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Strategic Assessment

Opportunities in the Healthcare Market

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Abstract

This document provides a brief overview of the healthcare market. It includes a market definition, discusses key trends and challenges, and considers how outsourcing decisions are made and by whom. While it is not clear exactly how emerging healthcare legislation in the U.S. will affect this market overall, there are growing opportunities for service providers who take the right approach in offering outsourced services as the financial performance of healthcare institutions of all types comes under increasing scrutiny.

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Introduction

The world of marketing and business communications is shifting dramatically, driven by a wide variety of available new media and technologies that are challenging the more conventional methods. This rate of change has been accelerated by the current global recession, which has forced companies to seek ways to cut costs, streamline operations, and drive more revenue to the bottom line. In addition, with healthcare being a signature issue in the 2008 U.S. presidential elections, this industry in particular has come under increased scrutiny as legislators and special interest groups seek ways to stem the rising costs of healthcare. Marketers and administrators in the healthcare segment are being required to deliver a measurable return on investment (ROI) for their efforts, and (as a result) are turning to alternate means of communicating with patients and other stakeholders in lieu of print, while still ensuring regulatory compliance with HIPAA and other key regulations. This does not mean that print is dead—it simply means that print service providers (PSPs) and marketing service providers (MSPs) must adjust their business models to better address the emerging needs of healthcare marketers and administrators as they seek to understand the best way to leverage new media in conjunction with print.

In addition, successful PSPs and MSPs identify vertical markets in which they have or can gain expertise, and focus much of their effort on building a loyal customer following within those specific markets. The healthcare industry is one such target market that offers a significant opportunity in spite of—or perhaps because of—the significant challenges it is facing.

This document draws from two recently published InfoTrends research reports, a wide range of other InfoTrends research, and secondary research available from other sources. It outlines the business opportunities within the healthcare market that are available to savvy PSPs and MSPs as they migrate their businesses to address today's market realities.

More detailed information can be found within two extensive reports from InfoTrends:

- *Multi-Channel Communications Measurement and Benchmarking*, December 2008
- *The Document Outsourcing Evolution: A Vertical Market Analysis*, June 2009

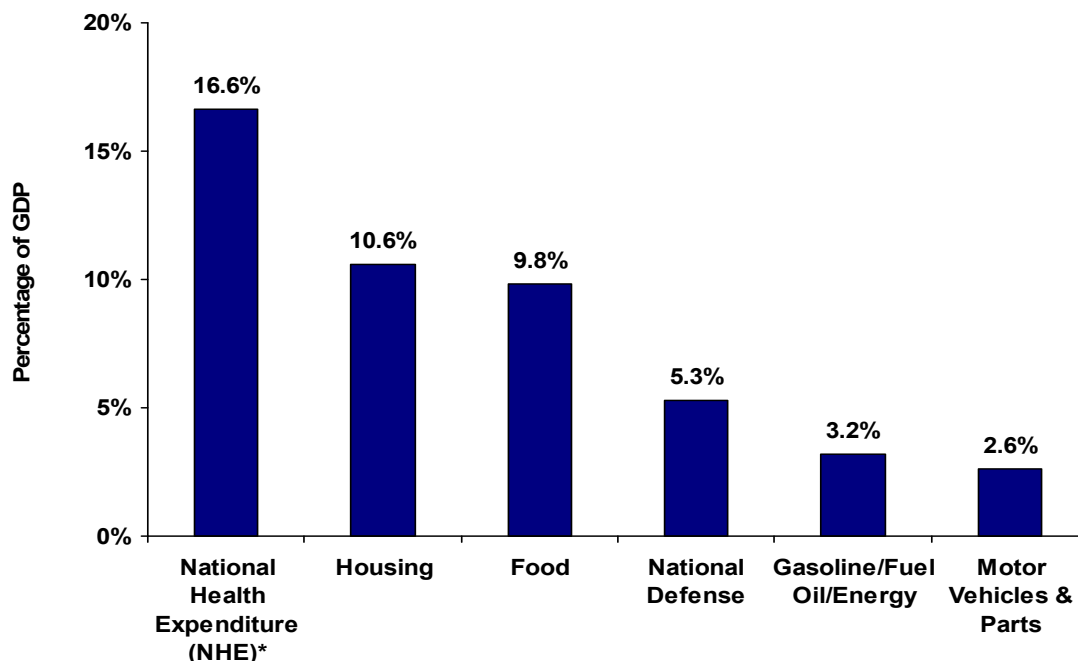
Understanding the Healthcare Industry

With healthcare costs in the U.S. rapidly approaching \$2.4 trillion annually—nearly \$8,000 per year for every man, woman, and child in America—healthcare has become a hot topic in U.S. politics as healthcare reform legislation makes its way through Congress. According to the CDC¹, people who cannot pay for healthcare services out-of-pocket, through private or social health insurance such as Medicare, through public programs such as Medicaid, or through some other means may not receive needed services in the United States. This fact, along with the rapidly escalating costs of healthcare in the U.S., has been a driving factor in the reform discussion.

In addition, multiple (and sometimes conflicting) forces determine the amount of healthcare that is actually utilized. These range from public health initiatives that have dramatically reduced the need for people to receive healthcare for many infectious diseases; the increase in the prevalence of chronic diseases; new therapeutic technologies provided in new settings (such as corrective eye surgeries); and other factors that have an effect on the percentage of the population that can receive certain services, such as less invasive cardiac procedures that can now be performed on old or frail patients.

Nearly two-thirds of total national healthcare expenditures are spent on hospitals, physicians, and prescription drugs. Rising costs of these services have outpaced the Consumer Price Index (CPI) and have led to an increase in health insurance premiums. National healthcare expenditures exceed national expenditures on housing, food, national defense, and energy. Healthcare is the largest sector of the U.S. economy. National healthcare expenditures are expected to represent nearly 20% of GDP by 2015.²

Figure 1: Components of the Gross Domestic Product (GDP)



*Annual figure for 2006 projected by center for Medicare and Medicaid Services
 Source: Bureau of Economic Analysis (2008), Centers for Medicare and Medicaid Services (2008)

¹ Healthcare in America: Trends in Utilization, Centers for Disease Control (CDC)

² Healthcare Trends in America: A Reference Guide from BCBSA (2009 edition)

For PSPs and MSPs wishing to sell into this market, it is vital that sales and marketing professionals take into consideration these significant issues facing the industry and present innovative solutions that are designed to alleviate them. Staying informed on the fast-paced changes that are occurring on the national and local levels can help maintain credibility with executives in this industry. These changes include the legislative environment, the competitive landscape, the issues and challenges the industry is facing, understanding the types of companies within the industry, and determining segmentation of those companies. The next step is to gather company-specific data. While there will be certain commonalities across the industry, each company has its unique characteristics, challenges, and opportunities that must be considered, along with general information about the industry.

Healthcare Defined

The U.S. Census Bureau classifies companies using a coding system called the North American Industry Classification System (NAICS). The majority of establishments within the healthcare sector fall within NAICS 62: Health Care and Social Assistance. This document will focus on the classifications found within NAICS 62, exclusive of insurance. The relevant categories are broken down as follows:

- **NAICS 621, Ambulatory Health Care Services:** This includes offices of physicians; dentists; outpatient care centers; and other practitioners such as chiropractors, optometrists, and podiatrists. It also includes medical and diagnostic laboratories, home healthcare services, and other ambulatory healthcare services (such as ambulance services as well as blood and organ banks). According to the most recent County Business Patterns data (2007), this segment employs nearly 6 million people in more than half a million establishments. The vast majority of these establishments have less than 500 employees. In fact, 90% have fewer than 20 employees. Keep in mind that an establishment in this category may be a location of a larger firm rather than a standalone business.
- **NAICS 622, Hospitals:** This category includes general medical and surgical hospitals, psychiatric and substance abuse hospitals, and specialty hospitals. This segment has about 5.5 million employees in nearly 7,500 establishments. Close to 40% of these establishments are large businesses with 500+ employees.
- **NAICS 623, Nursing and Residential Care Facilities:** This category consists of nursing care facilities, residential care facilities including substance abuse, community care facilities for the elderly, and other types of residential care facilities. It has slightly more than 3 million total employees and 75,606 establishments. About 62% of these establishments have less than 20 employees. Again, many of them may be locations that are part of a larger organization rather than standalone businesses.

Also included in the healthcare segment under NAICS are social assistance entities such as family services, emergency relief services, vocational rehabilitation services, and child day care services. These services are not the focus of this report.

While there is some ongoing consolidation in the healthcare industry, it is not as severe as some other industries and it is likely that these numbers are still fairly accurate.

Trends in the Healthcare Industry³

Despite the recession, healthcare costs have continued to rise rapidly in the United States. According to Plunkett Research⁴, Medicaid and Medicare spending accounted for about 22% of all federal government expenditures in Fiscal 2009. State governments incur large expenses for Medicaid benefits as well. In 2007 alone, \$149 billion was spent on Medicaid on a State level—over and above federal expenditures. As can be imagined, healthcare expenditures have placed great pressure on State funding, whose tax revenues declined during the recession. The demand for services increased, however, largely due to high rates of unemployment.

In addition to rising costs, there are a few other notable trends that could provide business opportunities for providers of print and marketing services.

Trend #1: Focus on Patient Safety

Not only must healthcare be made more accessible and affordable, but healthcare providers are also working hard to improve patient safety. This includes understanding the causes of errors and adverse events, as well as putting processes in place to reduce their occurrence. While most of the focus is placed on clinical interventions that decrease the risks associated with hospitalization, critical care, or surgery, there is also increasing interest in other practices such as use of simulators, barcoding, and computerized physician order entry. For example, barcoding is increasingly being deployed to monitor the accurate dispensing of medications, from the receipt of pharmaceuticals in the hospital pharmacy, to their distribution and administration to patients. With barcoded checkpoints along each step of the way, medication errors are much less likely to occur.

A related trend is the staff shortages that can impact the level of patient care, with the supply of hospital and other caregivers not keeping pace with the demand for care. Overworked staff can make mistakes more easily, and this situation can be alleviated to the extent that automated systems (such as barcode tracking) could help reduce these errors. Ultimately, however, the root cause needs to be addressed with staffing levels being increased appropriately to the demand.

Trend #2: Electronic Medical/Health Records and Increased Focus on IT

An electronic medical record is a computerized legal medical record created in an organization that delivers care. These tend to be part of a local standalone health information system that allows storage, retrieval, and manipulation of records. The physical medical records are the property of the medical provider, but under HIPAA, the patient owns the information contained within the record and has a right to view originals and obtain copies.

While electronic medical records have been utilized for some time, the concept of an electronic health record (or computerized patient record) is evolving. These electronic health records are in a digital format capable of being shared across different healthcare settings. This presumably makes administration of healthcare more efficient and safer as medical professionals are able to quickly and easily access shared information about a specific patient—reducing costs of healthcare and improving quality of care.

³ The AMS Top Ten Trends in Healthcare Management for 2010

⁴ Plunkett Research: Health Care Trends

As a result of these and other growing demands, there has been an increased focus on IT infrastructure within the healthcare industry. IT management is playing an increased role in the clinical management process and will be involved in many decisions that might affect services provided by print or marketing services providers. IT management should be a key contact within healthcare accounts.

Trend #3: Cost Containment

Healthcare institutions face the same challenges as other businesses in terms of taking cost out of their processes. This applies to the business side of healthcare as well as to the healthcare delivery side. PSPs and MSPs can find many opportunities within healthcare organizations that are not specific to the industry, including such things as introduction of print on demand, reduction of inventories of printed materials and wastage due to obsolescence, as well as more efficient movement of documents throughout the business.

Other savings options that are being promoted pertain to assisting patients in selecting the highest quality providers, reducing avoidable and inappropriate care, incentivizing physicians to encourage high quality care, and better managing the reimbursement of costs of care to eliminate waste and fraud.

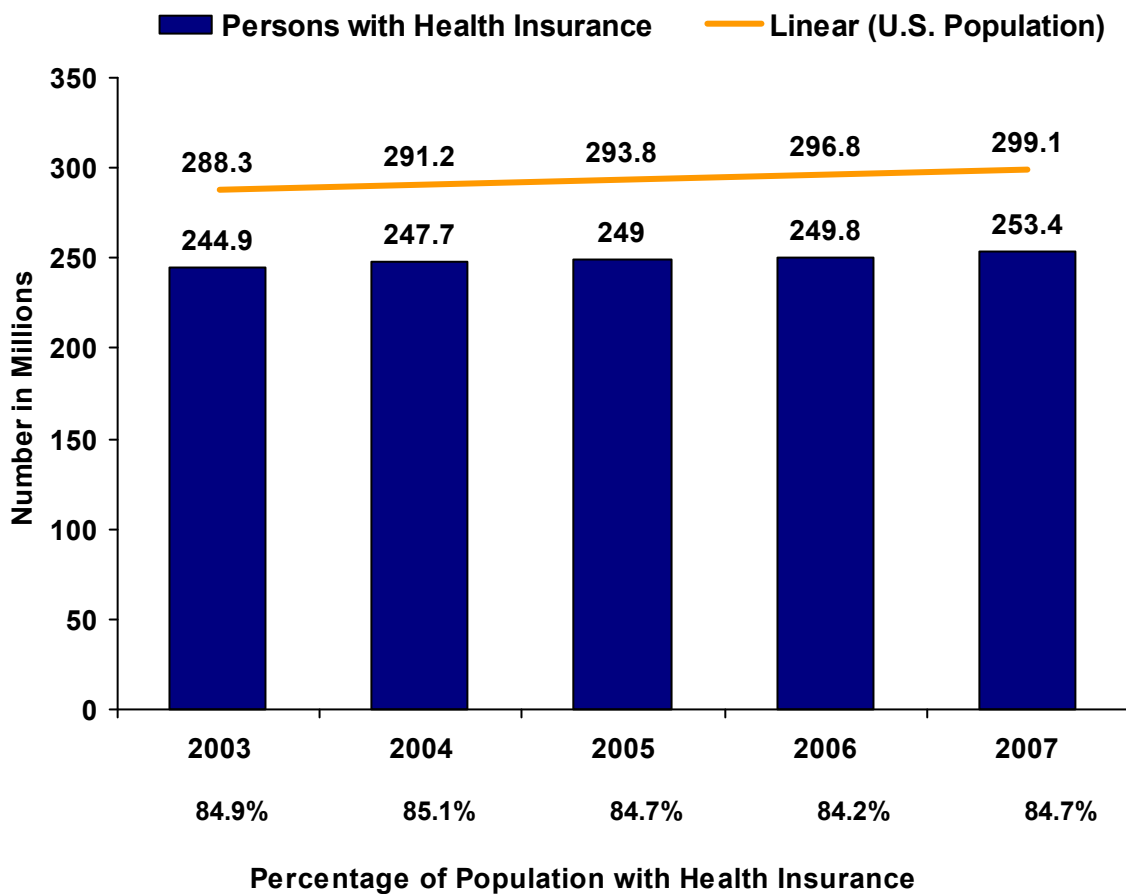
The Uninsured

According to a report issued by Blue Cross/Blue Shield⁵, although more than 250 million Americans have healthcare coverage through their employers, government-sponsored programs, or private health insurance, more than 45 million other Americans do not have health insurance. BCBSA categorizes these as:

- 26% are “missing out”: those who are eligible for public programs, but not enrolled.
- 49% are “squeezed out”: those who are ineligible for public programs, and need financial assistance.
- 25% are “opting out”: those likely to afford insurance, but choose to forego coverage.

One of the key goals in creating a better healthcare system—as seen in the public discussion—is making sure that everyone has access to healthcare coverage. Although the percentage of those covered has remained relatively constant, there is still a significant population that is not covered.

Figure 2: U.S. Population with Health Insurance



Source: U.S. Census Bureau (2008) Historical Health Insurance Tables, Table HIA-2

⁵ Healthcare Trends in America: A Reference Guide from BCBSA (2009 edition)

By understanding the critical trends facing the healthcare industry and being able to speak knowledgeably with healthcare executives about the mitigation of these critical issues, print and marketing services providers can position themselves as valued business partners to the healthcare industry and capture a share of the significant print spend occurring in that industry. Hospitals alone spend an average of 4.7% of total revenues (an average of \$1,197,900 annually) on business printing.

Opportunities for Service Providers in the Healthcare Industry

Service providers competing for work in the healthcare industry must ensure that they have the right infrastructure, technology, automation, and efficiencies to meet the needs of corporate buyers. Service providers who can deliver value-added services beyond print will ultimately be the winners. According to InfoTrends' *Document Outsourcing Evolution* analysis, more half of U.S. healthcare organizations are currently outsourcing off-site printing and document services or are considering doing so. It should also be noted that about half of healthcare organizations consider vendors' policies around recycling, the environment, and other "green" initiatives to be "extremely" or "very" important. That being said, only a third reported including green-related performance measures in their outsourcing contracts.

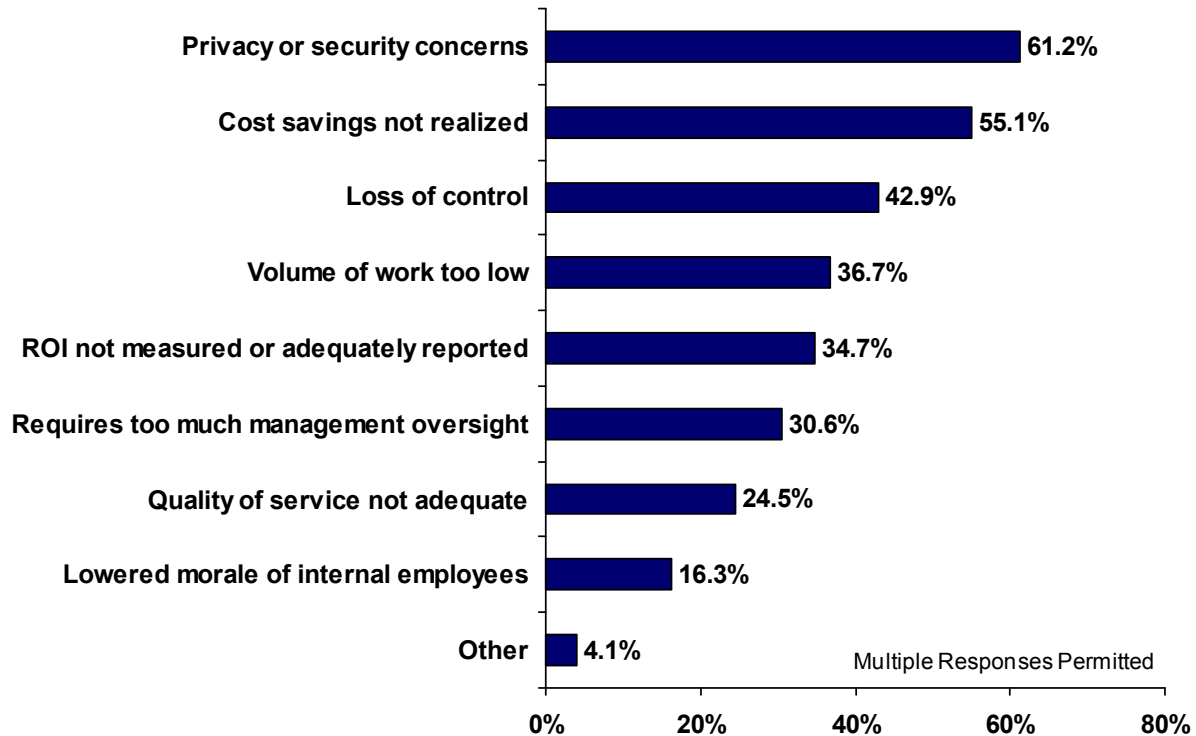
To Outsource or Not to Outsource?

One way companies can stabilize and improve key business metrics is to outsource areas, such as internal and external print, mail, records management, business communications, and other document-related functions, to service partners who can help control costs and improve operational efficiencies. InfoTrends research reflects that 55.8% of healthcare companies are currently outsourcing some document services.

It is also worth noting that company size does not matter that much in regards to outsourcing efforts. In general, the larger the organization, the more likely they are to outsource. Among companies with revenues under \$5 million, however, 50% are also outsourcing some level of document services. The outsourcing of off-site printing and document services is by far the most common segment, with nearly half of respondents to InfoTrends research indicating they take advantage of these services. Healthcare organizations tend to spend more than 50% of their communications and print dollars with commercial printers and nearly 10% with quick or franchise printers. Although 60% of healthcare companies expect to see these levels of spending remain the same, those who expect a decrease attribute it to cost saving efforts and a shift from paper to electronic delivery.

There is much discussion about why companies outsource document and other services, but little is written about why they did not. It is important to understand the other side of the coin to be able to adequately anticipate and respond to any objections that may arise. The Outsourcing Institute indicates that companies outsource to reduce or control operating costs, improve company focus, and gain access to world-class capabilities. Nevertheless, InfoTrends' research indicates that the top reasons for *not* outsourcing in the healthcare industry include concerns about security/privacy (61%) and a fear that promised cost savings will not be achieved (55%). Other primary concerns include loss of control, a low volume of work, and ROI not being measured or adequately reported.

Figure 3: In situations where you have chosen not to outsource, what were the primary reasons?



N = 49 Healthcare Respondents
 Source: InfoTrends' Document Outsourcing Multi-Client, 2009

During the sales process, these concerns should be addressed head-on, even if they are not specifically mentioned by the client, as they are certainly lurking in the thought process. In doing so, sales representatives should be prepared to demonstrate their company's ability to alleviate these concerns by presenting information about corporate initiatives already in place to address each one, along with testimonials from other customers within the target industry that support the company's ability to reliably and securely deliver these services.

Factors in the Decision-Making Process

It goes without saying that healthcare companies handle a significant amount of personal customer information, which must be protected and handled in compliance with all regulations. Therefore, it is no surprise that in seeking an outsourcing relationship, healthcare organizations are most interested in data privacy and security. Healthcare professionals are more likely than other industries to consider expertise and access to industry best practices as a key factor in the decision process for selecting an outsourcing provider. Accuracy and quality control are also critical to these buyers as is the ability for pricing to fit within the budget.

Healthcare providers are also looking for partners who can improve revenue and cash flow while reducing costs. On the other hand, existing relationships with the company and the ability to provide a full suite of services, including Web-enabled technologies and a collaboration platform, are less important, but general technology capabilities are an important consideration.

Healthcare organizations are more likely to be seeking a local or regional footprint in an outsourcing partner than a national or international organization. They are concerned about partnering with a supplier that has high-quality printing facilities and capabilities, quick turnaround, and the ability to offer electronic document management services. Again, security and adherence to privacy regulations are critical to these buyers.

Within the healthcare industry, there are a wide range of titles that are involved in decisions about whether to outsource document services. This list of titles is contained in the Table below.

Table 1: Titles in Healthcare Involved in Outsourcing Decisions

Business Communication Manager	Business Services Manager (IT)	Chief Information Officer
Computer Systems Technologist	Corporate Technical Architect	Database & LAN Manager
Director Administration and Operations	Director Application Services	Director Facilities
Director Information Technology	Director Internet Hosting Services	Director Materials Management
Director of IT Infrastructure	Director of Purchasing	General Manager
General Services Administrator	Manager Asset Management	Manager Facilities and Mailroom
Manager Graphic Arts	Manager Information Services	Manager Mail Processing Services
Manager Marketing Services	Manager Network Services	Manager Underwriting Analysis
Manager, Communications	Manager, Program Management and Creative Services	Marketing Administrator
Marketing Manager	Office Administrator	Operations Manager
Print Manager	Print Production Manager	Procurement Manager
Vice President Communications		

InfoTrends’ research reveals that outsourcing decisions are often committee-driven, and the key players on those committees represent IT (e.g., CIO, VP, or Director) and Finance (e.g., CFO, Controller, or Director) personnel. During the course of the sales cycle, all interested parties should be kept in mind, but focus should be placed on key IT and Finance players. IT typically takes a lead role in these initiatives,

especially in the healthcare industry, where outsourcing involves a significant amount of critical and sensitive data often residing in legacy systems managed by the IT staff. Marketing and finance executives also play a key role, especially as it relates to outsourcing off-site document services. In smaller companies, the CEO, President, or Owner could also be involved in these decisions. The same holds true for outsourcing transaction document services, with line-of-business directors or managers also weighing in.

While the healthcare industry is not currently big on document process outsourcing, where these opportunities do occur, the primary contact should be the CIO, VP, or Director of Information Technology. Again, especially in smaller companies, the senior executive (i.e., President, CEO, or Owner) will also likely be involved. It should be noted that as the push for patient safety, electronic health records, and other related initiatives gain steam in the healthcare market, there will be more opportunity in this industry for document process outsourcing.

The Contracting Process

Clearly, it is important to build ongoing relationships with these key players. Nevertheless, it should also be noted that despite relationships, companies are likely to seek alternative approaches and proposals over time. In the healthcare industry, 64% of respondents to a recent InfoTrends' survey report that their company follows a formal request for proposal (RFP) process most (if not all) of the time. About 65% of respondents in these industries indicate that they typically solicit three or fewer proposals, with the majority indicating that they solicit at least three. Suppliers with existing relationships who are delivering services that meet or exceed expectations are more likely to be included in the RFP process. In the healthcare industry, less than a quarter of firms use a consultant to identify and develop requirements for outsourcing. Even fewer (12%) are using consultants as part of the service provider selection process. This leaves the door open for providers with good relationships to be able to influence, to some extent, the ultimate RFP content.

While contract lengths are shortening in many industries, contracts within the healthcare industry tend to be three or more years in length. Service providers must be creative in identifying ways to differentiate themselves when it comes to contracting and affording adequate flexibility for the client. They should also be meeting the objectives of both parties by enjoying a continuous and satisfactory (i.e., financially-viable) relationship, while accommodating any need for change.

Healthcare organizations are typically seeking a fixed price contract, possibly including unit- or volume-based fees, depending upon the type of work being outsourced. Cost-plus or value-based pricing is of lesser interest in this industry.

Applications

Transactional Documents

An important application for companies in the healthcare industry is transaction documents, and it is one application they are most likely to outsource. In fact, 57% of respondents to recent InfoTrends research indicate that they do outsource these services, including bills, invoices, statements, evidence of coverage, explanation of benefits, and payroll statements. Nevertheless, this applies mostly to large and medium-sized companies. There are many smaller companies, however, who send 100,000 or fewer bills or statements per month that are candidates for outsourcing this application. In fact, 54% of respondents to recent InfoTrends research on the TransPromo opportunity in North America indicate they produce less than 100,000 bills and statements per month.⁶

Transaction documents can also double as promotional or educational material in a Transpromotional (TransPromo) application. This is where transactional data and promotional or educational information are blended in the same document, with the opportunity to personalize the promotional/educational material to increase its relevance to the customer and the efficiency of the document. For the healthcare industry, introduction of TransPromo can increase results and decrease costs. Not only are these transactional documents opened, read, and more likely to be acted upon, but by combining educational or promotional messages on the transaction document, the company can eliminate the need to send a separate piece of mail. Especially in managed healthcare, these messages may promote healthier behaviors, such as suggesting a switch to less expensive, generic drugs as well as other actions that are financially important to the organization. Close to 43% of healthcare organizations have already implemented TransPromo communications or are planning to do so.

More than 50% of healthcare companies indicate they use Personix or Standard Register to produce transaction documents. More than 40%, however, specified “Other,” which likely refers to local or regional specialty service bureaus or commercial printers. The majority of respondents plan to keep the amount of these services they outsource at the same level over the next 12 to 24 months. Healthcare respondents also rank the availability of a self-service Web portal as important in their decision process for selecting a supplier. Data security and data transmission speed are also important.

On average, healthcare organizations are producing more than 600,000 pages of transactional documents internally, and more than one million externally. About a half million of those pages are produced electronically.

On-Site Services

The most commonly outsourced on-site service in the healthcare industry is centralized copy or print center management. Document imaging, mail and distribution services, as well as marketing and creative services also rank fairly high in regards to outsourcing. There seems to be little interest in on-site fleet management and little implementation in the on-site management of hardcopy/electronic records or document management. More than half of healthcare companies plan to outsource electronic records management in the next 12 to 24 months, however, most likely as a result of the increasing demand for

⁶ This data is not financial services industry specific

electronic health records. Nevertheless, decision makers in the healthcare industry are more interested than other industries in on-site print procurement services, with nearly three-quarters of InfoTrends respondents indicating they were currently outsourcing these services or were considering doing so.

In terms of future opportunities for on-site services, about half of healthcare companies expect to implement some sort of document scanning and imaging services within the next 12 to 24 months.

Electronic Presentment

Three-quarters of healthcare companies reported that they are already using electronic presentment services: using faxes, secure e-mail, or electronic presentment on the company Web site. Surprisingly, 75% reported using fax with the same percentage reported using the company Web site. Based on InfoTrends research, electronic presentment has been more rapidly adopted in the healthcare industry than any other industry. This is motivated by the ability to improve cash flow, automate processes, reduce impact on the environment, and respond to customer demand.

Other Applications

Transactional, TransPromo, electronic presentment, and specified on-site services are the primary applications PSPs and MSPs should be discussing with executives in the healthcare industry. At the same time, however, sales professionals should also keep an eye out for more traditional printed applications, including forms, brochures, posters, educational signage, internal documents and reports, compliance documentation, as well as presentations. These printed materials lend themselves well to management through customized online storefronts, making the process more productive for the buyer *and* the seller.

That said, focusing on the more mission-critical and sophisticated transaction service areas (as well as on-site opportunities) can help differentiate companies and allow them to gain high-level appointments in healthcare firms, which will pull through more routine work.

It should be noted that healthcare firms who expect to see a decrease in outsourced print cite a “shift from paper to other channels” and “cost savings efforts” as the key reasons for such a decrease. PSPs who can address these emerging needs along with printing services will be more successful in engaging these accounts for a longer term and will achieve a more profitable relationship.

Conclusion

The healthcare industry is under significant pressure to improve its business processes, cost structure, and healthcare delivery mechanism. This presents a good opportunity for PSPs who have the ability to produce transactional/TransPromo documents, provide selected on-site services, and can assist with the growing movement toward electronic documentation. Companies in this industry face the need to prop-up their brands, head-off fierce competition, and focus on their core competencies, while turning to partners to help them with the rest. Key concerns are security/privacy, cost reduction, and reliable services that meet or exceed their ability to produce these documents in-house. As regulatory oversight continues to increase in the market, suppliers will need to be acquainted with industry regulations and have appropriate certifications to be the most attractive to these companies.

PSPs and MSPs who are targeting the healthcare industry should do their research, build on the industry information provided in this article, and develop in-depth information about individual target companies. Service providers must also carefully consider where to begin the sales process—starting at the highest level possible in the company with a compelling message that specifically addresses the business issues the prospect is facing every day is an intelligent way to proceed.

This document provides an excellent starting point for building a good sales plan for attacking this vertical market. Service providers should encourage their prospects to begin outsourcing key applications for the mutual benefit of the prospect and the PSP/MSP. In doing so, the potential exists to create an ongoing partnership that will generate recurring revenues for the service provider and recurring savings for the customer/prospect.

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