

HEALTHIER CONSUMERS, CUSTOMERS AND COMMUNITIES: THE HANNAFORD DYNAMIC

Consider this scenario: Your company is part of a global retail group that operates successfully but with narrow margins. Your corporation is disciplined — it will allocate capital to operating companies in Europe, the United States or Asia based on return for shareholders. Your U.S. operation occupies a problematic position within the global group: Similar to your U.S. peers, you pay two to three times more for employee health benefits than your counterparts in other parts of the world. In fact, it is quite possible that, based on health benefit costs alone, there will be no business case for building even one additional store in the United States.

Hannaford Supermarkets — among the largest and most respected food retailers on the East Coast — faced this situation nearly 10 years ago. The company is part of the Delhaize Group, a global food retail leader with more than 137,000 associates worldwide, €19 billion (about \$29 billion) in annual revenue, and stores in Belgium, Greece, Romania, Indonesia and the United States. A reasonable question at the group level is: Why does health care cost so much

more in the U.S. than in any other industrialized country, and how can that cost be managed? Clearly, Hannaford needed to come up with a comprehensive, long-term strategy, not simply to shift more costs to employees, but to effectively *drive down* the cost — and raise the quality — of the health care its U.S. employees receive.

While this task might seem daunting, Hannaford has, over time, implemented a series of highly innovative initiatives based on what Peter Hayes, Associate Director of Associate Health and Wellness at Hannaford, describes as “the quality paradigm” — and the results have been dramatic. Hannaford’s health care spending over the past three years has dropped by 11% — while costs for most U.S. companies were rising — proof that the initiatives are paying real dividends. Moreover, even with benefits 10% less generous than the average *Fortune 25* company, Hannaford employees (called “associates”) are 7% more satisfied — and perception of the quality of their health care is a full 40% higher — than the average. As Hayes says, “Our strategy has translated into value for our associates, and value for us.”

The Hannaford strategy is built on the idea of approaching the system more like a marketplace: On the supply side, providers

compete with one another for consumers by demonstrating strict quality controls, efficiency of expenditure, and both quantitative and qualitative returns. The consumer side emphasizes transparency, standardization and a high level of engagement — encouraging Hannaford associates to be accountable for managing their own health.

To bring these concepts to life, Hannaford crafted cutting-edge initiatives on four key fronts:

- *Focusing on the quality paradigm* to achieve more competition and more collaboration among providers
- *Using “informatics”* to measure how the program is doing and point toward what it should do in the future
- *Building a culture of health* by putting health in employees’ — and customers’ — hands, engaging them through consumer education and information
- *Creating a new dynamic* — connecting employees, providers and customers in lower-cost, higher-quality, community-based health promotion and care.

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THE QUALITY PARADIGM: RIGHT CARE, RIGHT PLACE, RIGHT PRICE

Hannaford first turned to its employees for feedback on its current program, and some surprising insights emerged. Employees wanted to know why health care wasn’t like other types of insurance: A car owner who drives safely — avoiding accidents and tickets — pays lower premiums. Why should employees who eat right, exercise and avoid smoking pay the same premiums as less healthy coworkers? They also made it clear that, if pushed to choose “cheaper” health care, they would resist, but if given *objective* information and incentives, they would make quality and efficiency priorities in choosing providers and care.

Hannaford’s mantra for change became “right care, right place, right price,” focusing on the Hayes quality paradigm, with its emphasis on four requirements: *quality of care, efficiency, evidence-based medicine and cost control*. For example, only about 40% of community specialists are listed among Hannaford’s top-tier providers — those who post quality ratings and outcomes, and give the highest-quality care with the most efficient health care delivery. Plan

members who choose from top-tier providers receive a higher benefit, while Hannaford benefits by paying less. The top providers also share in positive results by earning more through pay-for-performance incentives.

“Overall, we think there’s a 20% to 30% savings opportunity,” says Hayes. “And we’re taking a gain-sharing approach to that opportunity. Plan members get a third, Hannaford gets a third, and we reinvest the remaining third in our top providers.”

TAKING THE MEASURE OF LOCAL PROVIDERS

Hannaford’s market-based approach has a global dimension and a simple principle. In the U.S., medical specialists make two to three times as much, on average, as their counterparts in other industrialized countries. When Hannaford suggested to its provider communities that U.S. providers should compete globally, they pushed back. In response, Hannaford took a bold step into “medical tourism.” So, for example, with hip replacements in the U.S. costing about \$40,000, Hannaford offers its associates the option of having the same procedure in Singapore, where patients receive higher-quality care, on average, than at local hospitals — for under \$10,000.

“With the aid of technology,” Hayes says, “the global market is really putting pressure on local delivery systems to be competitive.” In offering 100%-covered care in countries outside the U.S. (including travel and accommodation for the patient and a significant other) — with lower costs and, very often, higher quality — Hannaford embraced both a viable option for employees and a strong incentive for local providers (who had always counted on a “captive” population) to change. And that’s exactly what happened — many providers began offering competitive prices along with high quality. “In response to an international care option for specific procedures,” adds Hayes, “we’re also starting to see domestic tourism opportunities emerge, with health care centers organizing around efficient, quality care for specific health conditions or disease states.”

Other Hannaford initiatives encourage further cooperation on the part of local providers. For example, Hayes emphasizes the importance of “informatics” — lab values, medical data, prescription information, etc. — in understanding what’s working and what isn’t in a company’s health care

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programs. When community providers initially refused to provide the data either to patients or health care managers, Hannaford went to a nationwide lab, paid less and received results *overnight* that could be shared among patients and providers, as well as Hannaford’s data warehousing/predictive modeling function. From then on, Hannaford made a point of collaborating only with providers interested in and open to change, demonstrating to local health care providers that they needed to become competitive and meet quality standards in order to “recapture” Hannaford communities.

BUILDING A CULTURE OF HEALTH

Hannaford’s employees have embraced the increased control these initiatives give them in choosing their providers and managing their health. They can receive care in-state or abroad, and choose physicians based on the reviews and results integral to Hannaford’s consumer-driven programs and benefits. Hannaford associates are encouraged to take charge of their own health in other ways as well. For example, the company offers a healthy behavior credit, which discounts health plans for employees who make smart

life choices. As a result, employees have begun asking their doctors what they can do to become healthier, thus qualifying for the credit while improving their own health status.

Expanding the culture-of-health concept into other parts of the business, Hannaford partnered with professional nutritionists to develop an easy-to-use guide to the nutritional value of virtually every food sold in a grocery store. Called “Guiding Stars,” the program awards “good, better or best” stars to products on the grocery shelf based on qualities such as having more nutrients and less added salt or sugar. Foods that don’t meet an evaluation threshold do not receive stars.

The result: Shoppers can — at a glance — recognize the 20% to 25% of foods in the supermarket that merit a star based on nutritional value. The science-based standard applies equally to all foods, including Hannaford brands, so both customers and associates who engage with the system can quickly and easily make healthy choices as they shop, without agonizing over confusing or misleading nutrition labels.

The impact has been far-reaching. Within a year of the program’s inception, starred items were selling three to five times faster than other products, and Hannaford was pleased to hear that doctors were sending

their patients to Hannaford stores to buy “star foods.” What’s more, Hannaford suppliers are responding. Since only about a quarter of the products on Hannaford’s shelves qualified for one to three of the coveted Guiding Stars, some food companies began “reaching for the stars” by actually *reformulating their products* to make them more healthful, thus more marketable.

The culture of employee-driven, community-based health care represented by Guiding Stars resonates with Hannaford associates, too. Hayes describes the stars program, and similar tactics, as “teachable moments” — guiding associates to make practical, healthy changes on a daily basis. To market these initiatives, Hannaford has developed a poster campaign profiling real employees who have made important changes in their health and well-being. And consumer engagement indicators point toward continuing success: 70% of Hannaford associates participate in company-sponsored Personal Health Records (PHRs), and 95% take part in outreach programs and health risk appraisals (which come with a \$1,000-per-year premium discount).



LOOKING FORWARD: COMMUNITY-BASED HEALTH CARE

Briefly summarized, Hannaford's aim is to develop a culture of health and wellness, and establish itself as a "health destination" — spearheading a progressive, collaborative effort among associates, customers, providers and the larger community. The company's active interest in employee health is direct evidence that it cares about employee well-being, which is a key driver of employee engagement in the organization's mission and business success. "We think of health care not just as a cost, but as one of the best investments we can make in our company and our community," Hayes says.

Hannaford's dynamic, innovative approach has reduced health care costs and, over just a few years, dramatically reduced health risks. In the first year of the initiative, for example, 26% of associates were at risk for high cholesterol; in the following year, that figure dropped to 13%. Similarly, 20% of Hannaford associates were, at the outset, smokers; a year later, only 10% were. This

degree of employee and corporate responsibility is a source of pride to Hayes and his team. "Now we're building the first all-green supermarket in the country," he boasts, "and we're always striving to determine how to improve the health of our communities."

Looking ahead, there's still plenty to do. Hayes points out that most consumers still trust health care professionals more than they trust either their health plans or corporate America to give them objective information. "This is a community issue," he insists, "and requires finding common ground with providers: What we need to do is stop paying for units of service, and start paying for health and health status improvement. So the question is not, 'Will you accept lower fees?' but 'How do we improve health care?'"

Ultimately, Hayes wants to engage community partners in efforts to reduce overall U.S. health care costs from 18% to 10% of GDP — clearly a monumental task. But Hannaford already has shown that a global approach and the right incentives can create competition in U.S. health care and bring local providers to the table — to create "a new dynamic that keeps our people healthy and well, and drives our business model to success."

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