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Informatics as a Competitive Advantage for Health Plans

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Powerful, emergent market forces are spurring many U.S. health plan organizations to make deep investments in a rapidly evolving approach to help them compete more effectively. That approach—informatics—is the systematic leverage of health-information assets to help plans better understand business risks, evaluate plan performance, and identify new offerings. But buyer beware—while informatics delivers a clear and compelling business case for investment, executing a cost-effective informatics strategy is not a plug-and-play proposition.

Market forces and the need for actionable information

Rising operating costs, increased market competition, and mounting consumerism are the primary forces leading health plans to informatics. Their traditional strengths, such as broad networks, provider discounts, and cost shifting, are giving way to focused competition—at the level of specific diseases and conditions—squarely aimed at lowering cost and improving the quality of outcomes. Health plans are abandoning broad-based approaches in favor of a more targeted methodology pinpointing segment-based offerings, focused medical management, tiered provider relationships, and informed care choices for members.

As a result, the need for actionable information is more critical than ever before. Health plan decision makers need it. Employers need it. Consumers need it. They need it quickly, and they need it to be reliable.

Increasingly, typical health plan consumers will seek data they can trust to support their personal choice in selecting a provider and medical treatments based on cost/quality trade-offs. Proprietary research conducted by Booz Allen Hamilton and Harris Interactive suggests that consumers don't look to plans for this information. Yet plan data often yields the most complete information on cost of health care services over an episode of care. This information becomes increasingly valuable as the health care industry evolves into a retail model.

By leveraging Informatics and working with other industry stakeholders, plans can begin building relationships with consumers to provide critical information to support informed choice. Likewise, among employers, the need for fast, detailed health plan information has become essential for proactive change and cost management. With ever more information and intermediary competitors entering an already competitive health care market, increased emphasis on cost containment and efficient administration is the norm. Informatics answers employers' need for transparency and accountability.

Informatics as a key competitive differentiator

Informatics has proved to be a powerful competitive differentiator in many transaction-intensive industries. In the casino industry, for example, Harrah's leads its competitors in understanding the behaviors and wants of customers thanks to its use of informatics in targeting customer satisfaction. Every business decision—from choice of location to funding allocations—is based upon this approach. This strategy is

delivering big benefits for the gaming giant: Harrah's is contemplating a \$15 billion buyout offer from a private equity group, according to a Wall Street Journal report in October.

Informatics has also delivered on its promise in the finance industry. Capital One's enterprise-wide commitment to informatics is credited with the company's sustained profitability. The firm currently has more than 500 information analysts in operations functions and more than 300 in marketing.

Our experience and our research into how leading health plans are leveraging informatics suggests similar potential.

Value drivers and benefits for health plans

As Exhibit 1 illustrates, for health plans, the chief value drivers of informatics center on reduced costs, enhanced revenues, and increased operating margins.

While cost reduction remains the focus of the majority, leading health plans are beginning to leverage informatics even to drive product and service innovation and increase cross-selling opportunities. Health plans can generate sizable additional revenue via such new product development, as well as reduce attrition among new services.

Our work with leading health plans suggests that case-related costs can be reduced across varied management and administrative functions, including provider pricing and performance, claims leakage, medical costs, provider network management, billing, and even fraud detection. Operating margins too, may be enhanced by as much as 100 basis points through informatics by providing critical data-enabling health plan decision makers to identify product/portfolio management strategies and strategic pricing models. Still other streamlining opportunities exist in sales and marketing, product development, finance, and accounting functions.

Required Capabilities

While these types of benefits are tangible and very real, they are not easily achieved. A broad set of capabilities and best practices are needed before a health plan can begin to capture the full potential of informatics (see Exhibit 2, page 4).

The core competencies necessary for informatics success may be viewed much like a tripod:

- The first leg calls for alignment of the informatics strategy with organizational goals. The strategy must deliver a distinctive value proposition reflecting an

Exhibit 1

Key Drivers of Value Capture

	Enhanced Revenues	Reduced Care-related Costs	Increased Operating Margin	Reduced Administrative Costs
Value Drivers	<ul style="list-style-type: none"> ▪ Develop and sell new products ▪ Develop and sell new services ▪ Increase cross-sell 	<ul style="list-style-type: none"> ▪ Trend management ▪ Provider performance management ▪ Provider pricing management ▪ Member-centric management ▪ Claims leakage 	<ul style="list-style-type: none"> ▪ Product portfolio management ▪ Customer portfolio management ▪ Strategic pricing 	<ul style="list-style-type: none"> ▪ Rating and underwriting ▪ Product development ▪ Sales and marketing ▪ Enrollment and billing ▪ Provider network management ▪ Care management ▪ Claims administration ▪ Information technology ▪ Finance and accounting
Expected Benefits	<ul style="list-style-type: none"> ▪ \$300MM to \$500MM in new revenues from priced services ▪ 10% to 30% reduction in attrition from new services 	<ul style="list-style-type: none"> ▪ 2% to 3% reduction in medical costs ▪ \$5 to \$20 reduction in total diseased PMPM costs ▪ 1% to 1.5% reduction in care costs from fraud detection ▪ 10% to 12% improved outcomes via informed decision making and compliance 	<ul style="list-style-type: none"> ▪ 50 to 100 basis point improvement from shifting out of less profitable products ▪ 50 to 100 basis point improvement from shifting out of less profitable customers ▪ 0.5% to 1% improvement from better pricing 	<ul style="list-style-type: none"> ▪ 15% to 20% reduction in rating and underwriting costs ▪ 10% to 18% reduction in care management and provider network management costs ▪ 10% to 15% reduction in enrollment, billing, claims, and IT costs

Source: Booz Allen Hamilton

Exhibit 2

Health Plan Informatics Best Practices

Best Practices Attributes	Health Plan Informatics Best Practices
Strategic Focus and Commitment	<ul style="list-style-type: none"> Aligning the Informatics strategy with business strategy, select the appropriate strategic posture Focused senior management advocacy Investments used for competitive differentiation or optimizing the business system, not me-too investments
Informatics as a Center of Excellence	<ul style="list-style-type: none"> Analytic resources centralized, or established as a shared service, to maximize scale and leverage expertise Effective integrative mechanisms—e.g., governance and co-location—to drive alignment Critical mass of analytical, financial, and clinical expertise, e.g., biostatisticians, epidemiologists
High Information Orientation/Analytical Sophistication	<ul style="list-style-type: none"> Analytical, fact-based decision-making Use of sophisticated predictive modeling and optimization techniques Information transparency and proactive orientation to information use
High-quality Data	<ul style="list-style-type: none"> Incremental approach to acquiring, cleansing, and integrating data. Selective incorporation of clinical data (outcomes, lab values); acquisition of appropriate level of granularity at point of capture (e.g., rendering physician, member vs. subscriber) Best practice information management practices—e.g., standard taxonomy, data ownership
Agile, Integrated Information Architecture	<ul style="list-style-type: none"> Access to integrated enterprise data, minimizing integration points across systems Appropriate use of ETL, EII architectures for access to real-time operational data where required Open-standards development, extensive leverage of standard COTS and middleware Minimizing number of BI tools across the enterprise

Source: Booz Allen Hamilton

organization's goals and strengths, market presence, and customer base. Sustained value capture is possible only where information and insight align with business goals to deliver a unique and compelling customer benefit.

- The second leg of the tripod zeroes in on an organization's commitment to deep technological and analytical capabilities as drivers for its business decisions. The organization must have a culture in place that understands and values the power of informatics and data mining as decision drivers. Also, an organization must have a corporate structure allowing unimpeded information flow directly to top managers and to line employees, thus facilitating unified goals.
- The third leg centers on enabling capabilities—the technology and tools—allowing for enterprise-wide access to high quality, reliable data. This structure allows organizations to receive and analyze the diverse perspectives of various disciplines based on a uniform set of indicators and metrics.

Implementing and perfecting these core competencies yields an organization whose character, architecture,

and operational processes provide a fertile—and cost-effective—environment for informatics.

A phased implementation

To optimize value capture and get the most from an investment in informatics, best practice companies have followed a phased approach to implementation, balancing benefit and implementation risk against the steep costs of enterprise-wide initiatives.

While the largest national plans are spending more than \$300 million annually on broad informatics implementations, regional plans and those with more limited resources must be more selective in their implementation efforts. Sequencing the implementation to balance near-term priorities with the long-term vision limits risk and creates self-funding opportunities.

Exhibit 3 offers a sample of a sequenced implementation by a regional plan compared against more deeply funded national plans. Here, strategic posture and corporate strategy drive long-term investment.

Unlike its leading competitors in the health care industry whose corporate strategies broadly focused

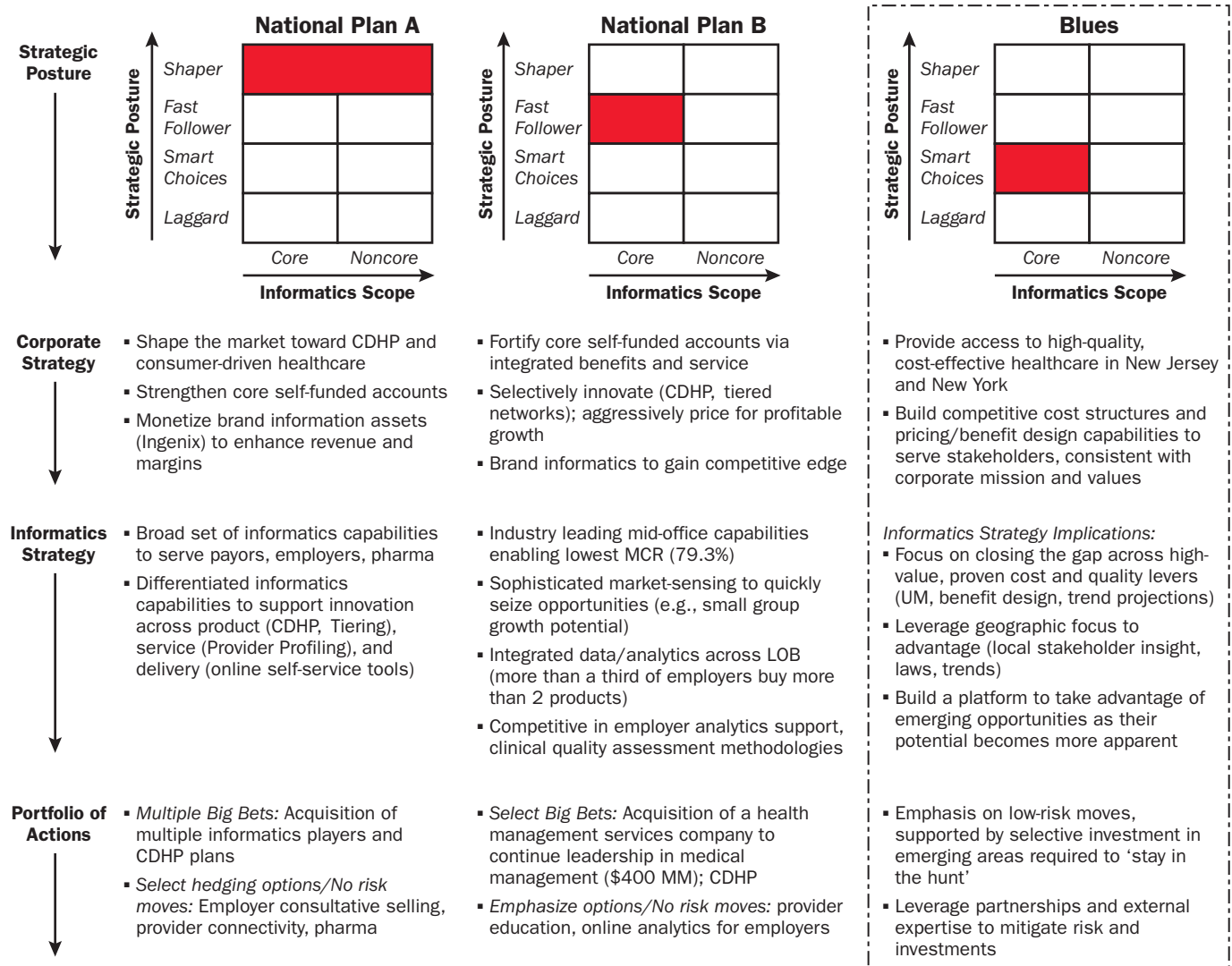
on enhanced revenues and margins, a regional BCBS plan follows a targeted strategy aimed at first building competitive cost structures and pricing/benefit models. While health plans with deeper revenues invested in informatics with a scattershot approach toward improving the bottom line, the regional plan's investment intends to close the market gap and secure more customers with targeted new product offerings at lower cost. For the regional BCBS plan, competitive differentiation is then realized over time, with implementation costs spread over an extended period.

The implementation sequence

A phased implementation should first build the informatics foundation, then extend it, ultimately creating and exercising options that achieve competitive differentiation over time.

We have identified a four-phase approach for health plans. In the initial phase, the informatics foundation is set by demonstrating value in existing technology investments, such as electronic data warehousing. Health plan decision makers would focus on enhancing foundational capabilities during this phase, to include

Exhibit 3
Strategic posture and corporate strategy should drive long-term investments



Source: Booz Allen Hamilton

data infrastructure, analytical expertise, key processes, and governance.

The second phase moves out of the foundational center and focuses on expanding analytical capabilities. In the third phase we begin to see the practical outcomes of the work of the preceding phases. This is the point at which advanced consumer tools and advice—based on market acceptance—are developed and marketed.

In the fourth and final phase, market distinction is achieved by creating and exercising options identified through analysis of the informatics data. For example, a health plan might begin to provide consultative selling to employers based on superior account-level analytics and pricing expertise. Another scenario might see a health plan develop treatment guidelines based on collected information to improve outcomes. Still another outcome might involve informatics based on lab results providing the key to improved medical cost/quality trade-offs.

An evolving discipline

Even with its compelling value drivers informatics is, in many ways, an evolving discipline. It is almost universally leveraged as a competitive tool rather than a collaborative one, with information rarely shared industry-wide. As such, its potential to benefit health plans has not yet been fully explored (see “Collaboration or competition: The road ahead for Informatics”).

For health plans the benefits are clear: Informatics is a powerful tool to cut costs, enhance revenues and operating margins, spur new product development, and deliver insight into customers and health care providers alike. However, successfully implementing an informatics strategy is a slow dance. Core capabilities and competencies must first be in place. Smart implementations require measured, strategic advances in harmony with corporate goals—balancing risk, cost, and benefit at each phase of development.

Collaboration or competition: The road ahead for Informatics

Pay-for-performance and value-based purchasing initiatives are expanding nationwide in an effort to better align health care expenditures with the patient outcomes. If health plans each devise their own Informatics to support pay-for-performance, providers in any given market are measured by a variety of yardsticks, which often conflict. Since the ultimate goal is to improve value for the dollar through improved care, it is in every health plan’s best interest to send the strongest, most consistent signal to providers about expected behavior changes. Beyond that, the inherent redundancy of information promotes waste, and administrative overhead costs rise as a result. When health plans cooperate, as they have done in the California IHA initiative, the providers can be more easily engaged and the program can be tailored to ensure maximum success.

At the same time a competitive approach lacking unified standards is perilous because it requires plans to justify and defend their measurement systems. These inconsistencies, combined with the proprietary, highly individual ways in which health plans interpret their information not only slows capability development, but may open the door to unforeseen risks—even lawsuits. The Washington State Medical Association recently sued a local insurer for using a “flawed methodology” and inaccurate information to exclude the physicians who, the insurer claims, do not meet the company’s quality and efficiency standards. Collaborative determination of performance expectations avoids those pitfalls and lowers risk.

One of the most frequent criticisms of health plan attempts to profile physicians is the “small numbers” problem. Once data is parsed out by physician and by disease for an individual health plan, the sample size is insufficient to allow differentiation between physicians. As a result, regional collaboratives are emerging that pool data across public and private payers in an attempt to get a stronger signal about provider performance. Such initiatives can benefit the industry, but their success requires unprecedented levels of cooperation.

What Booz Allen Brings

Booz Allen Hamilton has been at the forefront of management consulting for businesses and governments for more than 90 years. Integrating the full range of consulting capabilities, Booz Allen is the one firm that helps clients solve their toughest problems, working by their side to help them achieve their missions. Booz Allen is committed to delivering results that endure.

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To learn more about the firm, visit the Booz Allen Web site at www.boozallen.com. To learn more about the best ideas in business, visit www.strategy-business.com, the Web site for *strategy+business*, a quarterly journal sponsored by Booz Allen.

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