Case 23: Health Coaches

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Case Question

- Our client is a large national health care payer (health insurance company, think Aetna) exploring the launch of a new disease management ("DM") program to better serve its 5 million members. The idea is to hire and train a team of "Health Coaches" to specialize in a single disease area (e.g., heart disease, diabetes, etc). Each Coach will manage a portfolio of patients to reduce the costs of overall health expenditures (e.g., reminders to take drugs, provide limited medical advice, suggested diet, etc). Studies show that once a month contact with each patient reduces health spending by 5%, on average.

- *Should our client launch the program? If so, what steps should it take?*

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Quants.

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Structure

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Case tracker

- **Industry:** Healthcare
- **Level of Difficulty:** Medium
- **Case Format:** Developing a new product/Service
- **Concepts Tested:**
  - Customer strategy
  - Break-even analysis

Fit Questions

Spend first 15 min on fit

- How do you feel about working in a feedback-intensive environment?

- Why is consulting a better career move for you compared to your next best option?

Guide to interviewer

- The case tests the interviewee's ability to probe and develop a customer segmentation, digest a relatively complex chart, isolate the most critical information and determine profitability

- The data provided by both exhibits should be requested; try not to show the exhibits until need for the data is demonstrated

- Strong interviewees should use common sense to make reasonable assumptions before you provide required inputs

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Clarifying answers and handout guide

Clarifying answers to provide

Competitive dynamics (not core to case)

- With spiraling health care costs, the industry is under pressure to innovate new products that will control spending

- Assume client is first to market

- Past attempts to purely automate DM have yielded minimal savings

Health Coaches

- All activity conducted remotely via phone/email

- Typical profile is registered nurse that wants to work from home

- It's difficult to actually reach patients, so Coaches can contact 8 members per day (assume 25 days per month)

- Annual costs per Coach: $60K salary +20% other (training, benefits, laptop, etc)
  - There are no other program costs

Guide to handouts

Before showing exhibits, interviewee should convey the essence of the case:
Are the costs associated with the DM program justified by the savings?

Sample set-up:

Program Savings	Program Costs	Risks
– Customer segmentation by disease area and cost per member	– Salary and other – Portfolio size/capacity (members/coach)	– Do assumptions hold? – Competitive response – Regulatory, liabilities

Exhibit 1 – Hand out when interviewee establishes need for understanding client's membership segmentation and/or exposure to disease areas. If he/she is not headed there alone, you can ask "how would you segment the client's members?"
- "What can we get out of this chart? Please let me know if you have questions"
- Definitions (if needed): Group are employee sponsored plans (e.g. ,if you work for McKinsey, you are in a group plan), Individual are non-groups (e.g., private contractors, unemployed, etc). 65+ (see asterisk below chart).
- "Which segment is likely to generate the greatest per member costs.? Why?"
- "Which disease area should we look at first?"

Exhibit 2 – Hand out when interviewee asks for medical cost data. Try to avoid handing out exhibit 2 until exhibit 1 has been discussed *(hint: if interviewee leads with profitability, steer him/her to first think about the customer segmentation)*
- "What can we do with this information?"

Key elements to analyze

Segmentation and disease focus

Using **Exhibit 1**, discuss which segments and disease areas are most important to explore

Notes to interviewer

Interviewee should choose to focus on the 65+ segment

- 65+ (Medicare) patients are the sickest, followed by Individual
- Group members are the healthiest (younger, working)
- Sicker patients are likely to drive higher costs, which will make them riper candidates for the DM program (i.e., the 5% cost reduction will have a bigger impact)

Interviewee should choose to focus on diabetics (Assume all are Type 2 for the purposes of this case)

- Diabetics make up the largest portion of sick members
- As a chronic disease primarily brought on by behavior, T2 diabetics are most likely to benefit from DM program

Number of 65+ diabetics:

$$\frac{20\%}{segment\ \%} \ x\ \frac{40\%}{\%\ diabetic}\ x\ \frac{5MM}{members}\ =\ \frac{\textbf{400,000}}{\textbf{65+}\ \textbf{diabetics}}$$

Program profitability

Leveraging all data (Both Exhibits), interviewee should determine if Health Coaches are profitable in each of the three segments

Notes to interviewer

Cost per Coach:
$$\frac{\$60,000\ +\ 20\%\ =\ \$72,000}{Base\ Salary\ +\ other\ =\ per\ coach\ per\ year}$$

Size of Portfolio:
$$\frac{8}{\substack{contacts\\per\ day}}\ +\ \frac{25}{\substack{days\\per\ month}}\ =\ \frac{\textbf{200}}{\textbf{max. patient portfolio}}$$

Savings for one portfolio of 65+ diabetics:
$$\frac{\$300}{\substack{avg.\\PMPM}}\ x\ \frac{4}{\substack{diabetic\\factor}}\ x\ \frac{5\%}{\substack{avg.\\savings}}\ =\ 60\ x\ \frac{12}{mos.}\ x\ \frac{200}{\substack{patient\\portfolio}}\ =\ \frac{\$\textbf{144,000}}{\substack{\textbf{savings per}\\\textbf{Coach per yr.}}}$$

Overall savings:
$$\frac{\$144K}{savings}\ -\ \frac{\$72K}{costs}\ =\ \frac{\$72K}{\substack{profit\\per\ Coach}}\ x\ \frac{2,000}{\substack{Health\\Coaches}}\ =\ \frac{\$\textbf{144 MM}}{\substack{\textbf{profit}\\\textbf{per year}}}$$

Conclusion:
- Profit is $72K per Health Coach, 2x cost of a Coach
- Based on PMPM diabetic cost data, Individual segment is break-even (50% less savings), Group segment is a loss

Solution and recommendations

## Solution & Recommendations

With 3-4 minutes remaining, give interviewee a moment to prepare a recommendation. Here is a strong sample:

- Client should launch the Health Coaching program, and first focus on diabetes for the 65+ Medicare segment

- The client should take the following steps:
  - Launch a pilot program to prove out assumptions (e.g., 5% cost reduction, Coach portfolio capacity, etc)
  - First expand to entire 65+ segment ($144M per year savings, a 2x return on each Health Coach)
  - Consider introducing to Individual segment despite break-even (customer retention, moral rationale, etc)

Follow-up questions (if time permits)
- There are 650K Group diabetics left "uncoached." Is there a way to make the segment profitable? Ideas include:
  - More efficient DM program (e.g., Coaching at work, bi-monthly contact, automated correspondence, etc)
  - Seek additional revenue sources (e.g., Employers might be willing to pay a fee, government support)
  - Since 5% is the average savings, program can target members who will respond with savings well above 5%

- As first to the market, client plans to expand Health Coach program externally. Who should they target?
  - It's tempting to suggest that the client should market to 65+ Medicare patients with diabetes, since this is where the program yields the greatest savings. While it's good that we have lowered the cost of older diabetics, client should keep in mind that more diabetic members will increase overall health care costs, considerably – (still almost 4x after savings)
  - An instinctive interviewee might suggest an alternative: Client should sell its Health Coach service to other payers. But how would you price that? What are the challenges (e.g., regulatory, info sharing, etc)

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Exhibit #1: Client's member segmentation by health condition
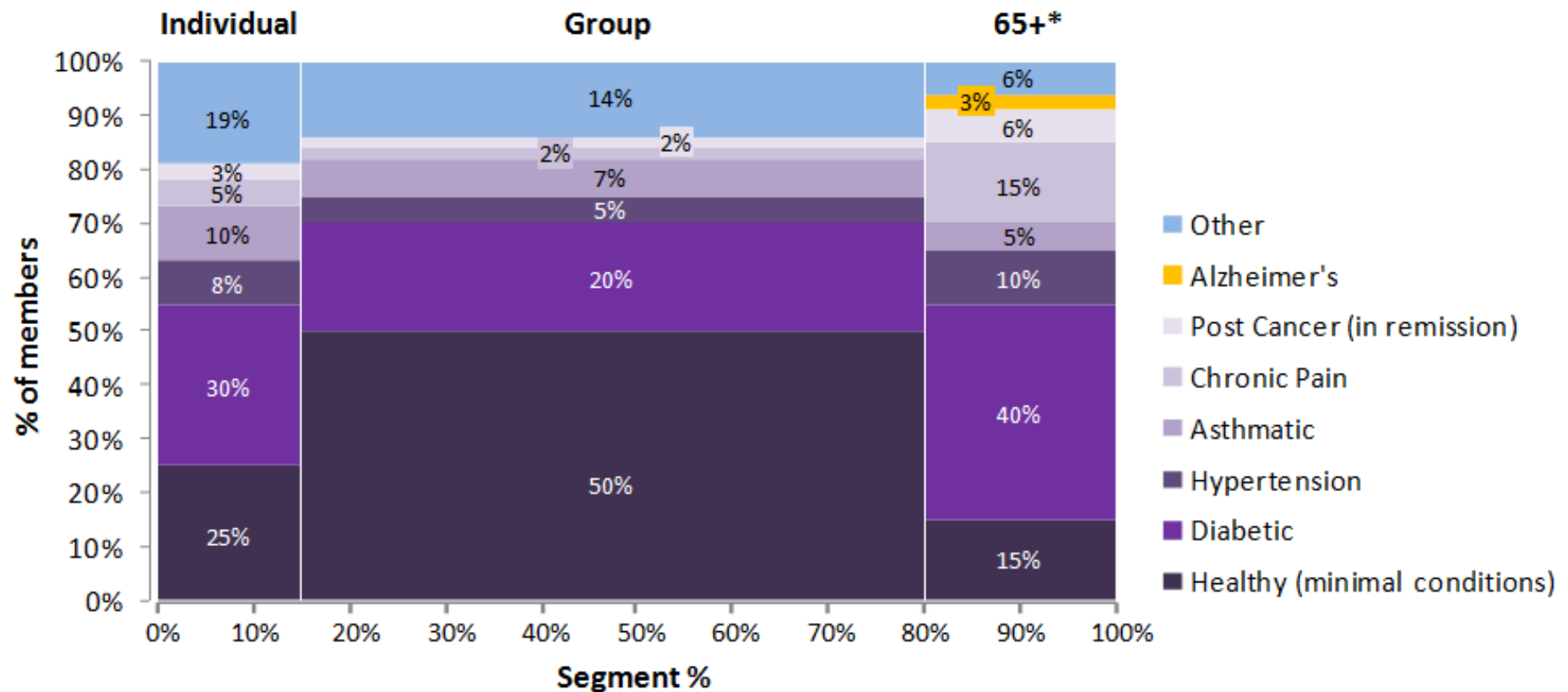
* Members 65 years of age and above. Known as "Medicare Advantage", premiums funded by government

Segment	Average PMPM	Average Diabetic
Individual	$150	
Group	$100	4x
65+	$300	