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The Role of Marketing in an Emerging Healthcare Sector: The Case of For-Profit Hospices

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The hospice industry in the US has experienced rapid growth and witnessed a dramatic trend towards large, for-profit hospices pursuing strategies of aggressive growth. This paper outlines the primary drivers of hospice industry growth in the US, and delineates the industry's emerging marketing practices, including product/service development, customer and referral cultivation, and distribution strategies. The paper also outlines areas of ethical concern and future research.

Overview of Hospice Care in the US

Hospice care is defined as "… comprehensive, palliative medical care and supportive social, emotional, and spiritual services to the terminally ill and their families, primarily in the patient's home. A hospice interdisciplinary team, composed of professionals and volunteers, coordinates an individualized plan of care for each patient and family" (Hospice Association of America 2005). Medicare has three key eligibility criteria for hospice care:

1) The patient must have Medicare A coverage.

2) The patient's doctor and the hospice's medical director use their best clinical judgment to certify that the patient is terminally ill with a life expectancy of six months or less, if the disease runs its normal course (if the patient lives longer than 6 months, they remain eligible as long as the doctor re-certifies that they are terminally ill).

3) The patient chooses to receive hospice care rather than curative treatments for their illness.

In the US, hospice care is provided primarily in the patient's home to allow a greater sense of peace and comfort than could usually be found in a hospital. A broad range of services -- from traditional nursing care to respite care for family caregivers to bereavement services for family members -- is typically offered.

Acceptance of Hospice Care Services

The hospice industry in the US is a relatively small and fragmented component of the overall healthcare industry, generating aggregate annual revenues of about $4.5 billion in 2003. However, the growth in this sub-sector has been quite dramatic: Medicare spending on hospice care grew at 13% compounded annual growth rate between 1995 and 2002. (Shattuck Hammond Partners 2004). There are several factors driving this growth:

1) The overall aging trend in the US and the increasing size of the over 65 population.

2) The increasing role of advocacy groups in promoting hospice care over other end-of-life alternatives.

3) Favorable reimbursement trends by Medicare and Medicaid. This is at least in part because hospice is viewed as a lower cost alternative to traditional, hospital-based end-of-life care.

4) Increasing acceptance as an end-of-life alternative by doctors, patients, and families. (Shattuck Hammond Partners 2004).

Hospice Industry Consolidation

As growth and sustainable profitability become driving forces within the industry, the emergence of several relatively large publicly-traded and private equity-sponsored companies creates an underlying environment for consolidation (Shattuck Hammond Partners 2004). The consolidation is occurring among both for-profit and non-profit hospices to achieve economies of scale necessary to survive in this maturing industry (Le Claire 2004). Table 1, below, depicts how 8 of the top 9 hospice organizations in the US is a for-profit concern. The top 3 control 23% of the industry revenue.

Table 1: The Largest Hospice Operations in the US (2004)

Provider	Est. ADC	Rev. ($MM)	Industry Market Share
Vitas Healthcare Corp.*	8,500	$490	10.9%
Odyssey Healthcare, Inc.*	7,700	$360	8.0%
VistaCare, Inc.*	5,200	$192	4.3%
Manor Care, Inc*	4,500	376[1]	8.4%
SouthernCare Hospice, Inc.**	3,500	180[2]	4.0%
Beverly Enterprises, Inc*	2,000	$87	1.9%
Trinity Hospice, Inc**	1,400	$72	1.6%
Life Path***	1,300	$67	1.5%
Wellspring Hospice Care**	750	$38	0.9%

(Based on market estimate of $4.5 B)

- * Public, for profit; ** Private, for profit; *** Private, not for profit
- 1 = Hospice and Home Health Care; 2 = Estimated by Shattuck Hammond Partners LLC
- Average Daily Census (ADC) = annual admissions × length of stay ÷ 365

Sources of Profitability

Medicare, Medicaid, most private insurers, and managed care providers pay for hospice care at a daily or hourly rate that varies with the level of care provided. In general, the for-profit hospice operations achieve profits through the active recruitment of new patients from various referral sources combined with a keen focus on operational efficiency. Strategies for achieving operational efficiency include achieving a broad geographic footprint, as well as managing their overall portfolio of patients and average patient length of stay.

Scale and Geographic Footprint

The hospice business is highly sensitive to scale. Once the average daily census (ADC) breakeven point is reached (e.g., 35 patients per month), net margins of around 10% are achievable, and can increase as the census rises. Related to the impacts of scale, consider Table 2 below, which shows the sensitivity of Odyssey Healthcare's net margins as they improve with scale.

Table 2: Odyssey Healthcare Experience

Average Daily Census	Net Margins
51 – 100	14.7%
100 – 200	27.3%
Over 200	31.9%
Overall	**25.2%**

Average Daily Census and Net Margins: Q1 2004

Hospice providers who achieve significant scale are able to negotiate volume discounts on the purchase of pharmaceuticals, durable medical equipment and medical supplies (Jefferies 2003). Finally, large hospice operations are able to spread certain fixed costs (corporate overhead, IT infrastructure, and marketing spending) over a large patient population.

Having a broad footprint in a particular geographic region aids large for-profit hospices in receiving referrals from similarly broad-based health care providers. National and regional nursing home and assisted living communities often seek the administrative and service consistency benefits resulting from working with a limited number of broad-based hospice service providers.

Managing Patient Length of Stay

Patient length of stay has been shown to have the most impact on net patient revenue (Shattuck Hammond Partners 2004). The revenue function for a hospice operator is linear – a fixed per diem payment over time. The cost function, however, is not linear. During the initial days of care, expenses tend to be higher due to initial purchases of pharmaceuticals, medical equipment, supplies, and administrative costs. In the latter days of care, expenses tend to be high because patients require more services due to their deteriorating medical condition.

The important implication of the linear revenue function and the U-shaped cost function is that longer lengths of stay will yield higher profits. Further, a patient's diagnosis serves as a predictor of length of stay (i.e., Cancer patients tend to be referred late and have relatively short stays, while non-cancer patients tend to have longer lengths of stay).

Clearly, the ideal scenario for a profit hospice is to have each patient stay as long as possible so that the patient care expenses are spread over more days, positively impacting profitability. Table 3 illustrates the varying results for ALS achieved by the top three for-profit hospices relative to the industry average. Note that Odyssey and VistaCare have been able to achieve lengths of stay significantly above the industry average.

Table 3: Length of Patient Stay (2003)

	Industry	VITAS	Odyssey	VistaCare
Average Length of Stay	55 days	56 days (Q1 2004)	74 days	114 days
Median Length of Stay	22 days	11 days	Not Available	31 days (Q1 2005)

(NHPCO, Chemed, Odyssey, VistaCare Annual Reports)

The Evolution of Marketing Practices

Hospice care in the US began as a non-profit industry and initially made no concerted effort to market its services to patients or referring entities (NHPCO 2002). The rise of for-profit hospice entities has been accompanied by aggressive marketing strategies in an industry in which marketing has traditionally been non-existent (Chemed, VistaCare and Odyssey Annual Reports 2004).

The marketer at a hospice is faced with a challenge of managing the type and number of patients in an environment where one is expected to take on all types of cases. This task is approached in the following two ways:

- First, marketing appeals are directed at the type of patients needed at the time to keep the mix of patients by diagnoses in an acceptable range.

- Second, rapid census growth is viewed as a means of staying a step ahead of the issue by attracting traditionally longer length of stay patients, and mitigating their impact on overall average length of stay statistics by virtue of the relatively short length of stay of the most recent clients.

Table 4: Patient Mix by Level of Care (2003)

	Industry	Vitas	Odyssey	Vista Care
Routine Home Care	96%	68%	90%	94%
General Inpatient Care	3%	16%	9%	6%
Respite Care	<1%	--	<1%	--
Continuous Home Care	<1%	16%	<1%	--

(NHPCO, Chemed, Odyssey, VistaCare Annual Reports)

Related to patient mix is the nature of care delivered to the patients. For example, Vitas distinguishes itself by specifically targeting patients that require general inpatient care and continuous home care. This allows Vitas to attract relatively short length of stay patients (as these patients tend to be cancer-related), achieve higher revenues due to the relatively higher compensation levels called for by these services, and to differentiate themselves from their major competitors.

Services Offered and Cost Control

In order to be certified by Medicare, marketers of hospice services are required to offer specific core and non-core services. However, marketers at certain for-profit hospices have recognized the value of differentiating their services to appeal to certain types of referrers. For example, certain national or regional health care providers may appreciate the ability to work with a larger partner who can offer a consistent level of care and administration over a larger

geographical footprint. Further, hospices are beginning to differentiate themselves by specializing in services for specific diagnoses.

A consistent theme across for-profit hospice organizations is the desire to leverage a centralized IT infrastructure and utilize a standard, system-wide pharmaceutical formulary. These two activities not only provide better service, but minimize operating costs. The primary cost component, the recruitment of human resources as well as their prudent management, is considered a top priority at larger hospices. (Jefferies 2003)

A common element of strategy for the top three for-profit hospice operations is rapid growth across the US. The hospice industry is in a period of dramatic growth and rapid expansion. All hospices are using the following three methods of expansion: 1) organic census growth in existing operations, 2) acquisitions, and 3) de novo operations.

Certification from Medicare is required to receive reimbursements from the government. Certification usually requires that a hospice be up and running for a period of several months, after which time Medicare will inspect the operation and certify the hospice. This, of course, means that a new hospice would have costs for several months with no income from Medicare, making the initial investment larger. To work around this issue, larger hospice operations make use of the stipulation that a hospice can operate within a 60 – mile radius of its certification. Thus, they use certified staff to establish hospices near the 60 – mile radius in order to operate under the other location's certification until the new operation can become certified. This insures consistent cash flow from Medicare. Once the new operation becomes certified, they can repeat the process to expand their operations into another 60-mile service area. Utilizing this process can cut the start-up costs for new hospices by up to 50%.

Promoting Hospice Care

The days of the hospice service provider maintaining a low profile in the health care industry appear to be over. Hospice providers are eager to generate general demand for their service by embarking on educational campaigns directed at referrers, patients and their families (VistaCare Press Release 2004).

The larger hospice operations are carving out room in their operational budgets to establish personal selling teams to call on the various referring entities (Chemed, VistaCare and Odyssey Annual Reports 2004). For example, in 2004, VistaCare created the new position of Vice President of Sales in their marketing department to further drive this critical aspect of their strategy. They increased their field sales organization and now have 135 directors of professional relationships and 21 site-level sales managers who all contribute to their marketing efforts. To date, they continue to aggressively recruit qualified candidates to aid (VistaCare Healthcare Inc. 2004).

As previously mentioned, another trend toward aggressive marketing strategies in the hospice industry is to establish partnerships with hospitals and retirement communities. When these partnerships are established, the for-profit hospice relies on hospitals and retirement communities to generate referrals to their company.

Ethical Concerns

The recent surge in growth of the for-profit hospices has stimulated growing concern about the practices of for-profit firms in a traditionally nonprofit industry. There appear to be two major concerns about the practices of the for-profits: admission and billing practices, and the appropriate use of resources in the care of patients. (Lindrooth and Weisbrod 2004)

Admission and Billing Practices

Virtually all of the for-profit hospices profess to admit any and all patients who apply, as long as they meet the requirements for payment via Medicare, Medicaid, or private sources. VistaCare openly touts their "Open Access Policy" in their marketing programs (VistaCare Annual Report 2004). Critics of for-profit hospices call attention to the fact that for-profit hospices aggressively pursue more profitable patients (i.e., patients who will likely have longer terms of stay, such as dementia patients), while creating subtle disincentives for less attractive patients (e.g., cancer patients) with very likely brief periods of stay (Koehn 2004).

Another admission practice that is being closely scrutinized is the tendency toward earlier admission. Since it is commonly understood that the longer the length of stay of a hospice patient, the more profitable the patient, hospice providers have been accused of disingenuously courting referrers for earlier admission than is appropriate. Indeed, there are cases of Medicare auditors chastising and penalizing hospices for inappropriate early admissions (Olson 2003). Hospitals and other healthcare providers are beginning to appreciate the positive financial impact of avoiding costly end-of-life activities at their institutions, and have been more open to early admissions by hospices (NHPCO 2001).

Care of Patients

A recent national study of 2,080 patients across 422 hospices concluded that terminally ill patients who receive end-of-life care from for-profit hospice providers receive a full range of services only half the time compared with patients treated by nonprofit hospice organizations. (Tokarski 2004) More specifically, patients at for-profit hospices received fewer types of non-core services, such as medications, personal care, and homemaker care. Differences were also found for core services. For example, families of patients receiving care from for-profit hospices received counseling services (e.g., bereavement counseling) only half as often (45%) as those in a nonprofit hospice. For their part, for-profit hospice operators point to the need to eliminate waste in the healthcare system, and point to their use of credible third-parties who assist them in determining their types and levels of services.

There are many anecdotes regarding patients receiving less than the dosage of painkiller they require (scrimping), or of caregivers who only stop briefly to visit a patient because they have too many other patients to call upon (resources being applied too thinly). (Olson 2003)

Conclusion

The hospice industry in the US has seen significant growth since 1982, and, in just the past year, has witnessed a good deal of consolidation driven by the for-profit players. Unfortunately, little academic research has been conducted on the marketing practices and challenges of this sector. As it grows in size and metamorphoses from its relatively low-key not-for-profit nature, to an increasingly for-profit industry with aggressive players seeking to grow through various means, its importance in the overall healthcare will become increasingly evident.

From both the managerial and public policy perspectives, the growth of the industry represents opportunities for interesting and productive streams of research into its growth patterns, changing marketing practices, and the efficiency and ethical aspects of these activities. There are several exciting areas of potential research in the hospice industry, given its unique pricing environment and the challenges of promoting services that most customers are not eager to ponder or discuss until the need is right upon them. The large, for-profit players in the industry are pioneering innovative methods for Customer Relationship Management (CRM) and the application of customer satisfaction research. (Chemed, Odyssey, VistaCare Annual Reports 2004) Personal selling is the primary method of the development of referrals, and there are opportunities to investigate the effectiveness of not only the marketing approaches, but the compensation schemes as well. In addition, there is ample opportunity for research into the development and marketing of new products and services in an industry where the customer base is shifting from mostly cancer patients to non-cancer patients with different needs and requirements.

Finally, due to the licensing requirements of the Medicare office, the bigger players in the hospice industry are employing a unique method of geographic expansion by deploying new units in contiguous areas. This provides a unique setting in which to investigate the relative effectiveness of distribution expansion strategies.

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