What Consumers REALLY want
Healthcare Financial Management Association
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The way consumers buy products and engage with industries changes over time...
Remember banking this way...

This is banking today....

No driving. No lines. No worries.
Remember looking to buy this way…?

>$5Bn in newspaper revenues destroyed by Craigslist in first 5 years
Craigslist charges $100M for what newspapers charged $16B

Remember booking travel this way…?
Now we book travel ourselves...

Yesterday versus tomorrow in healthcare

What does tomorrow look like in health care?

What disruptions are on the horizon?

How do we respond?
Mechanisms for increasing consumer responsibility

High-deductible Health Plans

Health Exchanges

High deductible plans have increased 4X

% of US employees in HDHPs (2006 – 2020)

- 2006: 4%
- 2009: 8%
- 2014: 20%
- Projected 2020: 55%

Deductibles increasing across all plans, not just HDHP

<table>
<thead>
<tr>
<th></th>
<th>2006</th>
<th></th>
<th>2014</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>HMO</td>
<td>$751</td>
<td>-</td>
<td>3.1X</td>
<td>$2,328</td>
</tr>
<tr>
<td>PPO</td>
<td>$1,034</td>
<td>-</td>
<td>1.9X</td>
<td>$1,947</td>
</tr>
<tr>
<td>HDHP</td>
<td>$3,511</td>
<td>-</td>
<td>1.3X</td>
<td>$4,522</td>
</tr>
</tbody>
</table>

~10% avg. household income
Deductible only – does not include premiums, copays, etc.

Higher deductibles = greater likely price sensitivity

1 in 4
Americans will be choose own health plans by 2018
Consumers increasingly in charge of health plan choice

Members by 2018:

+31M  Public HIX
+40M  Private HIX
+22M  Medicare Adv.

= 93M  Choosing plans (Over 1 in 4 in US)

401K retirement plans replaced pensions in’80s and ’90s

We expect the same shift to consumer responsibility in health benefits
Healthcare fastest growing household expense

Increase/decrease of household spending (%) (2011-2013)

Fastest growing expense

-7.8  -3.5  -3.4  1.9  2.1  2.2  8.6  9.6

Apparel/services  Entertainment  All Other  Insurance/pensions  Housing  Food  Transportation  Healthcare

Consumers select products

Consumers increasingly determine providers' financial destinies
- By selecting insurance products
- By deciding where to get care

There is a "land grab" for providers to lock in consumers
- Narrow networks "lock in" members
- Use that to turn them into loyal patient-members

Products are mechanism for rewarding value creation
- Value creation by keeping patients out of the hospital
- Products cover populations, not just sick

Providers' interests do not always overlap with payers' interests
- Providers should define products that appeal to their target consumers
Takeaway: The future is “Consumer-powered health”

- As consumers shop for themselves their expectations rise
- Seek out novel health & wellness products and services that are: intuitive, transparent, personalized, and technology-enabled
- More informed purchasing and healthcare consumption
- Changes to all aspects of the consumer experience - shopping, products, networks, engagement models, and incentives

With greater choices available to consumers, healthcare companies must answer these questions:

“What do consumers want now?”

“What will consumers want in the future?”

Insights into consumer behaviors, needs, and wants can help us make go-forward decisions
Segmentation is becoming increasingly relevant and more important in healthcare

**What is segmentation?**

- Consumer-oriented businesses often rely on customer segmentation to understand the behaviors, attitudes, needs and expectations of different types of customers.
- A “segment” is a distinct group of consumers that behave similarly or have similar preferences or needs for the products or services.
- Targeting segments increases value (growth, profitability, clinical outcomes) by tailoring products and services to those specific groups.

**Why segment in healthcare?**

- Market forces are giving patients more choices than ever before…
- …allowing patients to truly behave as consumers of healthcare services
- Segmentation enables us to tailor superior offerings for all consumers
- Creating superior consumer offerings drive sustainable competitive advantage

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**Healthcare consumer segmentation shows need drivers**

[Diagram of healthcare consumer segments]


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1/22/2015

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In general, consumers want increased connectivity, ease, and access

90% of patients surveyed want eHealth self-service options (i.e., access to health information, scheduling and Rx refills)
- 83% want to access personal medical information
- 72% want to book, change, or cancel appointments
- 72% want to request prescription refills

88% want reminders via email for preventative or follow-up care

72% of consumers more likely to choose provider that offers flexibility to interact via online, mobile, telephonic, and other self-service channels

61% said they would choose one provider over another based on the appointment scheduling process

In 2012, the number of downloads for health-related apps in 2012 was ~44 million

In 2012, WebMD regularly saw between 14 – 18M visits per month

In primary care, consumers are seeking ease, timeliness, and convenience

Source: Advisory Board, “What Do Consumers Want from Primary Care?” June 25, 2014
Cost also a significant factor in making healthcare decisions

Which of the following factors are most important when making decisions about purchases of healthcare products or services?

<table>
<thead>
<tr>
<th>Factor</th>
<th>Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>82%</td>
</tr>
<tr>
<td>High quality ratings by other customers</td>
<td>64%</td>
</tr>
<tr>
<td>High quality ratings by government or other well-known agency</td>
<td>47%</td>
</tr>
<tr>
<td>Word-of-mouth recommendations from friends or family</td>
<td>42%</td>
</tr>
<tr>
<td>Brand name</td>
<td>35%</td>
</tr>
<tr>
<td>Partnerships the company has with others</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: HRI Consumer Survey, PwC, 2014

Cost sensitivity is even causing consumers to re-think their choice of who is their health care provider

Which type of health insurance plan would you rather have?

- A plan that costs less money but has a more limited range of doctors and hospitals you are allowed to see: 37%
- A plan that costs more money but allows you to see a broader range of doctors and hospitals: 51%

ASked of those who prefer lower costs, narrow network: What if that meant that you would not be able to visit the doctors and hospitals you usually use? Would you still prefer a plan that costs less but has a more limited range of doctors and hospitals, or would you now prefer a plan that costs more but includes a broader range of doctors and hospitals?

<table>
<thead>
<tr>
<th>Originally preferred lower cost, limited network</th>
<th>Now prefer lower cost, broader network</th>
<th>Originally preferred higher cost, broader network</th>
<th>Now prefer higher cost, limited network</th>
<th>Still prefer higher cost, broader network</th>
</tr>
</thead>
<tbody>
<tr>
<td>23%</td>
<td>12%</td>
<td>51%</td>
<td>37%</td>
<td>11%</td>
</tr>
</tbody>
</table>

ASked of those who prefer higher cost, broad network: What if you could save roughly 25% on your health care costs by using a plan with a more limited range of providers? Would you still prefer a plan that costs more but includes a broader range of doctors and hospitals, or would you now prefer a plan that costs less but has a narrower range of doctors and hospitals?

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<th>Originally preferred lower cost, limited network</th>
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<th>Originally preferred higher cost, broader network</th>
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<td>11%</td>
<td>37%</td>
<td>37%</td>
<td>37%</td>
</tr>
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</table>

Note: Don’t know/Refused answers not shown.
Source: Kaiser Family Foundation Health Tracking Poll (conducted February 11-17, 2014)
Companies are developing solutions to address consumers’ health care needs

**Consumer Needs**
- How many calories did I burn?
- What’s my blood pressures? Sugar levels?
- How many steps did I take today?
- How do I schedule a doctor’s appointment today?

**Consumer Solutions**
- Wearables
- Remote Monitoring
- Telemedicine
- Online tools (e.g., scheduling, etc.)
- Access points

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Venture Capital spending in healthcare is exploding

**VC funding of Digital Health Companies ($ Billions)**
Only large commitments ($2M or above)
(2011-2013)

<table>
<thead>
<tr>
<th>Year</th>
<th>VC Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>0.2 B</td>
</tr>
<tr>
<td>2011</td>
<td>0.9 B</td>
</tr>
<tr>
<td>2012</td>
<td>1.4 B</td>
</tr>
<tr>
<td>2013</td>
<td>2.0 B</td>
</tr>
<tr>
<td>2014 (as of June)</td>
<td>2.4 B</td>
</tr>
</tbody>
</table>

VC funding only – does not include spending by non-VC funded companies (e.g. Apple, IBM, etc.)

Source: Rock Health 2013 Digital Health Funding Report, CNBC “Healthcare IT investment boom: Who’s the next winner?”

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6 themes for VC funding of digital health
Examples represent 50% of funding in 2013

Introduction of new products is rapidly expanding
By 2017, ABI estimates the global market for wearables in health and fitness alone could reach 170 million devices.

Critical mass and connectivity is needed for apps and wearable devices to be successful (more than 60 million users and 20 million monthly active users).

Source: ForDex.com "Will an App a Day Keep the Doctor Away: The Coming Healthcare Revolution"

By 2017, 30% of US consumers will be wearing a device to track food, exercise, heart rate and other critical vital signs.

In January 2014, 46 million people were using fitness apps...

Who are they?

- They are younger...
- They are lower or mid-income...
- They are male and female...

Source: Survey.com, Klauser Perkins ConFab & Byars
Multiple companies are developing remote monitoring solutions for personal use

**iHealth**
- Bundled package of monitors and devices
- **Products include:**
  - Blood pressure monitors
  - Wireless scales
  - Fitness devices
  - Glucometers
  - Deluxe Fitness Bundle ($199.95) includes Scale, Activity Tracker, Oximeter
  - Heart Health Bundle ($229.95) include BP monitor, scale, and tracker

**Withings**
- Bundled package of monitors and devices
- **Products include:**
  - Smart scales ($99-$150)
  - Activity tracker ($119.95)
  - Baby Products (monitors and scales) ($150-230)
  - Heart Product blood pressure monitor ($129.95)

**AliveCor**
- **Product:** Specific heart monitor device (ECG)
- Physicians can be reimbursed for using this product (CPT code)
- Clinical studies demonstrated accuracy comparable to Lead 1 of standard ECG machines
- Cost $199.00

**Will these devices be low-cost disruptors in health care?**

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**Consumer Innovators/ Enablers provide solutions designed to enhance the customer experience**

<table>
<thead>
<tr>
<th>Retail clinics</th>
<th>Virtual care</th>
<th>Reminders/engagers</th>
<th>Social Networks</th>
<th>Monitoring devices</th>
</tr>
</thead>
<tbody>
<tr>
<td>CVS Health</td>
<td>Teladoc</td>
<td>Eliza</td>
<td>patientslikeme</td>
<td>JAWBONE</td>
</tr>
<tr>
<td>Take Care Clinic</td>
<td>healthspot</td>
<td>sensehealth</td>
<td>Smart Patients</td>
<td>fitbit</td>
</tr>
<tr>
<td>RediClinic</td>
<td>skype</td>
<td>GECKOCAP</td>
<td>I HAD CANCER</td>
<td>GLUCOWIZZARD</td>
</tr>
<tr>
<td>The Clinic at Walmart</td>
<td></td>
<td></td>
<td>health3000</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wellness programs</td>
<td>Rewards/incentives</td>
<td>Gamification</td>
<td>Navigators/advisors</td>
<td>Health content</td>
</tr>
<tr>
<td>Weight Watchers</td>
<td>AchieveMINT</td>
<td>WiiFit</td>
<td>Health Insurance Advocate</td>
<td>Greatist</td>
</tr>
<tr>
<td>Jenny Craig</td>
<td></td>
<td></td>
<td>Castlight Health</td>
<td>WebMD</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman Analysis
Thinking like a retailer

Winning Retail Strategies
1. Target markets/locations
2. Increase size/leverage –OR- niche (depending on what drives value within the target segment(s))
3. Better product/service
4. Lower cost
5. Pricing advantage
6. Supply chain integration/control
7. Yield management (balancing volume / margin tradeoff in the portfolio)

Translating retail strategies to healthcare...

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...Translated to Healthcare
1. Target markets/locations, and service lines
2. Large IDS or small, specialty player
3. Higher quality or patient experience
4. Lower cost
5. Pricing advantage
6. Integration across the continuum
7. Portfolio management for risk contracting or for asset type
Key messages

- Revolution (not evolution) in the involvement of consumers in their own buying decisions
- Healthcare companies need to begin thinking like consumer product companies, enhancing skills in consumer segmentation, service and CRM
- Hundreds of millions of dollars of investment aimed at this sector: some will evolve into major disruptions and opportunities
- Consumerism will continue to accelerate...and healthcare companies must be ready, willing, and able to meet the demand

Questions?
“Improving the health of the people in the communities we serve”