



The birth of the healthcare consumer

&

Growing demands for
choice, engagement,
and experience



Executive summary

There's a new boss in U.S. healthcare: the consumer. That's the key finding in an extensive survey of 2,339 U.S. residents by Strategy&. The research paints a clear picture of a population displeased with its overall healthcare experience — and with rising expectations for transparency, value, and customer service, as well as a willingness to seek healthcare services from less traditional sources. The healthcare market as we know it is being upended, and the consumer is in the driver's seat.

This widespread dissatisfaction in healthcare creates openings for new entrants to further disrupt the landscape, whether they are retailers like Target and Walmart or digital giants like Google and Amazon. A recent report by PwC's Health Research Institute (HRI), [Healthcare's new entrants: Who will be the industry's Amazon.com?](#), further describes how companies attuned to the needs of empowered customers are shaking up the \$2.8 trillion U.S. healthcare industry, piece by piece. According to Strategy&'s survey, consumers aren't afraid to trust

less traditional sources when it comes to their healthcare, suggesting their needs are not being met by existing players.

Consumers, particularly younger ones, increasingly expect healthcare to work the way other digital markets work, with user-friendly interfaces, clearly defined pricing, and a wide selection of product options designed to meet their needs. Their other buying experiences have made them more savvy and skeptical, and they want to know what they're getting before they spend.

Although shifting expectations create opportunities, the converse is also true. Transparent markets and an ever-increasing range of choices mean that maintaining the status quo is no longer an option for healthcare payors and providers. Ultimately, the winners will be those firms that distinguish themselves in three ways:

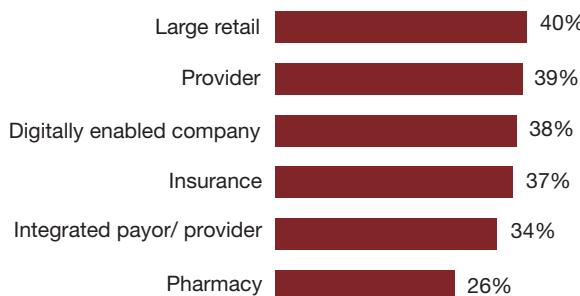
- Consumer Choice
- Consumer Engagement
- Consumer Experience



Exhibit 1

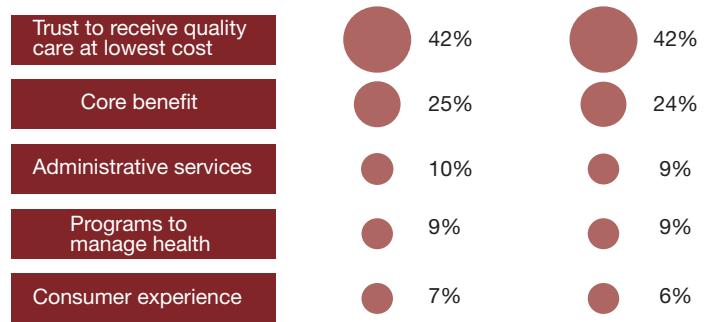
Consumers are willing to trust nontraditional companies

Level of Trust in Managing Consumers' Health



Source: Strategy& consumer survey 2014
N=2399

Reasons to Select Nontraditional Companies



Headlines

- **Consumers are happy with various individual aspects of their experience, but they remain unsatisfied on the whole.** Sixty-six percent reported satisfaction with their core benefits, and 63 percent said they were satisfied with the cost and quality of care. Only 49 percent, however, were satisfied with their overall consumer experience.
- **Consumers are getting comfortable with exchanges far more quickly than expected, and they're highly loyal to the first insurance plan they purchase.** More than half of consumers say they're highly satisfied with the experience of buying on healthcare exchanges — only 22 percent are not. Similar numbers report feeling confident during the exchange purchasing experience. Seventy-three percent of consumers who purchased insurance on a private exchange say they're highly likely to stay with the same insurer next year. Fifty-seven percent of those who purchased on a public exchange say they're more than likely to stay put.
- **Consumers aren't afraid to try new channels for insurance.** Forty percent said they'd trust a large retailer for health

services. Thirty-eight percent said they'd trust a digitally enabled company, such as Google or Amazon; this was about equal to the proportion — 37 percent — who would place that trust in an insurance company.

- **Younger consumers are price sensitive and more swayed by appearances, but do have a long-term view.** They place more emphasis on value than other generations, and half said they'd prefer to be treated at a lower-ranked hospital that looked modern — yet they still place more emphasis on “trusted advice” than value alone, demonstrating a long-term pragmatism about quality, not just cost, of care.
- **When it comes to digital healthcare services, there is a yawning chasm between what consumers want and what they're getting.** Eighty percent say they would engage with digital services that help manage their healthcare, but only 23 percent say they currently do. Perhaps more telling, more than a quarter of respondents listed digital as their preferred method of engagement in their health — as opposed to office visits or phone consultations.

“ **Consumers are looking for more choice, better engagement through the channels they prefer, and healthcare experiences tailored to their individual needs.**

Ashish Kaura, Partner

Less than the sum of its parts

When it comes to their healthcare, consumers are both content and restless. More than half aren't happy with their overall consumer experience, even though a majority report being satisfied with the basics:

- Core benefits (66 percent are satisfied)
- Cost and quality of care (63 percent are satisfied)
- Administrative services (62 percent are satisfied)
- Access to programs to manage their health (57 percent are satisfied)

This seeming contradiction can be explained by understanding that consumers' expectations for healthcare are very different from their expectations for nearly every other consumer-driven retail experience. Most industries have already finished anointing the consumer as king, driven by a competitive landscape increasingly shaped by digital interactions, all of which put the consumer in control. A bad experience at a restaurant yields negative Yelp reviews that then keep customers away; overpriced airline tickets get ignored on Kayak.

In healthcare, however, consumers have been conditioned to feel powerless and routinely dissatisfied, and have never really felt in control. But thanks to a growing array of options in the more transparent exchanges market, this "low bar" paradigm is shifting, and consumers are now starting to expect more.

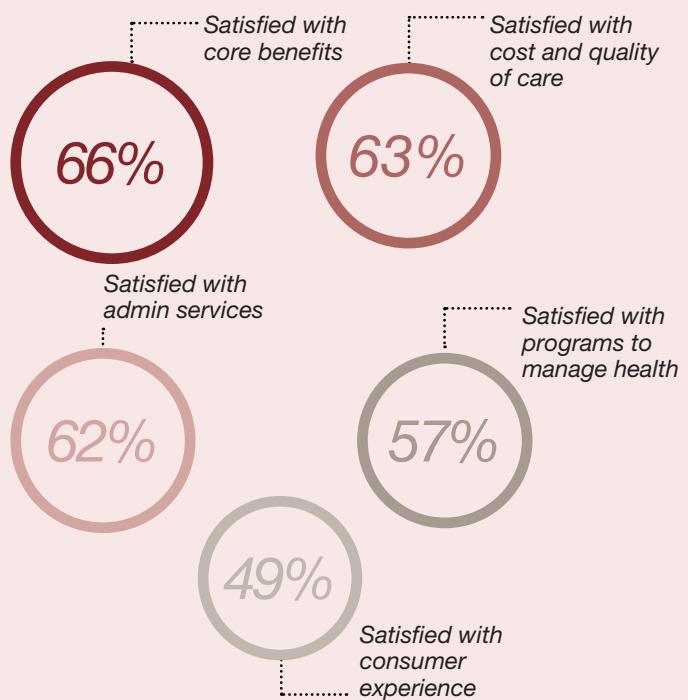
In 2012, 43 percent of consumers purchased their insurance in a "retail" mode - with real choices on carrier or product. Based on what we know today, that number is expected to jump to 55 percent by 2017.

The potential array of options that affect consumer choice extends well beyond the standard question of pricing. Customizing the right combination of benefits for the right consumer will create enormous value. Although the data shows that price does remain a primary consideration overall, consumers — particularly older ones — will pay more for non-price attributes such as brand, service, and network.

Those providers who can tailor care to each unique segment will be able to flip today's unsatisfying consumer experience on its head and win the loyalty of increasingly discerning healthcare consumers.



***Exhibit 2
Consumer satisfaction with different components of healthcare***



Source: Strategy& consumer survey 2014
N=2399

Love at first sight

Consumers are taking to healthcare exchanges, hiccups and all. More than half (51 percent) say they're highly satisfied with their exchange experience, and roughly the same number (53 percent) say they feel confident when making purchases on the exchanges. Younger and healthier consumers report both higher levels of confidence (57 percent) and a greater level of satisfaction (55 percent) with the exchanges compared to their older counterparts.

Demonstrating this widespread satisfaction, a head-turning 66 percent of consumers who purchased on public or private exchanges plan

to stick with the same insurance next year; 20 percent report they're at least somewhat likely to remain loyal. These numbers crest in the private exchanges, where a remarkable three-quarters of respondents said they would remain with their insurance provider next year; only 10 percent intended to switch plans. In an environment of largely dissatisfied consumer healthcare experiences, this is strong evidence that consumers respond positively to empowerment and choice. Capturing these consumers and retaining their loyalty from the start can reap dividends in the long term.



Exhibit 3

Consumer confidence and satisfaction on public and private exchanges

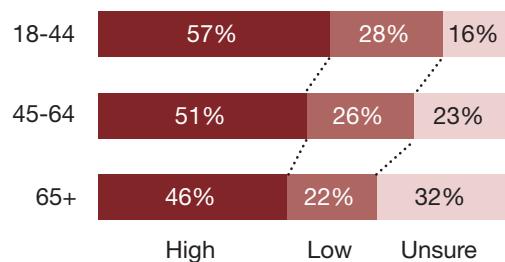


Highly satisfied with their exchange experience



Highly confident when making purchases on the exchanges

Confidence Levels by Age



Source: Strategy& consumer survey 2014
N=607

Because consumers are already digging into their choices and more comfortable with exchange purchasing than experts predicted, the imperative to provide them with the right suite of options and speed to market becomes

increasingly critical. Digital transformations move at an astonishing pace. If consumers are already developing brand loyalty to their insurers, it's essential to win them over now before it's too late.

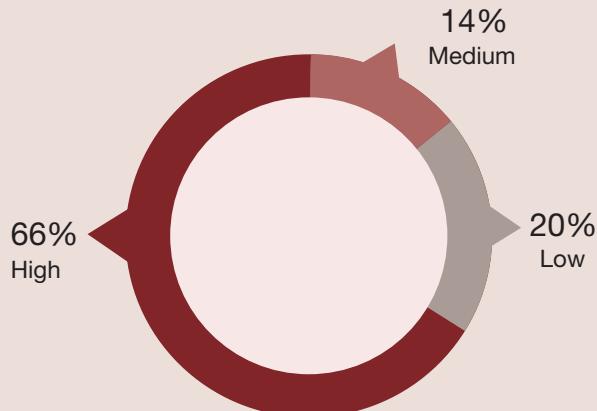
A head-turning 66 percent of consumers who purchased on public or private exchanges plan to stick with the same insurance next year.



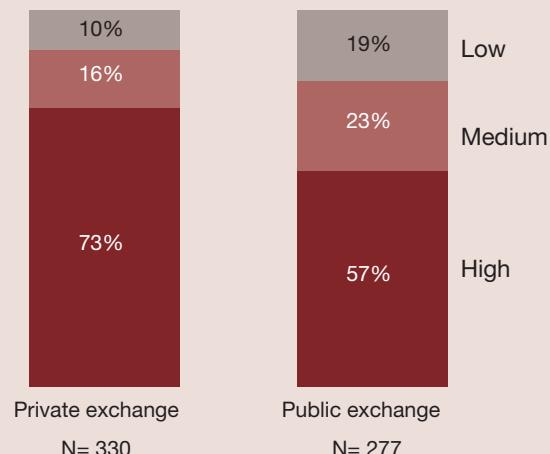
Exhibit 4

Loyalty to insurance bought on public or private exchanges is high

Loyalty to Insurance Plan



Loyalty to Insurance Plan by Channel



Source: Strategy& consumer survey 2014
N=607

One size fits none

The survey data revealed several trends, but the most recognizable trend of all was a splintering of priorities among different strata of consumers. For example, the elderly and the wealthy are largely unmoved by price variations in various aspects of their care, whereas the young and the healthy consider price to be paramount in their decision-making process, assigning it 20 percent more value than their elderly counterparts do. The key driver of decision-making among respondents older than 65 was the ability to trust their provider's advice. At different stages of a consumer's life, the considerations, priorities, and trade-offs in healthcare vary significantly. These differing

priorities manifest themselves in all sorts of ways. Half of those younger than 25 would go to a shiny new hospital for care as opposed to an older, drab one, even if the new one was scored lower in national rankings; only 16 percent of those older than 65 felt the same way. In attitudes toward telemedicine, the generational divide is just as wide: More than four in five respondents younger than 35 said they embraced care provided via virtual marketplaces, whereas 47 percent of senior citizens "hate" the idea. Younger consumers are also significantly less loyal and more interested in hearing from their insurance companies, wellness plans, and healthcare providers via digital means.

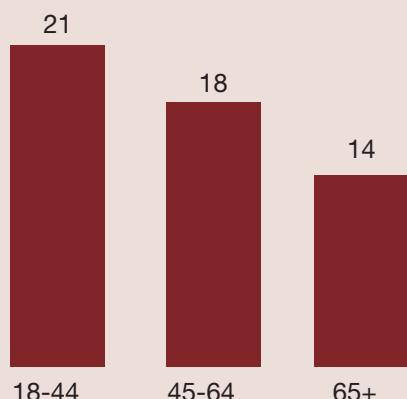
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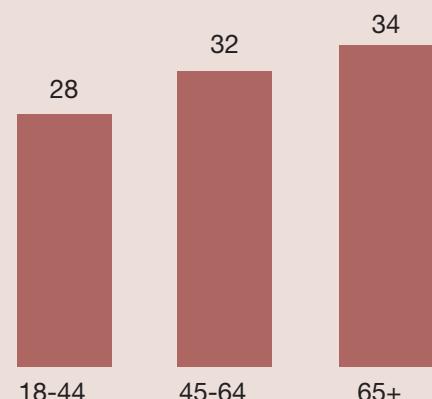
Exhibit 5

Age influences what drives consumer satisfaction and loyalty

Importance of "Value" in Satisfaction and Loyalty by Age



Importance of "Trusted Advice" in Satisfaction and Loyalty by Age



Source: Strategy& consumer survey 2014

N=2339

#s derived by asking respondents to assign points to attributes that matter most to them

Among consumers across all segments, trust, simplicity, and value are the strongest indicators of a positive consumer experience and the primary factors driving customer loyalty on the exchanges. Simplicity and trusted advice together account for almost 60% of what drives consumer satisfaction and loyalty. Consumers tend not to care as much about what others are doing — almost all consumers listed adoption of the exchanges by the public as an unimportant factor in their decision of whether to purchase on them.

This data means that the days of one-size-fits-all service offerings and brand positioning strategies that view healthcare consumers as a unified mass are over. Value propositions throughout the healthcare value chain must be tailored to the consumer, with specific product attributes

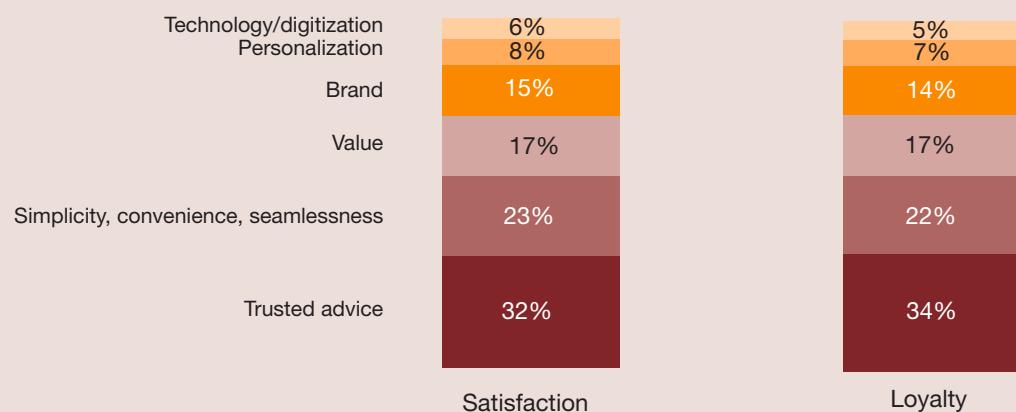
reflecting the trade-offs that these different consumer segments favor. But consumers abhor too much choice almost as much as they abhor too little, and an array of options won't help if it overwhelms them. For example, the addition of one excellent care system to a network is perceived extremely positively, but customers see little value in adding further options beyond that. To take advantage of consumers' demand for more choice, it's important to identify and understand which preferences actually matter to their decision-making process, and to offer them options that are empowering, not overpowering.

“Consumers today are savvier and more skeptical, have more options for managing their health, and expect their individual preferences to be met.

Jaime Estupiñán, Partner



Exhibit 6
Primary drivers of customer satisfaction and loyalty



Source: Strategy& consumer survey 2014
N=2339

Talk healthy to me

Consumers like to be spoken to in different ways and through different sources. But although meaningful distinctions exist among the various consumer generations, it's easy to spot a clear trend: Young consumers want to hear from their providers and insurers through digital channels. Respondents under the age of 45 identify digital as their preferred means of engagement to manage their health, outranking traditional facility visits or phone calls. This represents an enormous opportunity for health plans, providers, and even corporate-sponsored

wellness programs to achieve consistent and efficient points of contact with their consumers.

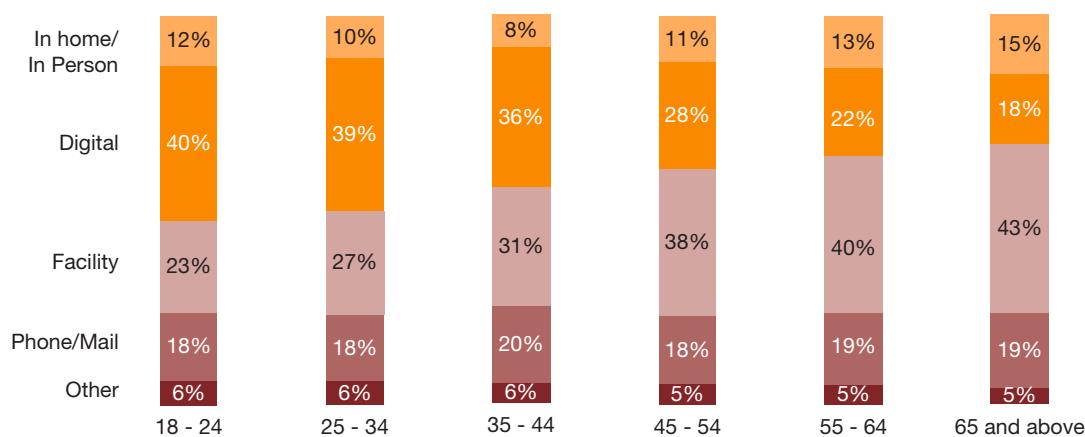
By providing consistent support at a low cost, they can keep people healthy and make sure they become a partner in their own health maintenance, thereby keeping expenditures down. The sharpest healthcare companies will use predictive analytics to determine how a given consumer prefers to be reached and incentives to encourage healthy behavior.

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Exhibit 7

Preferred forms of engagement for managing health, by age



Source: Strategy& consumer survey 2014
N=2339

Treating the whole patient

Thirty-six percent of consumers surveyed rely on “care extenders” - family members, support groups, online communities, and others not directly affiliated with their health providers - to help them manage their well-being. And about half of respondents admit that they’d maintain less-healthy lifestyles if they weren’t closely supported in doing so by their friends, families, and communities. Interestingly, this finding, unlike much of the other data, reflects a tendency that has nothing to do with age or income.

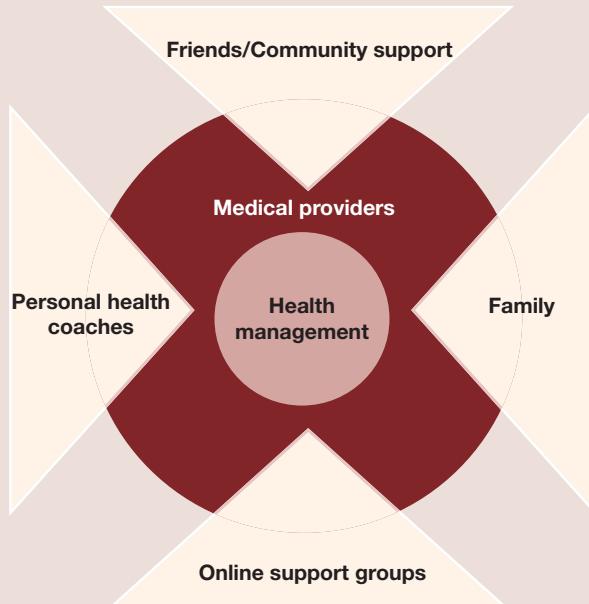
Consumers now look to a broader source for input and support in their health and lifestyle decisions — friends, family, social networks, the Internet. Effective communication with them must involve a total approach — a “whole

person” care model in which providers and payors collaborate with care extenders, state agencies, and communities to gather information and articulate incentives to consumers. Many of the costliest decisions consumers make take place outside the hospital, whether in passive disease management or continual smoking, where healthcare providers historically have little influence or involvement. By gathering data on what takes place at home and utilizing the network strength of the communities of which consumers are a part, healthcare companies can help increase quality of life for their customers while ultimately reducing their own costs.



Exhibit 8

Community engagement impacts health management across all health status, age, and income segments



Source: Strategy& consumer survey 2014

New faces in the crowd

In the New Health Economy, consumers are open to new, nontraditional solutions to meeting their healthcare needs. That means the market is primed for new entrants. Forty percent of consumers report that they'd trust large retailers like Walmart or Target to manage their health, compared with 39 percent and 37 percent who place that kind of trust in providers and insurers, respectively. 33 percent report that they'd trust Google or Amazon to deliver their healthcare. The primary reason consumers are willing to trust in nontraditional companies: They believe such companies can provide quality care and core benefits at a lower cost.

For traditional players, this level of trust in nontraditional health delivery entities should be alarming. Companies such as Target and Amazon already have vast digital capabilities and disruptive DNA. Perhaps more importantly, consumers associate them with efficient, effective, and delightful customer experiences. These new entrants are poised to take significant market share as the healthcare market continues to grow and evolve. Insurers, providers, and other established industry players will be forced to adapt today to provide consumers with the choices, engagement, and experiences they demand if they have any hope of keeping their turf tomorrow.

“The primary reason consumers are willing to trust in nontraditional companies: They believe such companies can provide quality care and core benefits at a lower cost.

Keith Fengler, Principal

Methodology

A. Survey targets

Strategy& sought to mimic the population distribution seen by its clients in the healthcare field. To that end, roughly two in five respondents were older than 65, and respondents were evenly split between men and women. A quarter made \$100,000 a year or more; a quarter made \$25,000 a year or less. These income figures correspond to census data.

In an effort to make each subset statistically significant, respondents were spread relatively evenly across a variety of purchasing channels. Double-digit percentages of respondents came from public exchanges, private exchanges, and Medicare, and double-digit percentages were individuals outside exchanges and employers outside exchanges. Consequently, our analysis of consumer tendencies from each channel is statistically meaningful.

For the findings that are based on responses from all survey participants, results based on such samples differ by no more than two percentage points in either direction from what would have been obtained by seeking to interview all US residents. Results based on smaller sub-groups have a larger sampling error. In addition to sampling error, the practical difficulties of conducting any survey of public opinion may introduce other sources of error. Variations in the wording, order and translation of questions, for example, may lead to somewhat different results.

B. Survey objectives

We sought to unpack the potential to create value in the healthcare system by understanding the consumer experience and attendant pain points. More specifically, our objective was to examine consumer thinking on healthcare service options, purchase preferences, and desired methods of engagement.

Ultimately, our survey can be distilled to a simple question: “How do you, the consumer, want to be treated?”

C. Respondent segmentation and analytic techniques

In an effort to make the data nuanced but accessible, we grouped respondents into three health categories: healthy, at-risk, and catastrophic. Those in the catastrophic category are the well-known 20 percent who account for 80 percent of healthcare spending in the United States. Consumers were segmented according to the following criteria:

- Age
- Gender
- Household Income
- Marital Status
- Health Status
- Employment Status
- Level of Insurance Coverage
- Insurance Coverage Source
- Primary or Dependent Status

Our findings showed that age and health status were the two segments that primarily drove respondents' current opinions and behavior. However, there are distinct needs-based segments that are not entirely driven by demographic variables. For example, a preference for premium experiences is often not correlated to age, health, or wealth.

D. Survey topics tested

In order to come to the conclusions above and below, Strategy& queried respondents on their attitudes toward the exchanges, nontraditional providers, and health-related personal expenditures. We also asked them about their thought processes when they purchase insurance and choose treatment options, focusing on their pain points, views of transparency in the market, and ultimate preferences.

About the authors



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Dr. Jaime Estupiñán is a New York-based Partner with Strategy& and a member of the firm's Organization, Change and Leadership practice and the Health market team. His experience extends to strategy and organizational transformation for health services and technology clients. He is an expert in building consumer-centric capabilities for health players and has led comprehensive programs to adapt health companies to new market environments. He has also led strategic transformation programs for global clients across industries.



Keith Fengler

Keith Fengler is a Principal with Strategy& based in Boston. He works with the global health and digital business & technology practices and supports health services companies in developing strategies, business models, and consumer transformations enabling consumer engagement and cost optimization.



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Ashish Kaura is a Chicago-based Partner with Strategy& and leads the payor business in its North American Health practice, where he focuses primarily on health services clients. He specializes in new market development and growth strategy for payor and provider clients. Most recently, Mr. Kaura led Strategy&’s proprietary research to understand consumer/employee behavior, and employer purchase drivers on public and private exchanges.

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