



Rise of Integrated Healthcare Networks Holds Untapped Potential for Value Growth

Accountable Care Incentives,
Scaled-Up Delivery Networks,
and Consumer-Driven Choice
Create New Opportunities

EXECUTIVE SUMMARY

Healthcare providers have historically been professionally disinclined and, in many cases, prohibited from marketing to consumers with anything beyond basic name recognition marketing. Primary care doctors acquired new patients through word of mouth or when handed down by senior or retiring doctors. They referred their patients to specialists, clinics, and hospitals in their referral networks based on reputations and relationships within the medical community. Quality of care, as judged by fellow healthcare professionals, was (and remains) critical for practice success. Patients were not expected, equipped, nor meaningfully empowered to participate in decisions about referrals, prescriptions, or treatment.

Deregulation, practice integration, and an evolving consumer-driven healthcare marketplace are changing this. Quality of care remains the most important factor for hospital or practice success, but now patients as well as medical professionals have access to more information about a provider's methods, costs, and outcomes. Spending on direct-to-patient marketing by pharmaceutical companies and, more recently, hospitals and practices is on the rise, though still lagging behind the marketing budgets of comparably sized businesses in other consumer industries. And the marketing methods used are often outdated, overly conservative, and unimaginative.

Concurrently, several historic shifts in the U.S. healthcare market are converging to create the potential for dramatic value growth. The accountable care model of healthcare, enshrined in the Affordable Care Act, created incentives for healthcare providers to join in various forms of integrated delivery networks (IDNs), including accountable care organizations (ACOs), expanded hospital networks, physician practice networks, and regional health networks. Meanwhile, the Patient Self-Determination Act and the Medicare Prescription Drug, Improvement, and Modernization Act have empowered patients with more information, choices, and financial motivations to compare and make their own well-informed choices.

This combination of accountable care incentives, scaled-up delivery networks, and consumer-driven choice is creating new opportunities for substantial value growth not found in traditional standalone, fee-for-service physician practices. Smart consolidation, marketplace incentives, and consumer engagement are already shifting into place. But capitalizing on these opportunities requires a new approach to healthcare marketing.

Strategic investment in marketing healthcare requires an understanding of the unique importance of healthcare in patients' lives, the sense of purpose within its practitioners, and the realities of regulatory restraints. The accountable care model of reimbursement also means that marketing is not simply an effort to encourage customers to use more healthcare services. Healthy outcomes and cost savings are rewarded. The goal of marketing is to acquire patients, then encourage them to adopt healthy behaviors that will reduce the cost of health services they require.

Consumer-driven healthcare marketing is complex, but, properly applied, it can catalyze substantial growth while supporting healthcare's mission to help us all live healthier lives.

A LEGACY OF RESISTANCE TO HEALTHCARE MARKETING

In the simpler days of “doctor knows best,” healthcare providers didn’t market directly to patients. To do so was considered unseemly: the medical equivalent of ambulance-chasing lawyers in television ads with memorable 1-800 numbers.

Healthcare marketing was seen as contrary to the medical mission: a violation of the professional code of ethics, which required physicians to put the welfare of the patient above the growth of the business. The best care for each patient was determined by their doctors, based on their extensive medical training, and conveyed authoritatively to the patient. Marketing, in contrast, carried connotations of manipulation and dishonesty, of style over scientific substance, of convincing consumers to desire and demand that which they didn’t actually need, that which might even harm their health.

Medical decisions should not, doctors believed, be made based on which practice, pill, or procedure had the best ad campaign, but rather on the qualifications of each doctor to provide patients with the best care... something only fellow medical professionals were deemed qualified to judge.

Propriety and moral qualms aside, marketing to patients was also largely unnecessary.

General practitioners acquired new patients by word of mouth or when handed down by senior or retiring doctors. They referred their patients to specialists, clinics, and hospitals in their network based on reputations and relationships within the medical community. Quality of care, as judged by fellow healthcare professionals, was (and remains) critical for practice success.

This was, arguably, marketing by another name, even if not practiced with clear intention or strategy. But it was B2B marketing, or perhaps “D2D” — doctor-to-doctor — with networking as its primary tool and medical professionals the only audience.

To be clear, these doctors cared about their patients and chose the referrals, prescriptions, and treatments they believed were best for them. They did not, however, typically consult their patients in making those decisions. Patients didn’t have access to much information that would allow them to form their own opinions, nor any expectation that their preferences would be sought. They mostly went where and took what they were told.

For the past several decades, deregulation and an evolving consumer-driven healthcare marketplace have been changing this. In the emerging age of patient-centered healthcare, the preferences and opinions of patients are beginning to matter more.

Quality of care is still the most important factor for hospital or practice success, but now patients as well as medical professionals have access to more information about a provider’s methods, costs, and outcomes, information they are using to express their own preferences and make their own choices.

In response, healthcare providers are gradually (and sometimes grudgingly) accepting the necessity of direct-to-patient marketing. The American Medical Association has even issued an opinion that finds consumer marketing and advertising consistent with its code of ethics, provided the messages are not deceptive or misleading.¹

Spending on marketing by pharmaceutical companies and, more recently, hospitals and practices is on the rise, though still lagging behind the marketing budgets of comparably sized businesses in other consumer industries.

Coming to consumer marketing late and wary, healthcare providers’ marketing methods are often outdated, overly conservative, and unimaginative. Healthcare’s views on marketing are evolving, but the historic legacy of mistrust remains, hindering the adoption of more modern techniques.

¹ *Code of Medical Ethics Opinion 9.6.1: Advertising and Publicity*. (n.d.) American Medical Association. Retrieved March 21, 2022, from <https://www.ama-assn.org/delivering-care/ethics/advertising-publicity>

HISTORIC SHIFTS IN THE U.S. HEALTHCARE MARKETPLACE

Concurrent with and reinforcing this shift toward consumer-driven healthcare, several historic developments in the U.S. healthcare market are converging to incentivize integrated healthcare provided by large networks of providers, while empowering patients with more information and choice. Together, these trends create the potential for dramatic value growth.

Integrated Delivery Networks and Accountable Care Organizations

The accountable care model of healthcare, enshrined in the Affordable Care Act (ACA) of 2010, creates incentives for healthcare providers to join in various forms of integrated delivery networks (IDNs), including accountable care organizations (ACOs), expanded hospital networks, physician practice networks, and regional health networks.

The ACA rewards healthy outcomes rather than volume of tests and procedures, encouraging providers to deliver quality holistic care with cost savings. While IDNs existed before the ACA, these new incentives created revenue opportunities that could only be realized effectively by IDNs, greatly accelerating their adoption.

In 2019, the U.S. IDN market was valued at nearly \$1 trillion, up from \$774 billion in 2016, and was forecast to grow at a compound annual growth rate of 10.1%, exceeding \$2.1 trillion by 2027.²

Meanwhile, ACOs, which were piloted with 32 IDNs in 2011, grew rapidly until 2019, more recently plateauing at 938 contracts serving over 36 million patients, more than 10% of the U.S. population.³ Newer models for integrated delivery of value-based care, such as Primary Care First (PCF), seem to be leading the next wave of growth.⁴

This rise of IDNs is creating scalable opportunities for value growth that are by-and-large not practical for small, independent practices. But this growth requires IDNs to harness the power of patient choice.

Patient Choice Informed and Incentivized

The Patient Self-Determination Act of 1990 and the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 have empowered patients with more information, choices, and financial motivations to compare.

The Patient Self-Determination Act (PSDA) amended the Medicare and Medicaid titles of the Social Security Act to “assure that individuals receiving services will be given an opportunity to participate in and direct health care decisions affecting themselves.”⁵

The most notable impact of the law was the broad adoption of advanced directives, which document a patient’s wishes should they later be unable to make or communicate their healthcare decisions. More than a third of American adults now complete an advanced directive.⁶

But the law also greatly strengthened the broader principle that patients should and indeed must be included in their own healthcare decisions,⁷ a principle further reinforced by the Patient Bill of Rights,⁸ also adopted in 1990 by the Association of American Physicians and Surgeons (AAPS).

² U.S. Integrated Delivery Network Market Size, Share & Trends Analysis Report By Integration Model (Horizontal, Vertical), Services Type (Acute Care/Hospitals, Long Term Health), And Segment Forecasts, 2020-2027. (June 2020.) Grand View Research. Retrieved March 21, 2022, from <https://www.grandviewresearch.com/industry-analysis/us-integrated-delivery-network-market>

³ Muhlestein, David, PhD, JD et al. (June 17, 2021). *All-Payer Spread Of ACOs And Value-Based Payment Models In 2021: The Crossroads And Future Of Value-Based Care*. Health Affairs. Retrieved March 21, 2022, from <https://www.healthaffairs.org/doi/10.1377/forefront.20210609.824799/full/>

⁴ Ibid.

⁵ *Patient Self-Determination Act of 1990*. (April 3, 1990). Retrieved December 27, 2021, from <https://www.congress.gov/bills/101st-congress/house-bill/5067>

⁶ Yadav, Kuldeep N. (July 2017). *Approximately One In Three US Adults Completes Any Type Of Advance Directive For End-Of-Life Care*. Health Affairs. Retrieved March 21, 2022, from <https://www.healthaffairs.org/doi/10.1377/hlthaff.2017.0175>

⁷ See, for example, Lateef, Fatimah. (April-June 2011). *Patient expectations and the paradigm shift of care in emergency medicine*. Journal of Emergencies, Trauma, and Shock. Retrieved March 21, 2022, from <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3132352/>

⁸ *Patient Bill of Rights*. (n.d.). Retrieved November 10, 2017, from <https://aapsonline.org/patient-bill-rights/>

Together, the PSDA and the Patient Bill of Rights affirmed the rights of patients to be well informed about their conditions and treatment options, to accept or refuse recommended treatment, and to have their advanced directives honored. This accelerated an ongoing paradigm shift toward “patient-centered care,” a concept with many competing definitions but one which generally considers the patient perspective to be fundamental, and the doctor-patient relationship to be a partnership.

In addition to these rights, patients were also given greater power of the purse through the Medicare Prescription Drug, Improvement, and Modernization Act of 2003,⁹ which created tax-deductible Health Savings Accounts (HSAs). HSAs gave patients a financial incentive to shop around and make cost-conscious decisions about their healthcare.

By mid-2021, healthcare consumers had saved \$93 billion in more than 31 million HSA accounts,¹⁰ all of it broadly available for patients to spend on any qualifying healthcare expenses as they see fit. Patients make these spending decisions, not health insurance companies, hospitals, or doctors. They decide where price and their health priorities align, with the discretion to choose a more expensive option if they find it more valuable, or to choose a more cost-effective alternative that conserves their HSA funds for future needs.

As consumers embrace this newfound agency over their healthcare decisions, we are in the midst of reformulating the doctor-patient relationship. Doctors remain highly respected and trusted, but patients today know more and ask more than ever before about their health choices. They compare costs, evaluate their options, and examine their doctors' recommendations. They are engaged and active partners in making their healthcare decisions.

“Consumers are taking advantage of unprecedented access to information to become more diligent and informed about their health,” says PwC in a report on patients as empowered consumers. “The growing power of the patient as discerning consumer is creating new global markets and informing new models for care.”¹¹

Similarly, a 2020 report by Deloitte finds, “Consumers are increasingly willing to tell their doctors when they disagree with them, are using tools to get information on costs and health issues, are tracking their health conditions and using that data to make decisions, and accessing and using their medical record data.”¹²

And according to a 2020 patient survey commissioned by doctor.com, “Patients now rely on online sources 1.7x more than they do provider referrals to find a doctor. ... The use of referrals to find a provider has declined by 44% since 2018.”¹³

So how do healthcare providers attract the business of these empowered patients, these cost-conscious consumers who will no longer come along just because a doctor said so?

THE RISE OF DIRECT-TO-PATIENT MARKETING

Competing for Healthcare Consumers

Under the old model of healthcare delivery, specialists competed for referrals, shaping their services and facilities to what the referring doctors wanted. Pharmaceutical companies competed to convince well educated doctors to prescribe their medicines. The preferences of pliant patients weren't particularly important.

⁹ Medicare Prescription Drug, Improvement, and Modernization Act of 2003. (December 8, 2003). Retrieved November 10, 2017, from <https://www.gpo.gov/fdsys/pkg/PLAW-108publ173/content-detail.html>

¹⁰ Goforth, Alan. (September 30, 2021). *HSA accounts: Number and size show impressive growth so far this year*. BenefitsPRO. Retrieved March 21, 2022, from <https://www.benefitspro.com/2021/09/30/hsa-accounts-number-and-size-show-impressive-growth-so-far-this-year/>

¹¹ *The empowered consumer*. (n.d.). PwC. Retrieved March 21, 2022, from <https://www.pwc.com/gx/en/industries/healthcare/emerging-trends-pwc-healthcare/new-entrants-healthcare-provision.html>

¹² Betts, David et al. (August 13, 2020). *Are consumers already living the future of health? Key trends in agency, virtual health, remote monitoring, and data-sharing*. Deloitte. Retrieved March 21, 2022, from <https://www2.deloitte.com/us/en/insights/industry/health-care/consumer-health-trends.html>

¹³ *Customer Experience Trends in Healthcare: 2020*. (n.d.). Doctor.com. <https://cms.doctor.com/wp-content/uploads/2020/03/ctrends2020-report-final.pdf>

Referrals and prescriptions still matter, but empowered patients now do their own research into clinics and specialists, medicines and tests. Outside of emergency services, they may choose a hospital not merely because it's nearby but because it has good brand positioning in the type of medical intervention they need. They may investigate their prescription alternatives. In the era of consumer-driven healthcare, providers must pay attention to what their patients want.

Today, healthcare providers compete for patients in part by providing medically sound (or superior) treatment, achieving better healthcare outcomes, and offering it all at a reasonable price. This kind of competition is precisely what the relevant legislation discussed above intends.

Providers also compete by creating a better overall experience, in response to what patients say they want. They offer birthing suites that are comfortable and aesthetically pleasing, and of course the birth mother's co-parent is encouraged to attend. They build state-of-the-art wellness centers and offer free classes in exercise and nutrition. They schedule procedures with more patient input. They paint their walls in pleasing colors and play better music over their sound systems.

This focus on the patient experience is not driven by doctor preferences or medical necessity, although some studies do suggest a link between a better experience and a better health outcome. These changes are motivated primarily by the need to attract and retain patients who know that they have options.

Healthcare is becoming an increasingly consumer-driven business, and such businesses must convince consumers that they are the better choice. It's not enough — though it is necessary — to have superior health outcomes or a better patient experience. Potential patients have to know about a provider's superior outcomes and experience in order to include these benefits in their decision-making process, and most don't read JAMA or consult NIH databases. Instead, they watch TV, listen to the radio, search for their symptoms at patient education websites, look up doctor and practice ratings at reputation sites, and interact with social media.

Consumer-driven businesses rely on marketing to convince consumers to choose them over their competitors. Direct-to-patient healthcare marketing is how providers speak to empowered patients, competing to provide the services those patients need or want.

Rapid Growth in Healthcare Marketing

Marketing pharmaceuticals has been big business since the FDA deregulated direct-to-consumer advertising¹⁴ of prescription medicines in the late 1980s and '90s. This was in part a response to patient rights movements in the 1970s, which asserted that patients had a right to more information about their treatment options. The general political shift toward deregulation bolstered the trend.

More recently, clinical care providers have dramatically increased their spending. A 2016 white paper¹⁵ by Advertising Age found that the healthcare industry spent a record \$9.7 billion on U.S. direct-to-consumer (DTC) advertising in 2015, an 11% increase over 2014. In 2021, market research company WARC projected that annual DTC healthcare advertising spending had increased to \$11.1 billion, making it "the fifth-largest ad category in the US."¹⁶ Meanwhile, market research company IMARC¹⁷ projected a compound annual growth rate (CAGR) in all healthcare advertising of 6.1% from 2021-2026.

¹⁴ Donohue, Julie. (December 2006). *A History of Drug Advertising: The Evolving Roles of Consumers and Consumer Protection*. Retrieved November 9, 2017 from The Milbank Quarterly. Retrieved March 21, 2022, from <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2690298/>

¹⁵ *Healthcare Marketing*. (October 17, 2016). Advertising Age. Retrieved November 9, 2017, from http://gaia.adage.com/images/bin/pdf/KantarHCwhitepaper_complete.pdf

¹⁶ *From Telehealth to Expanding Equity: How the Pandemic has Changed US Healthcare Marketing*. (May 21, 2021). WARC. Retrieved January 17, 2022, from https://www.warc.com/newsandopinion/opinion/From_telehealth_to_expanding_equity_How_the_pandemic_has_changed_US_healthcare_marketing/4230

¹⁷ *US Healthcare Advertising Market: Industry Trends, Share, Size, Growth, Opportunity and Forecast 2021-2026*. ((2020). IMARC. Retrieved January 17, 2022, from <https://www.imarcgroup.com/us-healthcare-advertising-market>

Pharmaceutical company advertising is still a slim majority of this spending, about \$10 billion in 2016 according to Harvard Health.¹⁸ But the most dramatic growth is in advertising by hospitals, integrated healthcare systems, and clinics, which rose by 41% between 2011 and 2015.¹⁹

Advertising is only a portion of a healthcare provider's total marketing budget, but increasingly, providers are investing heavily in branding and brand awareness, inbound marketing, digital, and direct marketing too.

This is a big shift, in only a few decades, away from the days when marketing to patients was eschewed as undignified and, in some cases, illegal. Information and messaging that once passed to patients only through the curation of the doctor-patient relationship can now leap over the gatekeepers and speak directly to the patient-as-consumer.

For small, independent primary care and specialty practices with limited resources, this new age of healthcare marketing may be limited to occasional social media posts, a monthly email newsletter, and periodic monitoring of reputation sites to address any poor reviews. However, the trend toward IDNs opens up new economies of scale, with the resources to support strategic branding and comprehensive healthcare marketing campaigns that deliver significant returns in patient volume and retention.

UNTAPPED POTENTIAL FOR VALUE GROWTH

The rise of IDNs in the marketplace of consumer-driven healthcare is creating largely untapped potential for substantial value growth in the healthcare industry.

Smart consolidation, outcome-based compensation, and consumer engagement are already shifting into place. This combination of accountable care incentives, scaled-up delivery networks, and consumer-driven choice creates opportunities not found in traditional fee-for-service, standalone physician practices.

Private equity investors seem to recognize this growth potential in the healthcare marketplace. After a brief lull in 2020, the first year of the COVID-19 pandemic, private equity activity rebounded strongly in 2021, hitting all-time highs in both number of deals and total disclosed value.²⁰

"The number of deals rose 36% to 515, up from 380 the prior year," according to a report by Bain & Company. "Total disclosed value more than doubled to \$151 billion from \$66 billion (see Figure 1). The average disclosed deal value soared 134%, mainly because of 5 buyouts greater than \$5 billion, compared with just 1 the year earlier."²¹

Reflecting on the strength of the rebound even in the midst of the Delta and Omicron waves of COVID-19, an article in the National Law Review observed, "As the pandemic turns endemic and new variants emerge, PE investors are putting even more focus on these critical health and life sciences sectors. Like any market, healthcare will continue to experience fluctuating demand, but if the challenges of the past two years have proved anything, it's that healthcare is a resilient investment."²²

Capitalizing on the potential of these investments requires a new approach to healthcare marketing. However, the lingering legacy of the industry's resistance to direct-to-patient marketing is slowing adoption of contemporary best practices.

With strategic investment in branding and marketing that target patient-centered healthcare decisions, owners, partners and private equity investors can unlock substantial value growth.

¹⁸ Shmerling, Robert H., M.D. (March 3, 2022). *Harvard Health Ad Watch: How direct-to-consumer ads hook us*. Harvard Health Publishing. Retrieved March 21, 2022, from <https://www.health.harvard.edu/blog/harvard-health-ad-watch-what-you-should-know-about-direct-to-consumer-ads-2019092017848>

¹⁹ *Healthcare Marketing*. (October 17, 2016). Advertising Age. Retrieved November 9, 2017, from http://gaia.adage.com/images/bin/pdf/KantarHCwhitepaper_complete.pdf

²⁰ Jain, Nirad et al. (March 16, 2022). *Healthcare Private Equity Market 2021: The Year in Review*. Bain & Company. Retrieved March 21, 2022, from <https://www.bain.com/insights/year-in-review-global-healthcare-private-equity-and-ma-report-2022/>

²¹ Ibid.

²² Lamb, Sharon. (February 4, 2022). *Global Private Equity—Spotlight on the Industry: What's on The Horizon for 2022: Trends in Global Healthcare Private Equity*. The National Law Review. Retrieved March 21, 2022, from <https://www.natlawreview.com/article/global-private-equity-spotlight-industry-what-s-horizon-2022-trends-global>

Healthcare Marketing Aligned With the Medical Mission

This investment in marketing healthcare must be done with an understanding of the unique importance of healthcare in patients' lives, the sense of purpose within its practitioners, the realities of regulatory restraints such as HIPAA, and the ethical mandates of the Patient Bill of Rights.

The accountable care model of reimbursement also means that marketing is not simply an effort to encourage customers to use more healthcare services. Healthy outcomes and cost savings are rewarded. The goal of marketing is to acquire patients, then encourage them to adopt healthy behaviors and utilize the provider's services in the most effective and cost-conscious way, in order to live healthier, happier lives.

This approach to healthcare marketing is not rampant consumerism, with slick ad campaigns urging people to always buy more, have more, consume more, more, more. Accountable care providers don't want patients to use services they don't need. Rather, they want to compete based on keeping their patients healthier, while having a good experience, all at a reasonable cost.

Providers want patients to take healthy eating classes and exercise regularly at their wellness center, which cost comparatively little to provide and can prevent many chronic health problems. Wherever possible, prevention is far better for patient and provider alike than expensive heart surgeries or a lifetime of insulin injections. That said, when patients need more serious medical interventions, accountable care providers also have an incentive to make sure they get it and return to wellness.

Where empowered patients and accountable care meet, healthcare and healthcare marketing have a noble mission: to educate people about their options and persuade them to make choices that will keep them healthier while controlling costs and tapping ethical pathways to substantial value growth.

Consumer-driven healthcare marketing is complex, but, properly applied, it can catalyze significant growth while supporting healthcare's mission to help us all live healthier lives.

Patient-First Marketing Key to Profitability and Growth

When consumer-driven healthcare is provided to empowered patients by integrated delivery networks (IDNs), profitability and patient health are well aligned. The new incentive structure already offers opportunities to providers and their investors to deliver healthy outcomes more efficiently and at scale.

However, the old model of growth through word-of-mouth and patient referrals is no longer sufficient in this reshaped healthcare marketplace. Direct-to-patient healthcare marketing is key. Strategic branding and integrated marketing can increase patient volume and retention, unlocking substantial value growth.