

# **Beating the Blues in the Health Insurance Industry:**

## *A Blue Cross Blue Shield of Florida Case Study*

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It's not easy being in the health insurance industry these days. Health care costs are increasing close to 20% annually, and some employees are seeing 70 to 80% increases in their out-of-pocket insurance costs. This hyperinflation is often accompanied by reduced benefits – the exclusion of spouses and children in employee plans is now becoming commonplace. This is the difficult business environment faced by George Pisacano, Director of Market Research at Blue Cross Blue Shield (BCBS) of Florida.

Blue Cross Blue Shield of Florida sells most of its insurance to groups, who provide health insurance as an employee benefit. Because prices are rising so dramatically, many employers are providing less coverage as well as passing along cost increases to employees. Competitively, BCBS of Florida faces a huge disadvantage: it competes against all of the large national companies, and even occasionally competes against BCBS companies in other states (all are technically separate entities). So for example, while BCBS of Florida must fund its own computer systems costs, national companies can build the same system once and employ it across the country.

### **Getting Down to Basics**

When Pisacano joined BCBS of Florida in 2002, even questions that seemed obvious were sometimes difficult to answer. He started by asking “who is our customer?” Was it the employee benefits manager, the doctors, the pharmacies, the hospitals, the members? All of these groups? The Voice of the Customer model BCBS of Florida was using at the time had been developed in the company's own conference room and settled on the corporate benefits manager –

not the employee who uses the health insurance – as the target customer.

According to Pisacano, therein lay the root of the problem. Though the employee benefits managers may have been satisfied, the plan members, for the most part, were not. “At the end of the day,” he says, “we had a bad process and we had bad results. There was no product development insight whatsoever.” The survey research that had been done had very small samples and limited insight to support any process improvement. There was no data driving how the company budgeted any big process improvements. Another key stumbling block was that there was no measure of the relative importance of various satisfaction drivers, so, according to Pisacano, “whoever screamed the loudest” was the most successful in driving product development initiatives. In addition, the market research team had no competitive context, so there was no way to know what the company did better or worse than its four major national competitors, or any of the dozens of smaller local players.

In attacking these myriad problems, Pisacano discarded all of the old paradigms and decided to start from scratch. He focused on three questions, the answers to which would form the basis of a whole new product development strategy. “Who is the customer?” “What industry do we play in?” and “How can we extract value along the process?”

Pisacano took a hard look at what the company did and began to view BCBS of Florida as the intermediary between the doctors, pharmacies and hospitals on one side, and the benefit managers and employees on the other. And in each case,

by drilling down into the various relationships, he came up with the same answer: the member is the customer of the hospital, the doctor, the benefits manager, all the way down the line. As Pisacano puts it, “We began to go by the book. That is, by satisfying the needs of your customers’ customers, you satisfy yourself.”

### **Finding the New Voice of the Customer**

To help develop a systematic process for determining member needs, satisfaction drivers, and their relative importance, Pisacano hired Applied Marketing Science (AMS) of Waltham, Massachusetts. The issues faced by Pisacano boiled down to a classic “guns vs. butter” dilemma: “Is A more important than B? If I only have the resources to fix one thing, what should it be? In short, what is the best way to spend my finite resources?” In Pisacano’s view, putting those needs into a competitive context would be particularly important. If the AMS analysis pointed to a need in an area where the company was already outperforming its competitors, perhaps it would still make sense to focus resources elsewhere – in those areas where the company was at a competitive disadvantage.

BCBS of Florida worked with AMS Executive Vice President Gerry Katz and his team to produce a Voice of the Customer study focused on plan members. The AMS process, known as VOCALYST<sup>®</sup>, involved the following steps: interviewing customers, analyzing transcripts of interviews to identify themes and desired outcomes, boiling these down into a comprehensive set of unique customer needs, conducting statistical analysis to structure a customer needs hierarchy, and finally, prioritizing the needs and identifying opportunities within the organization.

### **Some Surprising Results**

The market for health insurance is segmented into three major groups: people over age 65 who are usually on Medicare,

but purchase supplemental insurance from companies like BCBS of Florida; individuals under age 65 who work independently and are therefore not covered by an employee plan; and group buyers. Although Pisacano assumed that these groups would have very different needs, the AMS analysis showed otherwise. As Pisacano explains, “We did the VOCALYST<sup>®</sup> study, segmented the members, listened to their voices, and found out that our assumptions were completely wrong.” To his amazement, he continues, “we learned that it really does not matter how members are getting their insurance or which age group they fall into. The key driver was the health of the member and any dependents covered by the plan.

The VOCALYST-derived needs hierarchy revealed seven high-level strategic needs, 25 mid-level tactical needs, and approximately one hundred original detailed needs. The seven high-level needs were broken down into these general categories:

1. Affordable care
2. Quality doctors
3. Consistent coverage
4. A caring and flexible insurance carrier
5. Good customer service
6. Simple billing and claims procedures
7. Easy enrollment

According to Pisacano, “what’s beautiful about this result is that we now have the clear strategic framework we need to examine our key areas and determine the priorities.”

Pisacano is pleased with the wealth of information uncovered by the VOCALYST<sup>®</sup> study. “Perhaps the most surprising thing we learned,” continued Pisacano “is that many of the things that health insurance companies traditionally had not even dreamed was their responsibility were showing up again and again in the list of detailed needs revealed by the AMS study.” Those needs heavily focused on issues related to the doctors, pharmacies and

hospitals within the network. “Members think that insurance companies should guarantee clean doctors’ offices, that doctors should speak the necessary foreign languages, and that doctors should have no limitations in the treatment they provide,” he says. “So we have lots and lots of rich data to exploit,” he concludes.

### **A Look at Implementation**

Many of the detailed member needs expressed through the survey are already gaining attention among BCBS of Florida executives. One idea being discussed is having the pediatrician’s office transmit prescriptions to the pharmacy immediately after the child is seen, so parents don’t face long waits for their prescriptions with sick children in tow. Another area ripe for change was physician referrals. “The fact is,” muses Pisacano, “we approve 98% of referrals, so why are they required for so many doctors’ visits? Why not just reverse it and say that every referral is granted unless I get back to you and deny you? Or perhaps have the doctor’s office, rather than the member, obtain the referral? Or perhaps do away with referrals altogether?”

The VOCALYST® members study conducted by AMS was considered so successful, it was quickly followed by a QFD exercise to develop a set of metrics for these needs, as well as subsequent Voice of the Customer studies for the agent and broker population and for the corporate group decision-maker population. To cite one example where the agents’ needs hadn’t been considered, says Pisacano, “we spent tons of money building an on-line enrollment system, but nobody wants to use it.” Believing that “on-line everything” was the wave of the future, the company invested

two million dollars on this enrollment system, but, as Pisacano says, “we were never smart enough to think about who was doing the work.” While agents had been more than happy to collect the enrollment forms and pass them along to the insurance company for data entry, they had absolutely no interest in the tedious task of entering the data themselves. So the company was left with an expensive tool that nobody wanted to use.

On the other hand, an on-line system is absolutely needed for keeping better track of the roughly 30,000 doctors in the BCBS of Florida network. In this scenario, all of the doctors would be hooked up electronically and would be asked to keep their own information up-to-date in return for a small incentive. This type of innovation would benefit everybody: the employees, the agents, the group decision-makers, and even the doctors.

### **A Healthier Future**

The changes at BCBS of Florida are sweeping, yet carefully reasoned and meticulously measured. The company is tracking some 50 metrics to determine their success in better meeting the needs of their customers – and that’s just for improving service to their members. Other improvements are sure to stem from the agent/broker, and group decision-maker VOCALYST® studies. Although they are facing some difficult challenges and with many constituencies to please, the future looks bright, according to Pisacano. “We have a significant budget to devote to this type of research and lots of support within the organization. So we’re just going to keep taking baby steps, and continue to improve, little by little.”