

# "STEERING" TO VALUE THROUGH TARGET PRICING

THERESA MONTI VICE PRESIDENT, TOTAL REWARDS

### The Kroger Co. Overview

- #23 on Fortune 500
- \$96.8 Billion Fiscal 2012 sales
- 2,419 supermarkets and multi-department stores
- 1195 fuel centers and 783 convenience stores
- 1950 pharmacies
- 326 fine jewelry stores
- 37 manufacturing plants

# Partnering with Communities

In partnership with our customers, associates and suppliers, Kroger donates more than \$250 million annually to food banks, schools

to food banks, schools and other community organizations.







### **Healthcare Objectives . . . Keep it Simple**

**Improve Health** 

- Engaged Associates
- Health Improvement Resources
- Right Treatment

**Reduce Costs** 

- Right Place
- High Quality/Cost Effective
- Programs to create cost awareness



### Strategy. . . Steer to Value

#### **Reference Based Pricing (Target Pricing)**

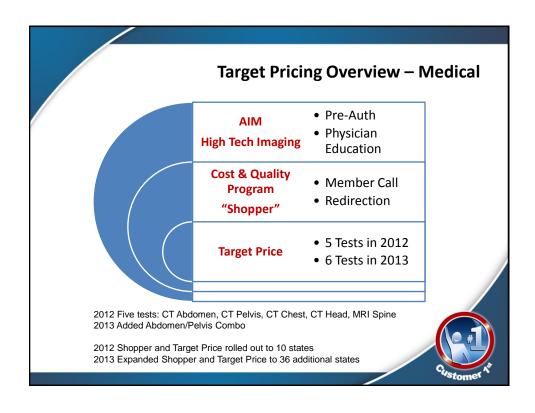


Educate associates on health care price variation by setting a maximum reimbursement amount for certain medications and imaging services which have high price variation and low quality variation (Statins, PPIs, Glucose Test Strips, ARBs, and select High Tech Imaging Tests)

#### **Centers of Excellence (COEs)**



Improve the quality of care and clinical outcomes for certain high cost, high impact elective non-emergent surgical procedures by using plan design to encourage members to use Top Tier COE facilities (hip and knee replacements and spinal fusion surgeries)



Target Pricing Results – Medical  Total 2012 Program Savings = \$3,000,000				
3Q 2013 YTD Program Savings = \$5,700,000				
Clinical Review Operational Activity	"Shopper" Cost & Quality Program	Target Pricing		
2012 Savings: \$1,400,000	2012 Savings: \$200,000	2012 Savings: \$1,400,000		
3Q 2013 YTD Savings: \$1,700,000	3Q 2013 YTD Savings: \$400,000	3Q 2013 YTD: \$3,600,000		
		Customer At		

# **Member Behavior Change - Medical**

Unit Cost Comparison Summary

The shopper, target pricing, and communication strategy together had a positive impact where implemented without any changes in covered services or clinical effectiveness.

10 Target	Imaging Test	Variance in Unit Cost from 2011 to 2013
Price States	All CT Scans	-11.9
Unit Cost	All MRI Scans	-11.7

All Other States **Unit Cost** 

Imaging Test	Variance in Unit Cost from 2011 to 2012	
All CT Scans	+14.2	
All MRI Scans	+2.6	



# **Member Behavior Change – Medical**

Unit Cost Comparison By Service

When looking at just those imaging tests subject to a target price, the unit cost analysis proves target pricing motivates the member to change behavior.

	Target Price Imaging Test	Variance in Unit Cost 2011 to 2013
10 Torgot	Chest CT	-24.4
10 Target Price	Head CT	-17.3
States	Abdomen CT	-32.1
Unit Cost	Pelvis CT	-8.6
	Spine MRI	-21.0

All Other States **Unit Cost** 

Imaging Test	Variance in Unit Cost 2011 and 2012	
Chest CT	-5.6	
Head CT	-24.0	
Abdomen CT	+13.7	
Pelvis CT	+1.6	
Spine MRI	-6.7	



# **Target Price Program – RX**

#### **Kroger Prescription Plans (PBM)**

- · Clinical expertise
- Comprehensive Services: Retail, Mail Order, & Specialty Medication

#### **Target Price Medications**

- Statins
- Proton Pump Inhibitors (PPIs)
- Blood Glucose Test Strips
- Angiotensin II Receptor Blockers (ARBs) (added 2013)

#### Pharmacist education and messaging

• Educate to cost effective alternatives





# **Target Pricing Results -- RX**

#### Savings (Company and Associates):

- 2012: \$4,300,000
- 2013 Q1 Q3: \$1,700,000

	Cost Impact	Utilization Impact
PPIs	-60%	-4%
Statins	-57%	+5.7%
Test Strips	-50%	-7%

Note: ARBs added 2013. Data not included above.



