

Exchange

From the Medical Industry Leadership Institute

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Is Minnesota Home to Health Care's Patron Saints of Pricing?

Change is the only constant in the health care sector. From innovative devices to improved diagnostics and new care delivery systems, the global industry is in constant flux. Add regulatory, federal and state law, and insurance changes, and you've got a whole lot of moving parts.

When Mark Bergen sees those parts, he sees pricing, and where he sees pricing, he sees an opening to create a strategic capability.

In its first year since implementation, the ACA has fundamentally changed how American companies and consumers charge and pay for direct health care, but it's also introduced entirely new sectors of goods and services, including data sets that can be used to evaluate products and procedures at a grand scale and health insurance as bundled, bought, and sold with and to potentially millions of new customers. Or, as Bergen sees it, new sources of value, new opportunities for co-creation, and new structures of exchange and reimbursement. That's a whole lot of pricing.

In his paper, "Prophetale Pricing—Expanding Your Strategic Vision to Generate Transformational Profitability," written with Shantanu Dutta and Ranjan Banerjee, Bergen says today's successful companies are "using pricing to leverage customer and market insights, imagine new business models, and expand their strategic vision." Among the three authors, each of whom boasts an extensive resume of academic and consulting work, the statement "We've seen it over and over again" holds serious weight. "Prophetale pricing," they go on, "has the power to make markets, break competitors, drive innovation, fuel growth, and generate transformational outcomes for organizations."

Bergen recently showcased two leaders who share his prophetic vision of pricing at a Marketing Science Institute session where he joined health care executives Brett Knappe of Medtronic and the absent though integral Carol Simon of UnitedHealth Group. Knappe shared his experience as a major player in the health care sphere. As he put it, Medtronic is moving from being *just* a device maker to being a provider of solutions. That means serving an array of partners and dealing in data, systems, and outcomes, rather than simply devices. He shared how Medtronic is exploring ways in

About

Exchange, a publication from the Medical Industry Leadership Institute, features dialogue on medical industry research and application. The content is a summary of research from both academia and the medical industry, followed by commentary on the importance of the research and its application. Topics highlighted in the *Exchange* span all sectors of the medical industry and include commentary from leaders in the field, as well as researchers from the University of Minnesota and other academic institutions.

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which pricing is viewed as a negotiation about sharing risks and rewards across constituents—essentially, the best pricing decisions emerge not as an actuarial dictum, but as a truce among individuals representing particular needs and interests. This game isn't about winning or losing, but coming to an agreeable sweet spot where everyone gets some, though not all, of what they want.¹

Bergen explains, "It's not just about implanting the pacemaker anymore. Now it's about tracking that pacemaker's outcomes and scaling pricing based on how well—or how poorly—a patient or patient group does with the device and its placement. And it's about the transformative new services that health care partners can co-create. It's about nuanced pricing that hinges on real-world outcomes and other complex metrics." The company that can juggle its rapidly multiplying roles and "consumers," Bergen believes, may very well be the one paving a path to the profit promised land, flexing its strategic pricing capabilities at every turn.

Spoken like a true believer. ■

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¹ From "When Truces Collapse: A Longitudinal Study of Price-Adjustment Routines" by Mark J. Zbaracki and Mark Bergen, 2010, *Organization Science*, Vol. 21, No. 5, pp. 955-972.




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Commentary

Prophet: One Who Utters Divinely Inspired Revelations

by *Carol Simon, Senior Vice President, Center for Health Reform and Modernization at UnitedHealth Group*

I initially paused over the term “prophetic pricing.” I’m an economist, tied to worldlier—nay, dismal—phenomena, so it made me wonder. Sure, we economists have “invisible hands,” but prices are, well, mundane.

Maybe not, though—at least in health care. Truthfully, you could go back a bit more than the lifespan of a UMN undergrad and you’d find little talk of prices in health care. Discussing prices with one’s physician was unheard of (or worse, unethical). Few believed that either consumers (we call them patients) or producers (physicians, hospitals) responded to prices. Medicine was paid on a fee-for-service basis. So, while quality was assumed, it was neither measured nor part of the price. It was as if Chevy Vega cost the same as a Cadillac. And too often the bill was paid without review, effectively hiding any incentives to shop or improve.

Today, two prophetic things are happening in health care pricing. First, we are beginning to pay directly for value and using pricing to incentivize better quality. That is, if you are re-admitted to the hospital for the same problem, providers aren’t paid again. If your physician doesn’t follow accepted medical guidelines, he or she is paid less. If your physician is not part of your insurers’ preferred network, you pay more. Still, many would say that there isn’t enough quality built into health care prices. Part of that is because change is slow. Part is because we need more scientific evidence on what works best for which patients.

Second, we are beginning to pay for *bundles* of care, not individual pieces. To evoke another management guru, Clayton Christensen, in the past, we weren’t

thinking about the “job” that health care is supposed to do. We don’t get value, as consumers, from an MRI, some stitches, or even that artificial joint; we get value from a course of medical treatment that removes knee pain and lets you walk, run, and play. Paying piecemeal for parts of the “job” gives incentives for caregivers to do more, but little incentive for them to do well or to coordinate. And it turns out that a lot of value is the direct result of coordination. Thus, both public (Medicare) and private insurers are beginning to pay providers for *episodes* of care: a fixed amount to cover diagnosis, treatment, and a full range of rehabilitation services. The goal here is to incentivize providers to work together to be efficient and effective in choosing the type and providers of care. A care team can better identify problems early, select the best surgeon, be sure patients get good post-surgery care and follow-up, and check that no one is over-paying for equipment. They should see you through from symptoms to better health, wherever that road goes.

Still, prophetic pricing in health care requires a lot more transparency. Too often we—patients *and* providers—really don’t know what the price is. Insurers and policy groups are developing websites to help remedy the problem, letting consumers access what a health service might cost, and review measures of quality and patient satisfaction. But more is needed. And truthfully, too few use the resources that already exist.

All this means that, in health care, there’s lots of room for pricing innovation and research. Bring more tablets down from the Mount! ■