things regularly, it is interesting again to note the discrepancy in behavior between patients in traditional health plans and those with more cost responsibility. In our survey, 68% of patients with HDHPs/CDHPs stated they were very or extremely likely to use a generic drug instead of a brand name prescription, compared with 62% of those in traditional plans. Thirty-five percent of patients enrolled in these first-dollar plans ask health-care providers about the cost of prescription drugs most or all of the time, while only 20% of patients in traditional plans do so.

## THE CHANGING ROLE OF PHYSICIANS

Although physicians recognize the significance of consumer-directed health care, they do not yet understand its potential impact on their patients and practices. The majority of physicians expect some positive benefits from consumerism: increased patient engagement and attention to health-care costs, quality, and service. They also clearly expect an increase in patient bad debt and a reduction in health-care utilization, both unnecessary and necessary. (See Exhibit 3.)

Physicians do not, however, expect consumer-directed health care to lead to dramatic changes in other areas, such as increased patient compliance with recommended treatments, more rewarding physician-patient relationships, or better clinical outcomes.

Looking forward, physicians will need to adapt their behavior and offerings to meet the needs of more engaged consumers with greater cost responsibilities. The physicians we surveyed expect to compete more for these patients in the future along multiple dimensions: price, documented clinical quality, convenience, and personalization of service. Although they expect increased competition, physicians are not clear on what form it will take or how they should respond. When asked what effect consumer-directed health care will have on the prices they charge, almost 30% of physicians were not sure. An additional 36% thought it would not affect the prices they charge for health-care services, 26% thought it would force them to lower prices, and 10% thought it would allow them to raise their prices.

The situation will be challenging: Physicians will need to work with a consumer who has more choices and who turns to them as a trusted source of information, but who will not always follow their recommendations. For example, more than half of those consumers surveyed with CDHPs and HDHPs indicated they would select a different medication than the one recommended by their doctor for savings of less than \$30 per month.

And therein lies a key opportunity for pharmaceutical companies to address some of the problems consumer-directed

health care will cause them: helping physicians give patients what the new financially focused consumers will need. Based on our survey, physicians are not prepared to give patients what they say they want. For instance, nearly two-thirds of consumers with greater cost responsibility reported that they would find data on expected out-of-pocket costs for a medical product or service extremely or very useful. However, only about half of physicians either supply this information now or plan to in the next two to three years. Similarly, nearly two-thirds of consumers indicated that quality information pertaining to a provider's medical error/safety rate for a specific type of treatment would be useful. In this case, only 35% all physicians surveyed either currently make available comprehensive quality data (including safety record, patient satisfaction ratings, and physician quality ratings) or plan to do so routinely in the next two to three years.

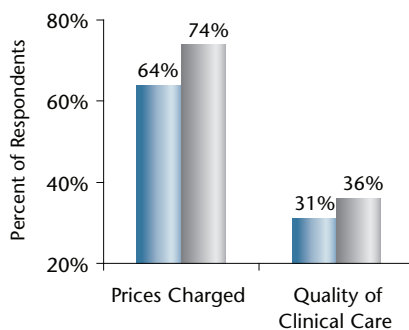
## OPPORTUNITIES TO HELP PHYSICIANS WITH THEIR PATIENTS

With increasing branded-generic substitution, the early days of consumer-directed health care have been challenging for pharmaceutical companies. But so far drug firms have not taken a truly consumer-oriented approach to the business. By enhancing their research capabilities, pharmaceutical companies can account for differences in consumer engagement and sources of value. This will not only help them tailor their product lines, marketing approaches, and reimbursement strategies to better fit with consumers needs, it will provide the basic data and tools for helping physicians help patients with individual, value-based decision making and treatment trade-offs. For example, how will different segments of physicians and patients make trade-offs between the cost and convenience of oral insulin, when available, and injectable insulin? How do different segments of consumers balance their health goals and lifestyle against the different dosing schedules, efficacy, and tolerability of the various treatments for multiple sclerosis?

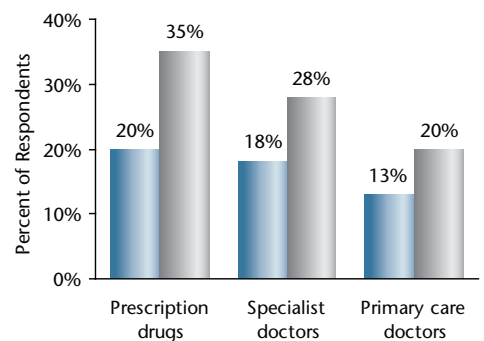
Exhibit 2

### Increased Consumer Perception Challenges

Consumers Who See a Fair or Great Amount of Variation Among Different Rx Drugs for Same Condition



Consumers Asking Providers About Prices Up Front (Most or All of the Time)



■ Traditional ■ HDHP/CDHP

Source: Booz Allen Hamilton Consumer Survey 2006

## UNDERSTAND HOW CONSUMERS FORM PERCEPTIONS OF DRUG VALUE

The first step in taking a consumer-oriented approach is to extend consumer research programs beyond the effectiveness of individual products, including research into how consumers form perceptions of product value and any connected financial or service support. The consumers we surveyed clearly saw different value associated with different product characterizations. For example, although 68% of HDHP/CDHP enrollees indicated they were very or extremely likely to use a generic prescription instead of a brand name prescription, only 26% intended to substitute an “older” prescription drug for a “newer” drug, even though generics are almost by definition “older drugs.” In addition, many individuals in consumer-directed plans expressed interest in a variety of programs such as guarantees of product performance, even when that involved paying a small or moderate premium.

Developing a more nuanced understanding of consumer needs will allow pharmaceutical companies to develop value-added services; define, develop, and market product attributes targeted specifically at patients with greater cost responsibility; and tailor their clinical trial design and postmarketing studies to support the differentiation and value-added nature of their products. (See Exhibit 4.)

## IMPROVED PHYSICIAN COUNSELING SUPPORT

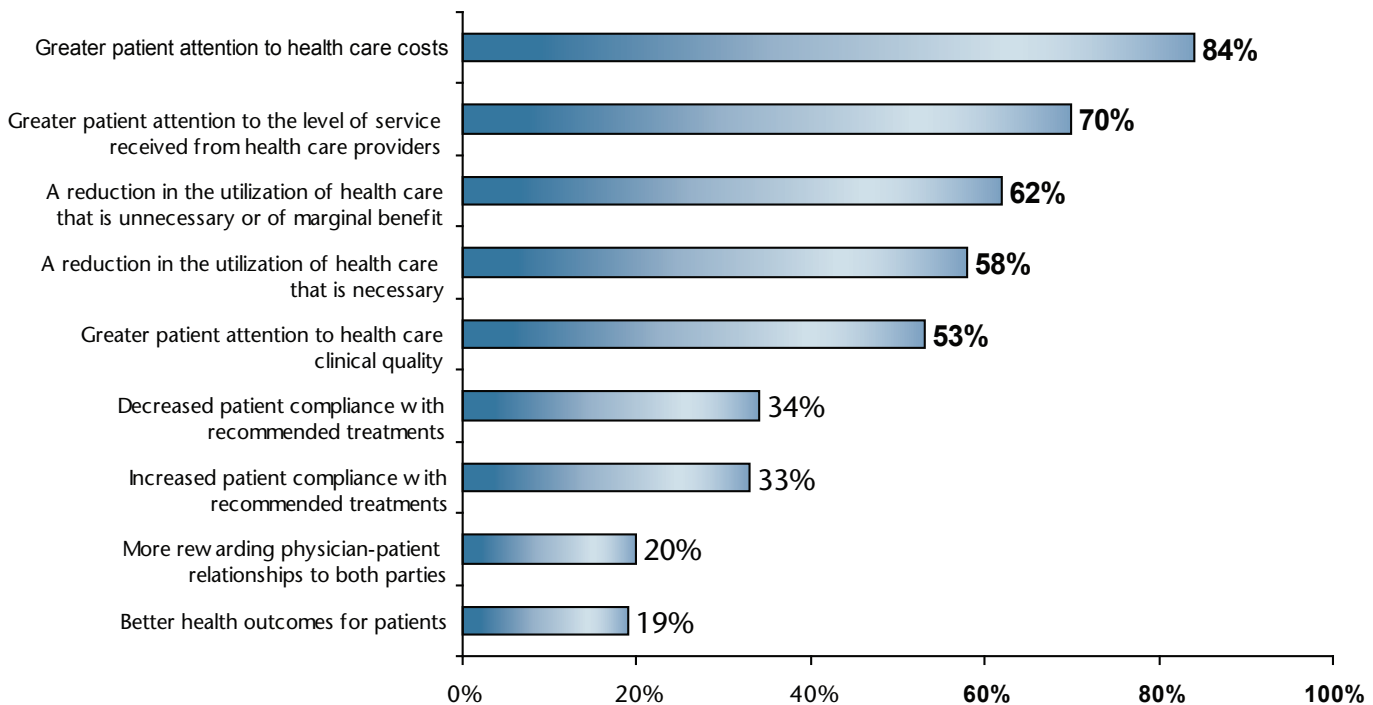
Among their most important strategies for a retail-oriented pharmaceutical world, drug companies need to show doctors how to satisfy patient needs because the gap between what customers want and what physicians know how to provide is widening. By supporting physicians in their ability to address this otherwise unmet patient need for more health information, pharma companies can achieve competitive advantages through greater physician trust, appreciation, and access.

For example, pharmaceutical companies can help physicians with “decision-support” approaches as they help individual patients weigh differences in price versus differences in product/service attributes across different products. In dealing with immediate demands, companies can help physicians and their patients better understand the financial implications of prescribing drugs that are on and off formulary – in many cases today, physicians are unaware of the magnitude (large or small) of co-pay differences associated with formulary status. More importantly, companies can develop and provide support tools to physicians to help them discuss patient options around alternative treatments and products. These decision-support tools--tailored for individual patient situations--can help physicians and patients weigh different near- and longer-term benefits, costs, risks, and value of even small differences in efficacy.

Exhibit 3

### Physicians Have Mixed Views about Consumer-Driven Health Care

Physicians who believe consumer-directed health care will lead to various outcomes (Strongly or somewhat agree)



Source: Booz Allen Hamilton Physician Survey 2006

More broadly, companies can help educate physicians about the range of consumer-directed health-plan designs, and how they fit with the needs of different patient groups--enabling the physicians to provide input to their patients about the medical and clinical priorities that should factor into spending on health.

### INFLUENCE BENEFIT PLAN DESIGN AND PATIENT INCENTIVES

Along a different path, pharmaceutical companies need to ensure that individual patients--especially those at higher risk--are provided appropriate financial support and information. As consumers take on more cost responsibility, physicians are concerned that patients may forego recommended treatments, getting sicker rather than better. Drug companies need to take an additional step to move payors from one-size-fits-all reimbursement schemes to co-payment structures customized to the needs of individual patients.

Influencing benefit plans isn't a pipe dream. A few employers and health plans are already piloting such a value-based concept of benefits design. Marriott International, for example, leverages claims and other clinical data to identify patients at risk for certain chronic conditions, such as hypertension and diabetes. It then alters the co-pay structure for certain classes of drugs for targeted individuals--both branded drugs and generics. With some focus on the issue, drug companies could clearly come up with additional insights to share with payors to aid them in these efforts and protect the premium for branded drugs.

### INVEST IN EDUCATING OTHER CONSUMER ADVISORS, INCLUDING PHARMACISTS

Drug companies also need to invest in--among other types of consumer advisors--pharmacists, whose value is clear to both physician and patient. As a source of information, pharmacists were the single source to achieve a high level of support from both consumers and physicians. In other studies--the Asheville Project in North Carolina being among the best known--pharmacists have also proven to be effective partners to patients in helping understand and more actively manage their chronic conditions.

Given that physicians may be less willing or prepared to work with consumers to arbitrate quality/cost information and that both patients and doctors trust pharmacists to provide this information, pharmaceutical companies need to ensure that pharmacists have the latest information on their products' performance, that they understand the relative value of their products, and that they support appropriate utilization by consumers. In addition, pharmaceutical companies will need to actively monitor the emergence of any new, independent consumer-oriented information channels and ensure that those channels reflect an accurate understanding of the total value of pharmaceuticals.

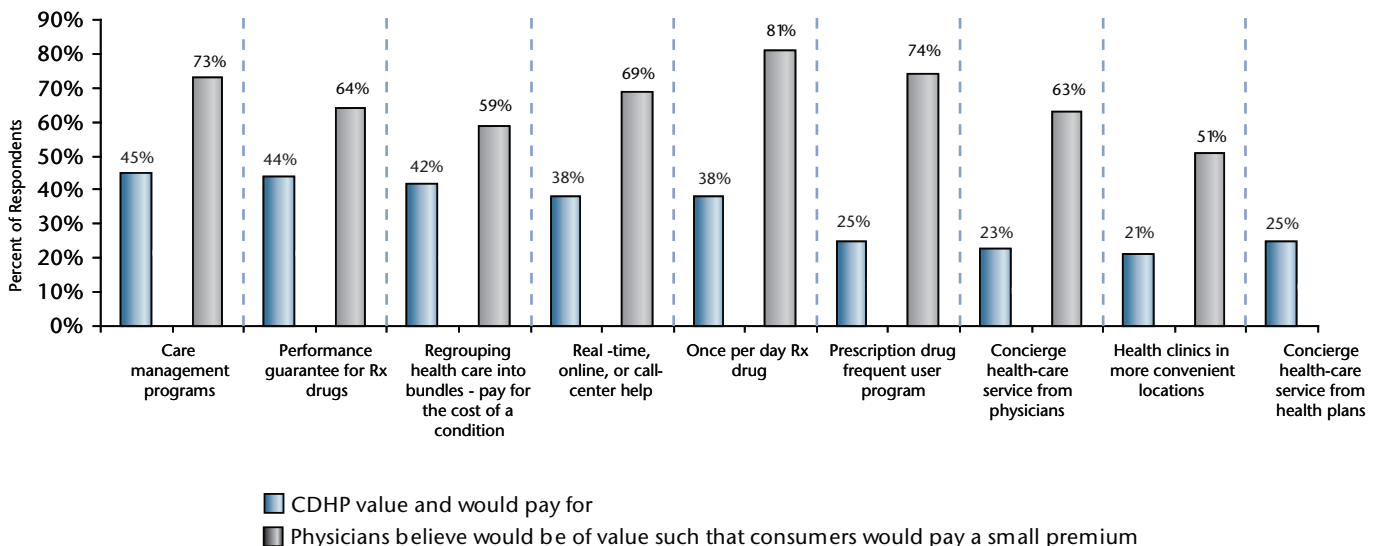
Underlying each of these tactics is a single basic market change: as they pay for an ever-larger share of their health-care expenses, consumers will make more of the decisions once left to physicians. Unless they have the tools and understanding to choose differently, they will increasingly go with the lower-cost options--putting further pressure on pharmaceutical prices. The business mandate: drug companies need to provide those tools--not merely to consumers themselves but to the advisors--physicians and pharmacists, in particular--to whom patients turn for counsel. **IV**

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Exhibit 4

## Real Potential to Compete through Value-Added Programs

Consumer willingness to pay for value added programs  
(Compared with physician beliefs of what consumers would pay)



SOURCE: Booz Allen Hamilton Consumer Survey 2006, Booz Allen Hamilton Physician Survey 2006

## SURVEY METHODOLOGY

The data in this article are based on the first study of consumerism in health care focused on parallel surveys of consumers and physicians. The surveys sought to understand the extent to which greater cost responsibility through high-deductible and consumer-directed health plans has begun to change both consumer and physician behavior and to what extent each stakeholder is prepared for a retail health-care market. The research supplements historical studies, which often focus on projecting growth of CDHPs or assessing consumer satisfaction or behavior associated with these new plan designs.

The survey was conducted online within the United States by Harris Interactive on behalf of Booz Allen between June and August 2006 with 2,969 consumers enrolled in private insurance plans (between the ages of 18 and 64) and with 600 physicians, including both primary care practitioners and specialists. To reflect the results to the populations under study, the consumer data were weighted by age, sex, education, income, race, and insurance plan type; the physician data were weighted by age, sex, region, and specialty. Harris Interactive used its standard score weighting to adjust for respondents' propensity to be online.

### CONSUMER SURVEY BREAKDOWN

All participants were enrolled in private health insurance plans—that is, purchased through their employer or self-purchased—at the time of the study.

Traditional plans	1,620
High-deductible plans	1,051
Consumer-directed plans	298

Physician Survey Breakdown	
Primary Care Physicians	200
Specialists	400

### DEFINITIONS USED IN OUR RESEARCH

*Traditional plans:* Health insurance plans with a deductible less than \$1,050 for individuals with single coverage and less than \$2,100 for those with family coverage. These plans typically include PPO, POS, and HMO products. These health plans have lower deductibles than HDHPs and CDHPs, lessening the cost accountability of members.

*High-deductible health plans (HDHP):* Health insurance plans with a deductible greater than \$1,050 for individuals with single coverage and greater than \$2,100 for those with family coverage. These health plans give enrollees greater cost responsibility than traditional plans and more financial incentives to manage costs.

*Consumer-directed health plans (CDHP):* High deductible health plans with qualified savings options; Health Savings Account (HSA) or Health Reimbursement Arrangement (HRA). These health plans give enrollees greater cost responsibility than traditional plans and more financial incentives to manage costs with an additional savings component.

*Consumer-directed health care (CDHC):* Generally refers to members in CDHPs but also used to indicate "consumerism" as a broad market trend (depends on specific nature of the question).

With pure probability samples of 2,969 and 600, one could say with a 95% probability that the overall results would have a sampling error of  $\pm 2$  and  $\pm 4$  percentage points, respectively. Sampling error for data based on subsamples would be higher and would vary. However, that does not take other sources of error into account. This online survey is not based on a probability sample, and therefore no theoretical sampling error can be calculated.

Harris Interactive was responsible for collecting the data presented in this report. Booz Allen Hamilton performed most of the analyses with the consumer data presented here.