

Perspective

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Bundled Care
*The Voice of
the Consumer*



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EXECUTIVE SUMMARY

With the fate of the Affordable Care Act no longer in doubt, the implications of this historic legislation are starting to sink in. The goal of extending healthcare to all Americans, at affordable prices and with no sacrifice in quality, will require huge changes. Physicians, hospitals, insurers, and employers will each have a role to play as the transformation of the U.S. healthcare system gets under way.

One model that has already gained traction is so-called bundled care, a complete package of care, financing, and support for a specific condition that breaks with the de facto medical model of fee-for-service (billing for each activity separately). In a bundle, a single fee covers everything related to a condition or procedure in an end-to-end construct that has the potential to vastly improve the consumer's experience. By creating an incentive to eliminate waste and medical mistakes, bundles also have the potential collectively to remove hundreds of billions of dollars in cost from the U.S. healthcare system. The winners will be the health systems and payors that design and execute the best bundles. By doing so, they will reap the benefits of increased volume while maintaining their profitability.

U.S. consumers appear ready for the advent of health bundles. In a survey by Booz & Company, 78 percent of consumers said the idea of bundles appealed to them. Those survey results are summarized in this paper. Booz & Company is also in the midst of surveying four other key stakeholder groups—physicians, hospitals, payors, and employers—and will be publishing those findings in the next few months. We will repeat these surveys annually. The attitudes of each of these constituencies are crucial, since some of them have historically seen one another as adversaries—not the right mind-set for an approach that is inherently collaborative. They will have to drop their distrust and become partners, willing to share information and fees, if bundles are to fulfill their considerable promise.

INTRODUCTION: THE NEED TO TRANSFORM HEALTHCARE

For much of the last two years, healthcare executives have been waiting to see the impact of reform. The wait is over.

With the reelection of President Barack Obama and the Supreme Court's upholding of the Affordable Care Act, those who run health systems and insurance companies and those who are responsible for employee benefits all know where they have to end up—as part of a system that makes quality healthcare accessible to all Americans while dramatically reducing its costs. Now comes the hard part: figuring out how to get there.

The challenge is enormous. For the last 20 years, healthcare costs have risen rapidly, often at two to three times the pace of inflation, largely because of an activity-based revenue model (fee-for-service) that leads to overuse and misuse of care, and often leaves consumers stupefied by their medical bills. With 30 million people expected to join the ranks of the insured in the next few years, and the population aging, the U.S. healthcare system will be under pressure to handle more patients and deliver more services than ever before. Affordable care for everyone, with no sacrifice in quality, is a lofty goal, but what will it take? Many industry leaders believe the total cost

of care will have to come down by 20 percent, and that healthcare costs thereafter will have to increase no faster than the consumer price index. This is a step change that cannot be achieved through incremental efficiency gains. The system must be transformed.

Several ideas have been put forward for how to make high-quality, affordable care accessible to more people. The most straightforward is the targeted intervention, in which specific activities are reimbursed if they provide demonstrable value to the healthcare system (such as managing depression for elderly patients with multiple medical conditions). At a far more advanced end of the continuum is population health management, in which providers and payors work together to improve health outcomes for specific populations. The population health management model is based on the total cost of care and adjusted for population risk. Then there are health bundles, which are integrated care solutions done for a fixed fee and covering specific episodes. They are a clear departure from the à la carte and fee-for-service approaches that have prevailed in medicine for years.

Of all the emerging models, we believe bundles have the most promise. They are applicable to a wide range of procedures—including coronary artery bypass grafting (CABG), orthopedic procedures

such as knee and hip replacements, and certain cancer treatments. They can also be used to treat chronic conditions or anchor wellness programs (with the equivalent of an annual membership fee covering checkups and immunizations, among other things). And bundles are not an either/or proposition with respect to other healthcare innovations; in fact, they may be effective delivery vehicles for some of them. For example, population management would probably work better in a bundled construct.

The core concept of a bundle is to give a patient an end-to-end view of the solution, along with a clear explanation of episode treatments and costs. In the case of a knee replacement episode, this would include diagnosis by a primary-care physician (PCP) or specialist, surgery, and rehab—everything necessary for the patient to regain a fully functional knee. In the case of cancer treatment, the bundle might include a number of patient and family support functions such as transportation for treatment and child care. The bundled care model reduces fragmentation and waste, and is a far cry from the current situation, in which patients have to stitch together all the pieces of their treatment for themselves, and payors pay for activities as opposed to outcomes. It's no wonder that traditional healthcare interactions rank so low in surveys of consumer satisfaction (*see Exhibit 1, page 3*).

THE BENEFITS OF BUNDLES

When properly designed, bundles address many of the most critical challenges facing healthcare. The clarity they provide in terms of cost and course of treatment should go a long way toward increasing consumer satisfaction. Consider what one already bundled procedure, LASIK surgery, has meant for consumers. People who need corrective eye surgery now routinely comparison-shop, weighing what different providers are offering in terms of price, follow-on services, and other features before making a decision.

Improved quality and reduced cost—must-haves in an environment of wider access—are also big benefits. Because they involve consensus around a set of best-practice care standards, bundled services allow physicians and health systems to deliver high-quality care in a streamlined fashion. Or perhaps it is more accurate to say bundles force

this kind of improvement, since their flat fees mean providers will do everything in their power to reduce the likelihood of complications or the need to redo procedures. (By comparison, the fee-for-service models in place today have the perverse effect of making just about every medical procedure profitable, even those caused by avoidable errors and complications.)

Physicians and hospitals that can create superior value through bundles should find themselves increasing the size and profitability of their businesses. Market leaders may be able to implement bundles across multiple geographies, thus increasing their footprint and gaining share. With bundling, healthcare services effectively become “products,” and those who own the intellectual property rights can use their designs much as Procter & Gamble uses packaging—to get consumers to pull its packaged good off the shelf, instead of a competitor’s.

WHY NOW?

The idea behind health bundles isn’t new. Booz & Company started working on them as far back as 2006, when we helped initiate a payor/provider partnership in Florida to develop and roll out bundled service offerings for CABG and knee replacement surgery, among other treatments. So it’s fair to ask why bundles aren’t already ubiquitous. Four things stand in the way—all related to defects in the existing healthcare system.

- *Fragmented information:* Providers and payors, which have long had a relationship of distrust, do not routinely share their data with one another. As a result, there is no “one view of the patient.” The doctors and hospital may know what procedures they performed and treatments they used for, say, a woman battling breast cancer. But they don’t know about her full history and other conditions and treatments provided by other

Exhibit 1
Customer Satisfaction Levels across Industries



Source: Harris Interactive, July 2012

physicians and health systems. Without that big picture—and the understanding of the full condition of the patient and the real costs that would come with it—it hasn't been feasible to design bundles.

- *Fragmented care:* The participants in the healthcare value chain—physicians, labs, hospitals, and post-acute care providers—aren't used to being a part of an integrated care-delivery model and solution. In fact, their economics are tied to delivering activities in silos as opposed to in an integrated way. A case in point are PCPs. To make a living, they must see 30 patients a day—and there is no incentive for them to manage a patient's condition, only to treat it. The lack of precedent for cooperation, and for the full integration of care, will require physicians, health systems, and payors to learn some radically different ways of operating.
- *Lack of standard clinical methods:* At present, there are too many variations in what is considered

appropriate care for most conditions, and what is considered necessary for a given procedure. There needs to be a clearer path to agreement about standardized evidence-based medicine if bundles are to work.

- *Fragmented incentives:* Whatever built-in problems it has, the fee-for-service paradigm, with its proliferating international classification of diseases (ICD) codes and emphasis on activities, has the advantage of familiarity. It has been in place for nearly a century, and there is concern about replacing it, particularly among providers that will shoulder the bulk of the increased risk and will have to shift their thinking from a revenue model to a margin model. Providers aren't built around the idea of coordinated care or flat fees. Getting to this new paradigm will require significant changes to their businesses and operating models.

Recent changes are allowing insurers and providers to share data, share risk, and get patients to take more responsibility for their own care.

A TURN FOR THE BETTER

The good news is that the groundwork to overcome these obstacles is starting to be laid. Recent policy changes, better IT infrastructure, and, of course, the tectonic shift of the Affordable Care Act are allowing (and in some cases, forcing) insurers and providers to share data, share risk, and get patients to take more responsibility for their own care.

Perhaps the clearest sign of momentum is the move by some influential national employers to offer bundles as part of their employees' health coverage. Beginning in 2013, Walmart, the world's largest private employer, will collaborate with leading providers such as Mayo Clinic, Cleveland Clinic, and Geisinger Health System to offer bundled care for a number of common procedures, including heart surgery. Through this offering, Walmart employees can elect to receive care at top facilities with no deductible or coinsurance cost. Walmart will also cover the cost of airfare and lodging for the employee and one companion.

Walmart determined that doing all of this would be more cost-effective than having employees receive care at local, nonspecialist facilities. In this virtuous cycle, designated healthcare organizations gain volume in treating certain conditions, allowing them to fine-tune their medical processes and reduce waste. Interest in the model is growing: Lowe's and Boeing have entered into similar arrangements with Cleveland Clinic. Other employers will be watching to see how these initiatives fare.

LEARNING WHAT THE DIFFERENT STAKEHOLDERS THINK

One important question about healthcare bundles—since they are by definition collaborative undertakings—is how they’re viewed by stakeholders across the healthcare value chain. To get a sense of this, Booz & Company has launched a series of surveys (see *Exhibit 2*). Our initial survey, of more than 1,000 healthcare consumers, shows that the basic idea is appealing, and it provides insights into how to structure bundles to increase consumer acceptance. In the next few months, we will publish data on the attitudes of providers (physicians and health systems) and payors (health plans and employers).

HEALTHCARE BUNDLES: WHAT CONSUMERS THINK

Our survey reveals that a large majority of consumers (78 percent) find the concept of bundled care appealing, given its potential for greater clarity and transparency. Notably, the willingness to adopt bundles is shared by both healthy consumers, and patients in need of care. Some 88 percent of healthy consumers—those with no significant medical condition—find bundles appealing. Of particular note, the bundling of cardiovascular and orthopedic surgical procedures—which offer high potential for payors and hospitals to lower total costs and gain market share—also appeal to patients.

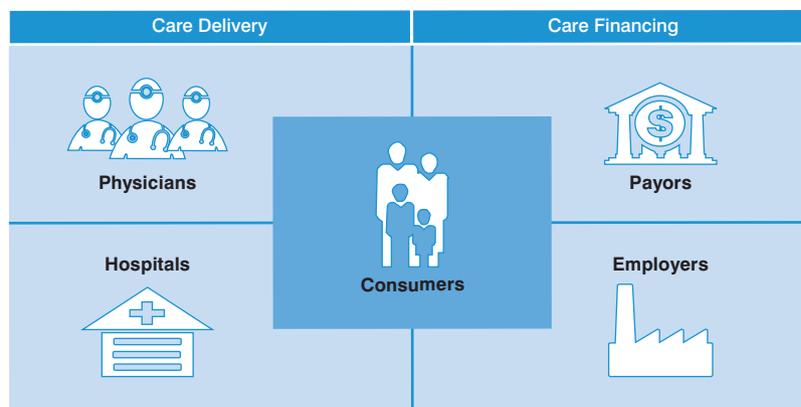
The attraction of healthcare bundles is equally strong across plan types—including patients who currently have insurance through a health maintenance organization, a preferred provider organization, or a point-of-service plan—and even among the currently uninsured, some

80 percent of whom said they are positively inclined toward bundles. Additionally, those bearing 50 to 75 percent of out-of-pocket costs are more open to bundles, confirming our belief that consumers with “skin in the game” are more likely to be receptive to new models of care and payment.

Younger consumers (ages 31 to 49) are most optimistic about bundles, offering payors and employers a chance to migrate consumers to new models of care before they mature into segments that require more frequent procedures and treatments.

Some of the benefits that consumers expect from bundles include integrated care, the ability to provide input in care decisions, transparent billing, and a care warranty. Consumers are fairly “value-centric,” downplaying the importance of convenience services such as a healthcare concierge and coverage for travel/accommodation expenses.

Exhibit 2
Key Stakeholder Groups



Source: Booz & Company

CRITICAL SUCCESS FACTORS

Although consumers perceive value in bundles, several critical success factors are worth noting. For example, consumers are unwilling to travel extensively, with 74 percent of respondents willing to commute only locally (within the same city) to receive bundled care. Consumers in rural areas are much more willing to travel regionally—within their state—than urban/suburban dwellers, but are still relatively travel-averse.

Also, a vast majority (more than 80 percent) desire a range of “full-spectrum bundles,” with coverage across the entire care ecosystem. These end-to-end bundles would provide consumers with a more seamless healthcare experience, with holistic care coordination, up-front cost transparency, and simpler billing.

Consumers say low-priced bundles might prompt them to make changes. For example, 50 percent are willing to switch hospitals for bundles that cost at least 10 percent less than

traditionally priced care, and 45 percent are willing to switch specialists for a similar discount. Similarly, consumers are much more likely to accept generic drugs, with only 22 percent considering branded medication as nonnegotiable.

The patient’s relationship with his or her PCP continues to be the toughest to disrupt, with fewer than 40 percent of respondents willing to give up access to their current PCP. Consumers also place a premium on being able to receive care promptly—65 percent say they are unwilling to accept longer wait times for appointments. Not surprisingly, the willingness to accept such trade-offs increases among consumers who bear a greater share of the cost burden (those who pay at least 25 percent of the total costs for the procedure or treatment out-of-pocket).

Finally, consumers are more receptive to bundles offered by physicians, hospitals, and employers than those offered by insurance companies, aggregators, and brokers.

What Consumers Are Saying

“...having a care team that will actually work together and communicate is of the utmost importance.”

—Female, 18–30 years old, suffering from multiple chronic conditions

“One-price-covers-all is attractive, but even more attractive is the promise of a coordinated team providing care and treatment.”

—Male, 50–65 years old, suffering from prostate cancer

“Coordinated care is the best part of this plan, but I prefer to see physicians of my choice.”

—Female, 50–65 years old, suffering from hypertension

“I would have to be able to use my own family-care doctor and specialists in order for me to consider this.”

—Female, 65+ years old, suffering from hypertension

“If the doctors and facilities that I’m familiar with and currently satisfied with were included in this plan, I would be more likely to take it, even if other facilities were limited.”

—Uninsured female, 50–65 years old

Consumers say low-priced bundles might prompt them to make changes.

IMPLICATIONS FOR HEALTHCARE STAKEHOLDERS

Healthcare consumers are no longer passive stakeholders—they are demanding greater transparency and involvement in their care. However, although consumers are receptive to bundles, they are unlikely to be a driving force for transforming the system. Because the bundle concept is still uncommon, payors, hospitals, physicians, and employers need to understand evolving consumer preferences and design bundles creatively to spur adoption.

Bundle developers should consider the following qualities of consumers:

- *Value-centricity:* Consumers place a high premium on integrated, coordinated care, but are reluctant to pay additional costs for discretionary services.
- *Relationship with PCP:* Most consumers want to maintain their relationship with their PCP, but are willing to trade access for better coordination and lower cost.
- *Benefits of integrated care:* Of all the possible benefits, consumers are most drawn to integrated care, the ability to have a voice in care pro-

cesses, transparent billing, and the availability of care “warranties” if something goes wrong.

- *Role of caregivers:* Patients, especially those with complex, chronic conditions, depend on caregivers, many of whom influence care decisions. Bundle developers should consider this dynamic in creating their offerings.

The results of our consumer survey have implications for all stakeholders in the value chain. Specifically:

- *For hospitals and physicians:* The increasing willingness among patients to switch hospitals and specialists demonstrates the potential rewards for offering superior-quality, lower-cost bundles. In addition, the preference for integrated care should serve as an impetus for better coordination across the care continuum. In fact, hospitals could further leverage bundles to enhance their brand positioning, and even use them as a vehicle to start accepting a portion of the risk in a controllable manner.
- *For payors:* These findings provide valuable input into bundle design, such as mechanisms for ensuring transparency and collaborating with physicians and hospitals

(and even employers) in order to increase bundles’ acceptance among consumers. Payors should consider which high-value bundles to prioritize—such as those that specifically address consumer pain points and lower total medical costs. In addition, payors will need to design benefits in a way that offers consumers greater insight into costs. Finally, given the appeal of bundles among healthy consumers, payors could use bundled care to attract a sizable share of such consumers on the public exchanges, which go into effect in 2014.

- *For employers:* Given consumers’ preference for bundles offered through their workplace, human resources and benefits administrators can explore strengthening their employee value proposition by partnering with hospitals and payors.

This report is the first in a series of stakeholder perspectives on healthcare bundles based on market research being conducted by Booz & Company. The next report will focus on the preferences and concerns of care providers, including hospitals and more than 400 physicians across 10 specialties.

Methodology

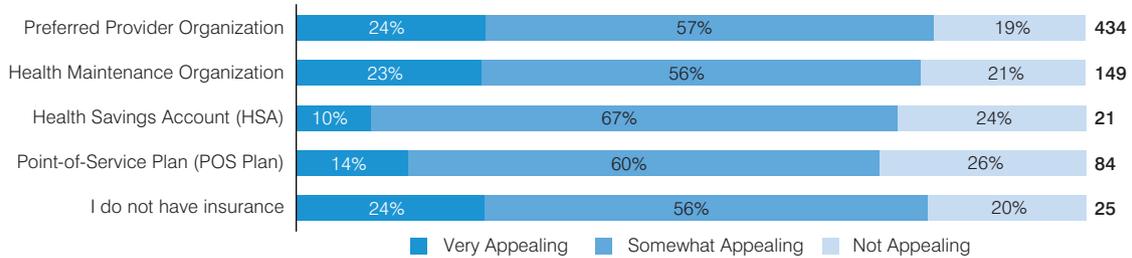
This study was based on an online survey of more than 1,000 consumers conducted in August 2012. The 24 questions included demographic data and quantitative data in order to analyze the prevailing attitudes and preferences among consumers regarding healthcare bundles. The results have a confidence interval of +/-3.1 percent and also included qualitative responses (via free-text boxes).

Key Data Highlights:

- 1. Bundles can be a means for hospitals and providers to gain share.** Respondents indicate that they are increasingly willing to switch hospitals (50 percent) and specialists (45 percent) for bundles that are significantly lower-priced (meaning at least 10 percent less than existing coverage). Such willingness is significantly higher among those who pay higher out-of-pocket costs (i.e., those who cover more than 25 percent of the cost of their treatment).
- 2. Employers have a role to play.** Consumers showed a clear preference for bundled offerings from physicians, hospitals, and employers, with 30 percent more consumers ranking them as attractive choices compared to those offered by retail stores, online insurance aggregators, or brokers.
- 3. Consumers want to retain their current PCP.** Among all stakeholders, PCPs enjoyed the greatest loyalty from consumers, with 64 percent saying they would not change from their existing physician or choose one based on bundle availability.
- 4. Healthcare continues to be local.** Consumers remain largely unwilling to travel extensively to receive care under bundles, with 74 percent willing to commute within their own city and no farther. Rural residents were much more willing to travel regionally than urban and suburban residents.
- 5. Consumerism is here to stay.** Of the benefits available through bundles, patients saw the ability to provide input in their care processes, coordinated care, and warranties as the most appealing, with more than 50 percent of respondents ranking these among the top three benefits.
- 6. Bundles represent an opportunity for the private sector.** Consumers ages 31–49 are most likely to find bundles appealing (86 percent), offering commercial payors and hospitals a test bed for innovation outside of Medicare and Medicaid programs.
- 7. Full-spectrum bundles are the most attractive to consumers.** A large majority of consumers (80 percent) prefer bundled coverage across all settings in the care continuum, from initial physician consultation to post–acute care and rehab.

DETAILED FINDINGS

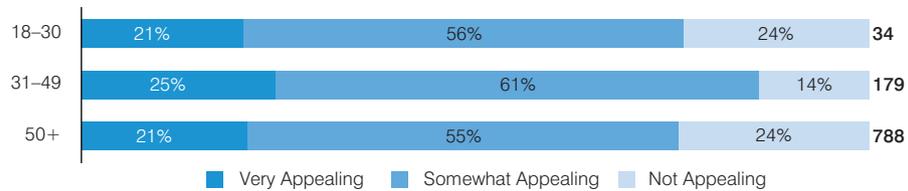
Exhibit 3
Consumer Appeal of Healthcare Bundles by Plan Type



Related Questions: "What kind of insurance coverage do you have for your healthcare?" and "How appealing [are bundles] to you?"

Source: Booz & Company

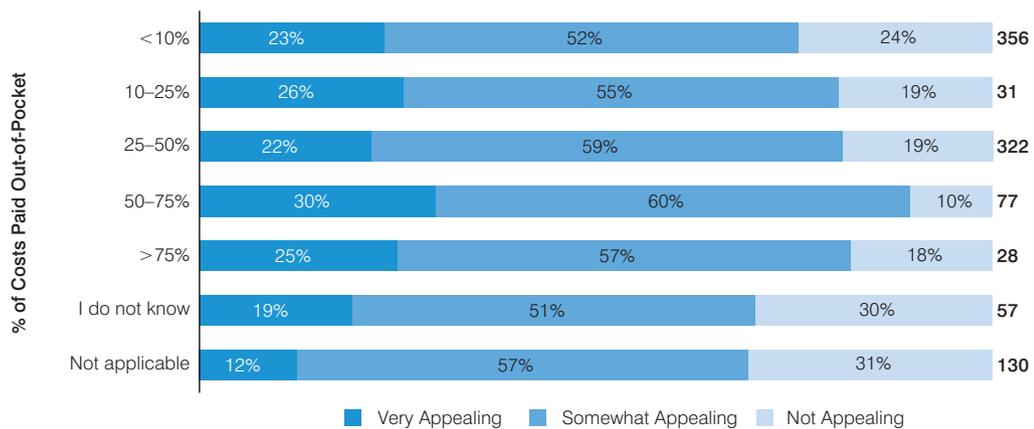
Exhibit 4
Consumer Appeal of Healthcare Bundles by Age



Related Questions: "What is your age?" and "How appealing [are bundles] to you?"

Source: Booz & Company

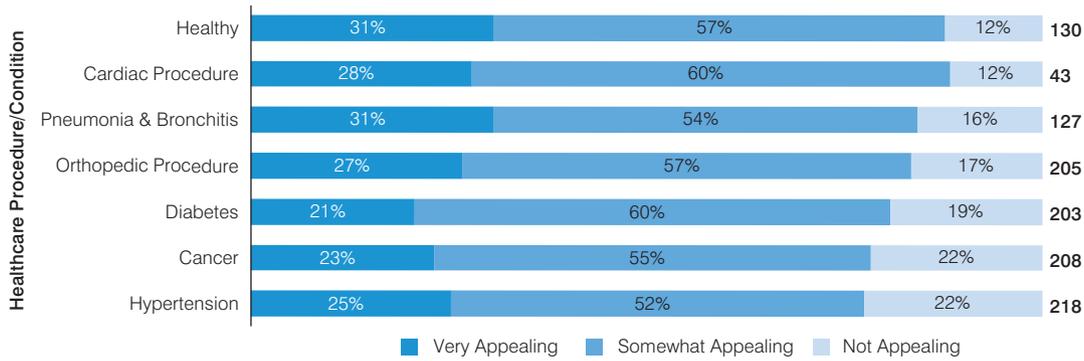
Exhibit 5
Consumer Appeal of Healthcare Bundles by Amount Paid Out-of-Pocket



Related Questions: "How much of the overall cost of [care] did you pay for directly out-of-pocket (e.g., not covered by insurance)?" and "How appealing [are bundles] to you?"

Source: Booz & Company

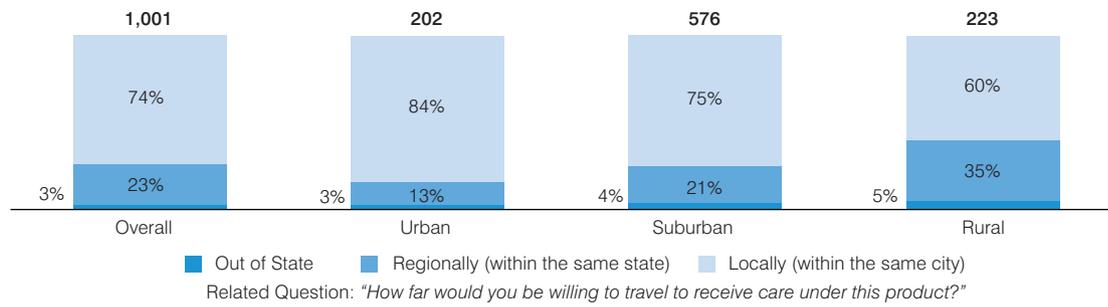
Exhibit 6
Consumer Appeal of Healthcare Bundles by Procedure/Condition



Related Questions: "Which procedure, acute condition, or chronic condition did you most recently undergo/are you currently undergoing/currently experiencing?" and "How appealing [are bundles] to you?"

Source: Booz & Company

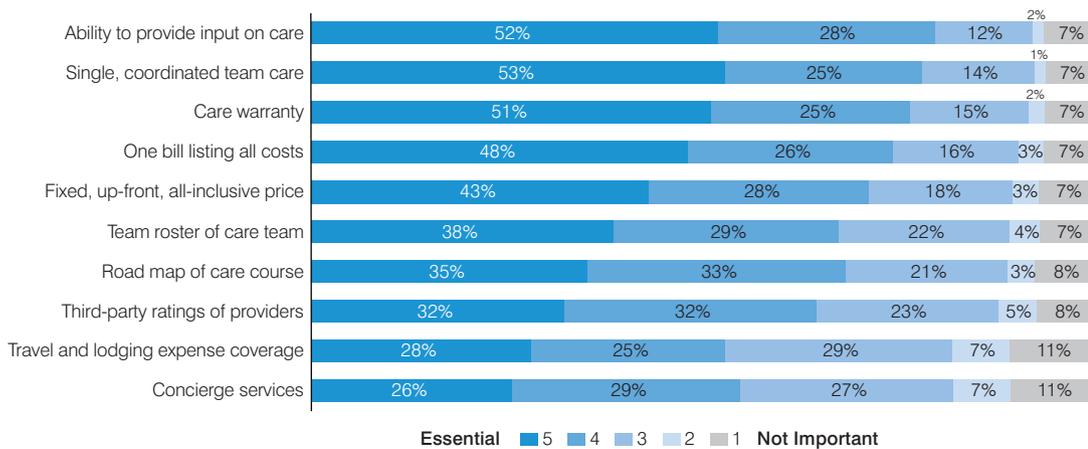
Exhibit 7
Consumer Willingness to Travel for Bundled Care



Related Question: "How far would you be willing to travel to receive care under this product?"

Source: Booz & Company

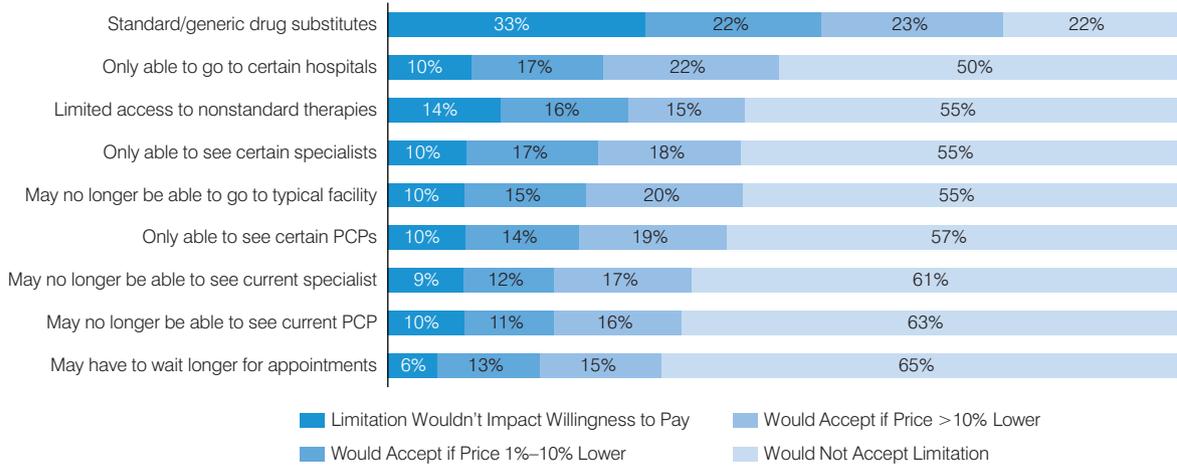
Exhibit 8
Perceived Benefits of Healthcare Bundles



Related Question: "How important is it that the following characteristics are included in a bundle product?"

Source: Booz & Company

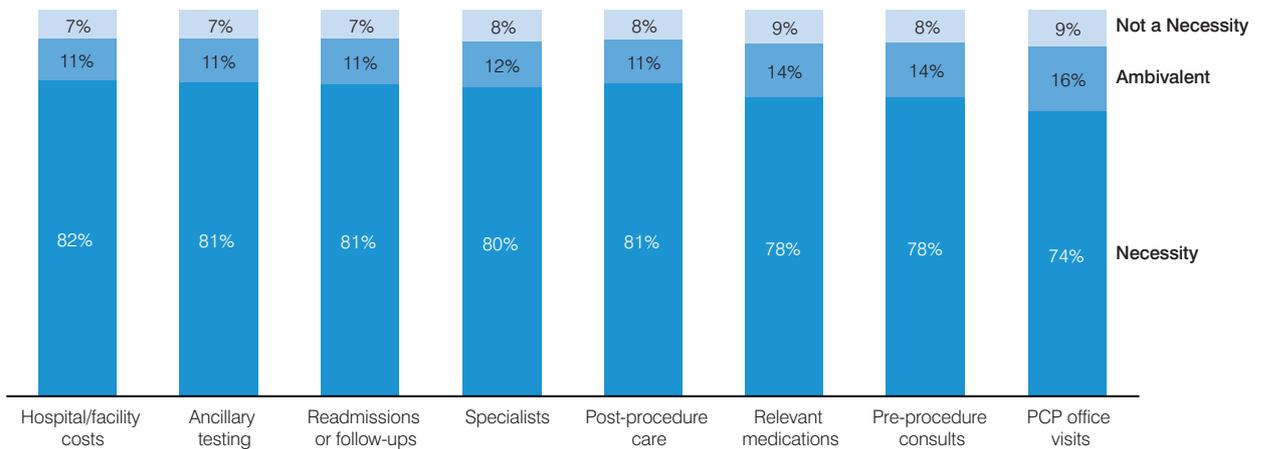
Exhibit 9
Critical Success Factors: Willingness to Accept Trade-Offs



Related Question: "What is your attitude toward each of these potential limitations?"

Source: Booz & Company

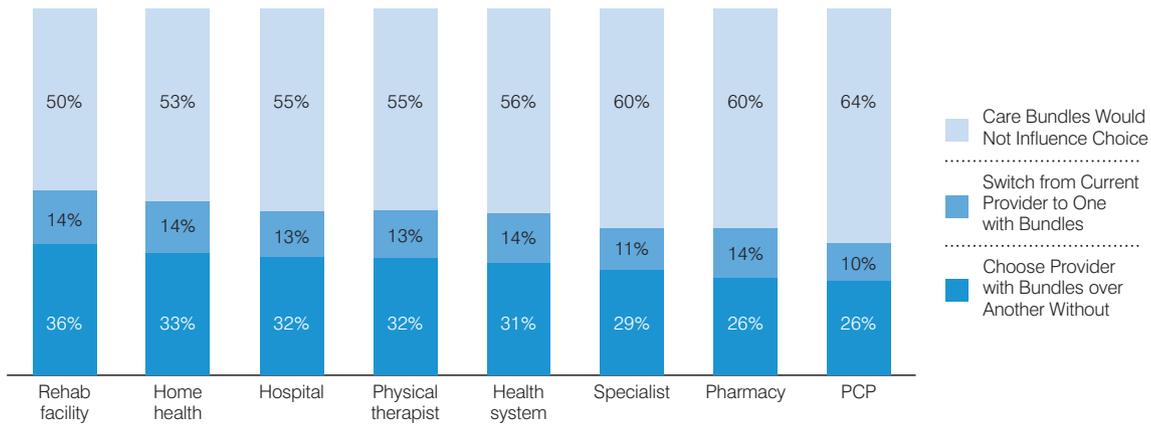
Exhibit 10
Necessity for Bundles Coverage across Care Settings



Related Question: "How important is it that the following care providers or settings are included in a care bundle product?"

Source: Booz & Company

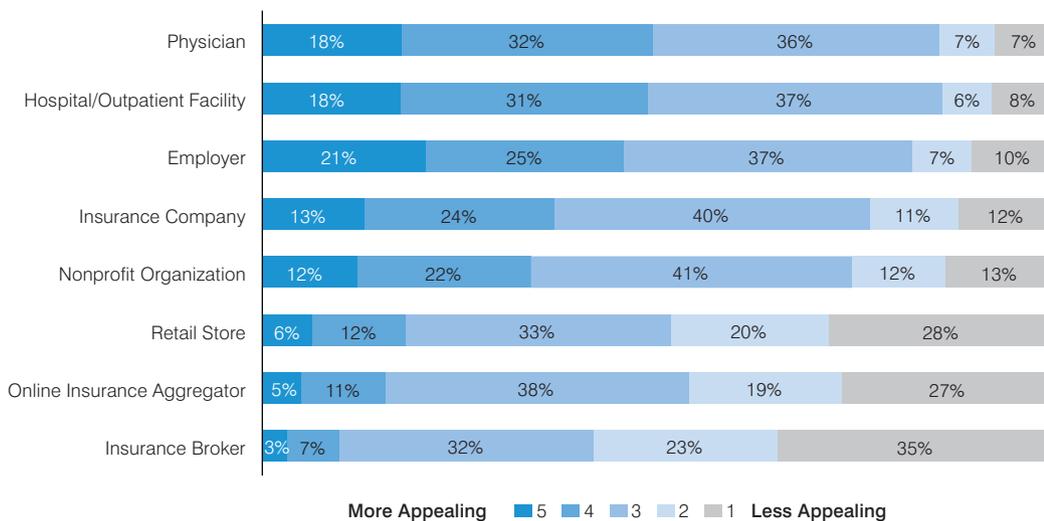
Exhibit 11
Impact of Hospital/Physician Choice Based on Bundles



Related Question: "How much would [bundles] influence your choice of care providers?"

Source: Booz & Company

Exhibit 12
Consumer Preference for Bundle Origination



Related Question: "How does the nature of the organization offering the product impact its appeal?"

Source: Booz & Company

About the Authors

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