

BAIN & COMPANY

Creating

Value

Through

Loyalty in

Health Care

Health Care Viewpoint

Number 10



Bain health care expertise

As the year 2000 approaches, the health care industry is still turbulent. Customer requirements and competitive dynamics continue to evolve. The industry is seeing more deals, more alliances, more investment, and more experiments than ever before. It's not always clear whether a new approach is a fad or a real basis for leadership in the marketplace. Health care organizations are rethinking every element of their strategies, structures, and business practices to find the path to sustainable results.

Bain & Company helps health care companies navigate a course to outstanding results. We work closely with motivated management teams to create a clear map, a goal and direction for achieving not incremental improvements, but full potential returns.

Bain's global health care practice combines expertise, an industry network and years of experience accumulated across all parts of the health care industry. Bain helps health care companies, including product suppliers, distributors, providers, and payers worldwide, select a strategic course and create a practical migration path to the goal.

the value of **loyalty**

In industry after industry, research has demonstrated the high level of value created when companies build loyalty with their customers, employees and shareholders.

In the past, major participants within the health care industry profited from strong loyalty links that drove very high returns. Physicians benefited from strong patient relationships; hospitals and pharmaceutical/medical device companies from clinician loyalty; and insurers from stable, relatively undifferentiated employer relationships. Although this loyalty-based system led to attractive returns throughout the industry, employers and the government were left to foot the resulting inflated health care bill.

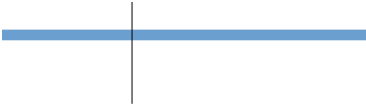
Managed care and government reform are attempting to correct some of the fundamental flaws in health care systems. While these solutions do address some existing problems, they are also creating new inefficiencies by breaking loyalty links and creating churn throughout the system.



The New Loyalty Challenge

Loyalty Creates Superior Economic Value

Companies with loyal business relationships tend to outperform those with lower loyalty by growing faster and more profitably. This type of company has decreased customer acquisition costs because new customers add to, rather than just replace, the current customer base. Over time, service costs decrease while cross-selling,



referral and premium-pricing opportunities increase. Their employees have greater job satisfaction from serving a loyal customer base, and the company, in turn, experiences lower employee turnover costs. Health care companies that retain loyal investors during industry turbulence and restructuring are able to focus on long-term future payoff, rather than having a quarter-to-quarter outlook.

Reforms and Restructuring are Squeezing Costs at the Expense of Loyalty

Market and regulatory changes are successfully reducing cost, but they are also breaking down traditional loyalty links and replacing them with transactional relationships. For example, the average managed care member changes plans every 18 months. Not surprisingly, providers of health care share this same short-term perspective. They focus on minimizing the annual cost of physician services, hospital care, pharmaceutical benefits, and supplies. What gets lost is the long-term focus on the best cost and quality over a patient's life.

Leading Edge Strategies Require a Loyalty Framework

Leading edge beta sites in “disease management” are demonstrating 30% plus improvements in cost with better outcomes and increased patient satisfaction. Innovators are discovering that they must take a multi-year, systems cost perspective to realize this potential value. For example, the CABG procedure appears high-cost compared with PTCA from a one-year perspective, but may provide the best cost from a 10-year

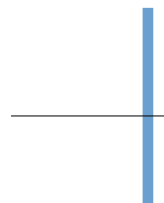
perspective for certain patient populations. Health care companies that successfully rebuild loyalty into their strategies will be able to take a multi-year perspective and thereby achieve the full potential (cost and quality) of managed care.

Create Competitive Advantage Through Building a Loyalty-Based Strategy

The full potential of managed care requires, at its foundation, strong links between the managed care organization, its patient base, and its suppliers. There are four practical steps to achieving this full potential:

- 1) Quantify the current and potential economics of loyalty in the patient care value chain;
- 2) Segment your current and potential customer base to identify those targets with the highest loyalty and profit potential;
- 3) Identify loyalty leverage points to cement stronger relationships with higher shared value, for both you and your customers, than competitors can offer; and
- 4) Realign your internal systems to highlight and reinforce actions that solidify the potential of loyalty.

As the health care industry continues to evolve, companies best positioned for success will be those that create strategies and programs to rebuild the loyalty links through their value chains.



Bain is one of the world's leading global business consulting firms. Its 2,400 professionals serve major multinationals and other organizations through an integrated network of 26 offices in 18 countries. Its fact-based, "outside-in" approach is unique, and its immense experience base, developed over 26 years, covers a complete range of critical business in every economic sector. Bain's entire approach is based on two guiding principles: 1) working in true collaboration with clients to craft and implement practical, customized strategies that yield significant, measurable, and sustainable results, and 2) developing processes that strengthen a client's organization and create lasting competitive advantage. The firm gauges its success solely by its clients' achievements.

BAIN & COMPANY

BAIN & COMPANY, INC.

Two Copley Place
Boston, Massachusetts 02116
Tel: (617) 572 2000
Fax: (617) 572 2427

Atlanta • Beijing • Boston • Brussels/Amsterdam • Chicago
Dallas • Hong Kong • Johannesburg • London • Los Angeles
Madrid • Mexico City • Milan • Munich • New York • Paris
Rome • San Francisco • São Paulo • Seoul • Singapore
Stockholm • Sydney • Tokyo • Toronto • Zurich