

# Consumerism introduces itself to U.S. healthcare



**DAVID W. JOHNSON**  
david.johnson  
@4sightthehealth.com

**U**nlike other people-oriented businesses, healthcare essentially operates independently of its end-users (also called patients, consumers and/or customers). Individuals engage providers to diagnose and treat their ailments, while third parties largely pay for any services rendered.

This convoluted relationship among providers, patients and payers creates two fundamental anomalies within healthcare business models that distort the industry's supply-demand dynamics: artificial economics and atrophied buy-sell signaling.

The healthcare marketplace is reorganizing itself to normalize its economics and truly empower consumers. A select few health systems are positioning themselves to ride these powerful rising waves of consumerism and value to maintain market relevance. They are the future.

## THE EVILS OF SUPPLY-DRIVEN DEMAND

Throughout its long history, as documented in *The Social Transformation of American Medicine* by Princeton Professor Paul Starr, the American Medical Association (AMA) has championed fee-for-service medicine and the absolute right of patients to choose their physicians. From the AMA's perspective, these are inviolable features of U.S. healthcare delivery. To win the AMA's support for Medicare and Medicaid, President Lyndon Johnson

incorporated these features into the 1965 legislation that launched these programs.<sup>a</sup>

The emergence of commercial health insurance and employer-sponsored healthcare benefits in the early-to-mid 20th century shifted payment responsibility away from patients to third parties. Combining patient choice, fee-for-service billing and independent third-party payment is unique to U.S. healthcare. The combination creates an artificial economic model riddled with perverse incentives in which industry incumbents thrive and the American people suffer.

Writing in the 1960s, economist Milton Roemer made astute and influential observations regarding the incentives embedded within a reimbursement-based payment system. The Dartmouth Atlas Project and some others refer to this quote as Roemer's Law: "Supply may induce its own demand where a third party practically guarantees reimbursement of usage."<sup>b</sup>

In normal markets, intrinsic demand for products and services at given prices drives supply. As Roemer's Law suggests, healthcare reverses the equation. The supply of healthcare facilities and practitioners propels demand for diagnostic and treatment procedures. More cardiologists generate more cardiac procedures.

In the process, third-party, fee-for-service (FFS) payment along with administrative services only (ASO) contracting by commercial health insurers subvert value-driven service delivery in the following ways:

- Compensating *reimbursable care* whether it's appropriate or not
- Discouraging *appropriate care* when it's not reimbursable
- Complicating treatment approvals

a. See also Starr, P., "The health care legacy of the Great Society," chapter 8, *LBJ's neglected legacy: How Lyndon Johnson reshaped domestic policy and government*, 2015.

b. Shafrin, J., "Roemer's law," *Healthcare Economist*, Oct. 12, 2006.

- Increasing administrative costs
- Distorting the buy-sell relationship between providers and consumers/patients

The result is an absurdly high-cost system with fragmented delivery, coverage gaps and underinvestment in preventive care. In essence, U.S. healthcare excels at saving Americans when they are drowning but fails to teach us how to swim.

Let's focus on the last bullet mentioned above. Clear prices have the power of language. They enhance seller-buyer signaling to create more and better transactions. Without clear pricing, it's impossible for consumers to assess value. Subsidized insurance and opaque service pricing negate consumers' power to send value signals to providers through their purchasing decisions. Consequently, providers cannot discern consumers' preferences and respond accordingly.

Decades of supply-driven demand have led to massive over-investment in healthcare facilities. In a recent conversation, Terry Shaw, retiring president and CEO of Florida-headquartered AdventHealth, offered this wry comment about the current state of U.S. healthcare: <sup>c</sup> "Healthcare has always been a cottage industry. The problem today is that the cottages have become hotels."

c. Terry Shaw's retirement is set for July 2025. See AdventHealth, "AdventHealth announces retirement of its president/CEO," Dec. 13, 2024.

Unlike hotels, however, health systems aren't very hospitable to their end-users.

#### CUSTOMERS VERSUS CONSUMERS

Before publishing my second book in October 2019, I debated whether the title should be *The customer* or *The consumer revolution in healthcare*, with the subtitle "*Delivering kinder, smarter, affordable care of all.*" In people-centric businesses, customers and consumers are one and the same. That's not the case in U.S. healthcare.

Governments and self-insured employers pay for the vast majority of care. In doing so, they subsidize the excessive costs of healthcare services. As a consequence, patients have little understanding of the actual costs of their care.

It gets worse. Despite rhetoric to the contrary, customer experience within health systems is usually an afterthought. Managerial energy goes instead to optimizing treatment volume and payment rates.

Jeff Logan, CEO and founder of the consumer growth and engagement firm Pelorus X, won the 2024 gold medal award for customer experience (CX) leader across all industries, conferred by Awards International, an organizer of international business awards programs (usacxa.com). The award recognized Logan's work while leading customer experience at Providence, a health system based in Renton, Wash. Logan believes that healthcare's biggest failing is its inability to see human beings at the receiving



► **Terry Shaw** of AdventHealth has been repositioning the health system to embrace consumerism and whole-person health.

NEXT PAGE

The healthcare marketplace is reorganizing itself to normalize its economics and truly empower consumers. A select few health systems are positioning themselves to ride these powerful rising waves of consumerism and value to maintain market relevance. They are the future.

# \$19,206

Total cost of a colonoscopy that received media attention for being excessive and unreasonable, with a \$4,047 patient copay that was deemed out of line with what a patient should be expected to pay

Source: Meyer, H., "He went in for a colonoscopy. The hospital charged \$19,000 for two," *CBS News Money Watch*, Dec. 19, 2024



end of transactions. Instead, health systems see treatments, diagnostics, bills and/or perhaps physicians, but not individuals. How right he is.

Ultimately, I chose to use "customer" in my book's title, believing that the true customers in healthcare are the organizations — notably governments and self-insured employers — that select and pay for healthcare insurance products. Empowering these "customers" to improve their purchasing has transformative power.

**NOW THE REAL GAME BEGINS**

What a difference five years makes! Entering 2025, rising consumerism is becoming an irresistible force. Several factors contribute to this phenomenon, including:

- Mandated pricing transparency
- More "skin in the game" for consumers due to increasing out-of-pocket payments



Failing to delight customers at any stage in their healthcare journeys can trigger negative reviews, consumer dissatisfaction and market-share declines. Astute health system leaders understand this.

- More numerous and better apps for assessing potential providers
- New types of consumer-friendly service providers

The social media vitriol following the murder of UnitedHealthcare's CEO Brian Thompson evidenced the enormous public anger and frustration with healthcare companies. In concert, press coverage has become more pointed and negative. A recent "bill of the month" article reported by CBS News illustrates consumers' increased focus on fair payment for services received.<sup>d</sup>

After receiving an estimate of \$7,203 with an out-of-pocket cost of \$2,381 for a routine colonoscopy from Northwestern Medicine in Chicago, healthcare consultant Tom Contos agreed to go ahead with the procedure. The final bill was \$19,206, with an out-of-pocket bill for \$4,047. When pressed, Northwestern explained that the higher actual bill resulted from the removal of two polyps found during Contos' colonoscopy.

Incensed, Contos filed and lost appeals with Northwestern and his insurance company Aetna. Post-appeal, Northwestern asserted that the charges were accurate and non-negotiable. Failure to pay would require them to send the account to a collection agency. Contos then fired his primary care physician and left the Northwestern network. On leaving, Contos told

d. Meyer, H., "He went in for a colonoscopy. The hospital charged \$19,000 for two," *CBS News Money Watch*, Dec. 19, 2024.

Northwestern, “I’m not paying [the additional charges], and I don’t care if you send me to collections.”

Bad customer reviews spread like wildfire. When he was the CEO of Merrill Lynch in the late 1990s and early 2000s, Dave Komansky frequently reminded his employees (of which I was one) that happy customers tell one person about their positive experience while unhappy customers tell 20 people about their bad experience. Tom Contos went even farther. He contacted *KFF Health News* about his bad customer billing experience.

### WHAT HEALTHCARE CONSUMERS SHOULD EXPECT

Most healthcare services, like colonoscopies, are commodities. According to Turquoise Health, a San Diego-based pricing transparency company, Northwestern’s insured colonoscopy price was more than double the median for Chicago hospitals. Expecting premium pricing for routine services is a recipe for losing legions of informed, commercially insured consumers like Contos.

Moreover, two-thirds of patient touchpoints are nonclinical. Failing to delight customers at any stage in their healthcare journeys can trigger negative reviews, consumer dissatisfaction and market-share declines. Astute health system leaders understand this.

Under Terry Shaw’s leadership, AdventHealth has been repositioning to embrace consumerism and whole-person health. Through its strategic plan (“Becoming AdventHealth 2030”), the health system has funded an independent primary care division with \$250 million and granted autonomy to its primary care physicians to do what’s best for their patients.

AdventHealth’s highly rated health app is on its fifth iteration. It has millions of users. At enormous cost, Shaw replaced the communications systems at all Advent facilities within its nine-state geography to eliminate “phantom” appointments. As Shaw emphasizes, “Going forward, provider offices will open up their schedules to accommodate the consumer.”

When Peter McCanna became CEO of Dallas-based Baylor Scott & White Health (BSW) in January 2022, he authored a new vision statement titled “Empowering You to Live Well.” Accompanying the new vision statement was a hard strategic pivot to embrace consumerism. Essentially, BSW is transferring agency to consumers for managing their health. That requires giving consumers better tools for meeting their health and healthcare needs.

The MyBSWHealth app is the primary vehicle leading this charge. McCanna wants the app to become the industry’s “finest customer engagement platform.” Achieving this goal has required human design engineers, journey mappers and other nontraditional health system professionals to imagine, improve and enliven their customers’ digital experiences. The early results have been impressive. The app has over 3 million users, including over 760,000 new customers to the BSW network.

### A SIGN OF THINGS TO COME

Platforming and consumerism are coming to healthcare. Both Shaw and McCanna agree that the futures of their health systems rely on delivering value and a great experience to end-users. This is not a radical vision. Rather, it embodies a very American, “the-customer-is-always-right” approach to business development and execution.

For health system executives clinging to volume-driven business practices, it’s time to open your eyes and embrace the coming wave in healthcare consumerism. Change is hard. Not changing, however, will be catastrophic. There is salvation in value. ■



► In 2022, **Peter McCanna** created a new vision statement for Baylor Scott & White Health that signaled a hard strategic pivot to embrace consumerism.

About the author

**David W. Johnson** is CEO of 4sight Health, Chicago, and a member of HFMA’s National Board of Directors.