HealthAffairs Blog

Will Price Competition Lead To Quality Competition?

John Goodman **April 21st, 2011**

Editor's Note: *In addition to John Goodman, this post was coauthored by Gerald Musgrave and Devon Herrick*.

In our third-party-payer health insurance system the price for care is typically set by entities external to the doctor-patient relationship. As a result, providers rarely compete for patients based on money prices.

Potentially they can compete on the time price of care, on amenities and on quality. In a previous post we noted that there is a tendency toward uniform (market clearing) waiting times and amenities, or at least a uniform trade-off. Yet providers rarely compete on quality; and substantial quality differences not only exist, they persist over time.

If lack of price competition is normally associated with lack of quality competition, could the reverse be true? Do providers who compete for patients on price also compete on quality? There is a lot of evidence that they do.

Quality competition in health markets without third-party payers. In those health care markets where third-party payment is non-existent or relatively unimportant, providers almost always compete for patients based on price.

Where there is price competition, transparency is almost never a problem. Not only are prices posted (e.g. walk-in clinics, surgi-centers, etc.), they are often package prices, covering all aspects of care (e.g. cosmetic surgery, Lasik surgery, etc.), and therefore easy for patients to understand.

Wherever there is price competition, there also tends to be quality competition. In the market for Lasik surgery, for example, patients can choose traditional Lasik or more advanced custom Wavefront Lasik. Prices range from less than $1,000 to more than $3,000 per eye. In the international medical tourism market, some hospitals in India, Thailand and Singapore, disclose their infection, mortality and readmission rates and compare them to such U.S. entities as the Cleveland Clinic and the Mayo Clinic.

Even when providers do not explicitly advertise their quality standards, price competition tends to force product standardization and this reduced variance is often synonymous with quality improvement. Rx.com, for example, initiated the mail order pharmacy business, competing on price with local pharmacies by creating a national market for drugs.

Industry sources maintain that mail-order pharmacies have many fewer dispensing errors than conventional pharmacies. Walk-in clinics, staffed by nurses following computerized protocols score better on quality metrics than traditional office-based, doctor care and have a much lower variance.

In general, medical services for cash-paying patients have popped up in numerous market niches – where third-party payment has left needs unmet. It is surprising how often they offer the very quality enhancements that critics complain are missing in traditional medical care. Electronic medical records and electronic prescribing, for example, are standard fare for walk-in clinics, concierge doctors, telephone and e-mail consultation services, and in medical tourist facilities in other countries. Twenty-four/seven primary care is also a feature of concierge medicine and the various telephone and e-mail consultation services.

Waiting times and amenities. Competition in the provision of amenities is also common in the niche markets. Cancer Treatment Centers of America takes third-party payment, but its patients usually have to travel some distance to get to the CTCA facilities – at both inconvenience and expense. To attract them, CTCA goes to great lengths to ensure the comfort of its patients and facilitates the needs of accompanying family members – offering services similar to what medical tourist facilities offer in other countries (CTCA also posts its cancer survival rates).

In general, providers who compete on price are competing to lower the money price of care. Where this occurs, they tend to compete to lower the time price as well (hence the term "Minute Clinic"). Teladoc promotes its services by publishing the response times (a doctor's return call) for its clients. Most concierge doctors promise same-day or next day appointments. Some: diagnostic testing services make the test results available to patients online within 24 to 48 hours.

In general, these markets do not appear to be fundamentally different from non-health care markets. Competition tends to produce more uniformity of fees and waiting times than would otherwise be the case. Similarly, quality competition also tends to produce either uniform quality or a uniform trade-off between money prices and quality.

Reverse medical tourism. In the international tourism market, quality is almost always a factor when people travel for their care. And when people travel for their care, cost often is also a factor – either because the patient is paying the entire bill out of pocket or because the patient and a third-party insurer have an arrangement that allows both to profit from the travel. More generally, we have seen that price and quality competition tend to complement each other.

Is it possible to replicate this experience in the domestic hospital marketplace? Even without a major policy change, developments are under way. By one estimate 430,000 non-residents a year enter the United States for medical care . Some Canadian firms are even able to obtain package prices for Canadians seeking medical care at U.S. hospitals.

Moreover, you do not have to be a foreigner to benefit from domestic medical tourism. Colorado-based HealthBridge International offers U.S. employer plans a specialty network with flat fees for surgeries paid in advance that are 15 percent to 50 percent less than a typical network. North American Surgery, Inc. has negotiated deep discounts with 22 surgery centers, hospitals and clinics across the United States as an alternative to foreign travel for low-cost surgeries. The "cash" price for a hip replacement in the network is $16,000 to $19,000, making it competitive with facilities in India and Singapore.

One reason why so little is known about the domestic medical tourism market is that hospitals prefer that most of their patients not know about it. The reason: they are often offering the traveling patient package prices and lower prices not available to local patients. That occurs because the hospital is only competing on price for the patients who travel.

If traveling patients begin to make up a large percent of a hospital's caseload, however, medical tourism has the potential to change the hospital's entire business plan.

Detroit Medical Center. In a previous post we noted that the Detroit Medical Center is unusual in the way it competes for patients based on quality. Its website informs you that the DMC "is dedicated to staying ahead of the crowd when it comes to the quality of our care." A link to the Leapfrog website allows patients to compare quality metrics at Detroit-area hospitals and the language at the DMC site clearly implies you're risking your life if you patronize a competitor. "If you want a hospital with walking trails or a day spa, go someplace else," the site advises. "Just don't expect the latest in patient safety technology. Because 100-percent medication scanning is only at DMC."

An explanation for Detroit Medical Center's emphasis on quality competition may be its interest in competing for traveling patients – both internationally and within the United States. The DMC draws about 300 international patients a year. For robotic prostate cancer surgery, it has attracted 600 patients from 50 states and 22 countries. Although DMC's website does not post prices, if you are an international patient, you are promised "cost estimates" and "package pricing."

They also advertise the availability of rooms and suites for family members on campus, their willingness to book rooms for family at area hotels and free parking and other amenities.

Furthermore, it may be no accident that such facilities as the Cleveland Clinic and the Mayo Clinic also attract large numbers of patients who travel. High quality care and medical tourism seem to go hand in hand.