

Market Segmentation in the Commercial Payer Market: Rethinking Current Approaches

Background

In order to maximize the performance of their products in an evolving market, manufacturers seek to allocate resources differentially, targeting those payer accounts – particularly HMOs, PPOs, PBMs, SPPs, and other entities – that offer the greatest opportunities. To do this effectively, manufacturers must segment managed care accounts into groups, using reliable, easily observable criteria predictive of account behavior and performance. According to a more formal definition, “market segments consist of groups of people or organizations that are similar in terms of how they respond to a particular marketing mix or in other ways that are meaningful for marketing planning purposes.”[†]

Any segmentation initiative is designed to group accounts such that the members of a particular segment have more in common with one another than with members of other segments. This approach facilitates resource allocation in two ways. First, segments may be prioritized, based on the comparative size of the opportunity (or threat) represented. Second, tactical and communications initiatives can be tailored more efficiently to segments than to individual accounts.

Segmentation criteria can be either customer-based or product-based. Each approach has its own strengths and weakness. The customer (or organization)-based approach involves identifying specific organizational traits in ways meaningful for marketing purposes. A product-based approach focuses on specific product attributes, the importance assigned them by customers, and how they translate into customer usage or utilization. Both types of criteria can be helpful in segmenting commercial payers.

Historically, most manufacturers have attempted to segment their markets using simple customer-based criteria such as size. As a consequence, most organizations produce similar lists of their top accounts, thus eroding the strategic marketing value of their segmentation efforts.

Segmentation in Practice

The optimal approach should combine a high level of reliability with a high degree of actionability. The former requirement necessitates the use of criteria as free of bias and subjectivity as possible. The latter necessitates an approach easy to implement. Segmentation criteria (or “base variables”) should ultimately satisfy these three standards:

[†] Myers JH (1996). *Segmentation and Positioning for Strategic Marketing Decisions*. Chicago, IL: American Marketing Association, p. 16.



- ✓ *Objectivity.* Segmentation criteria should be measurable against a clear standard. An account is either in California, or it is not. There can be no debate. In contrast, classification of an account based on its degree of “control” is notoriously difficult, given both the subjective opinions of different observers, but also the differential control an account might apply to different categories.
- ✓ *Reliability.* Criteria should be reliable predictors of account behavior. Size, while interesting, is seldom predictive of how an account will behave. In contrast, specific markers – mandatory v. voluntary SPP use, for example – have more predictive power.
- ✓ *Variability.* The market of accounts must exhibit heterogeneity on any segmentation criterion. While “uses an SPP” may appear of interest, if more than 90% of accounts use an SPP, the criterion becomes less useful in discriminating on account from another. Similarly, while coinsurance might limit use, it remains comparatively uncommon.

Drawing on both primary research as well as additional research on injectables and biotech management, TZG segmentation projects group commercial payer accounts into segments based on specific criteria that satisfy these standards.

Product-Specific Segmentation Criteria

A review of market data, coverage policies, and other information sources, including primary research, will identify a variety of possible segmentation criteria. Some will be organization-based, in that they reflect different attributes or policies of a particular organization. Others can be understood as product-based, and reflect how an organization manages or uses a particular product. Several examples are listed below:

Customer-specific criteria	Product-specific criteria
✓ Review process (indication by indication v. class as a whole)	✓ Value assigned to specific indications
✓ Cost-sharing system/levels	✓ Product-specific PA rules
✓ Benefit classification	✓ Importance assigned to mode of administration
✓ MD reimbursement rates	✓ Importance assigned to outcomes evidence of cost savings
✓ MIP policy (mandatory v. voluntary)	✓ Value of multiple indications
✓ Rules governing infused therapies	✓ Importance assigned to product-specific dosing requirements

These potential segmentation criteria offer objectivity. Aetna’s PA rules for Xolair, for example, are clearly delineated, available online, and should not be the subject of debate.



The next step in choosing criteria involves evaluating their reliability. This process begins by framing a hypothesis and testing it, using available information. This exercise represents a critical piece of the process and facilitates the translation of market research findings into actionable marketing planning. Market research can estimate the variation in importance assigned by different accounts to different product attributes and benefit combinations, yet in many cases the findings don't immediately translate into observable segmentation criteria. For example, although data might suggest that 65% of accounts prefers subcutaneous to intravenous administration, identifying individual accounts on that basis will prove difficult, and will generally fail the objectivity test.

To address this, we try to uncover inferred relationships between research results and more easily observable and objective criteria. For example, it can be hypothesized that the mandatory use of a specialty pharmacy vendor (as part of a managed injectables program, or MIP) would limit the attractiveness of infused agents relative to self-administered therapies. In the event that data support this, then MIP policy (or SPP policy) can be assumed to be a useful segmentation criterion. It satisfies the reliability test – mandatory MIP policies disadvantage infused therapies – and available data suggest broad variability on the issue.

This approach will ensure that potential criteria are subjected to scrutiny in order to ensure their utility in grouping accounts into segments. Some samples follow:

Criterion	Objectivity	Reliability	Variability	Comment
MIP policy	High	High	High	High confidence and predictive value
Payer advocacy strength	Medium	Low	Medium	Uncertain predictive value and subjective bias problems
Importance of mode of admin	Low	Low	High	Difficult to identify accounts objectively
Competitive status	High	Medium	High	Variation in outcome may result from implementation
Coinsurance for non-preferred	High	High	Low	Coinsurance reduces use, but remains rare overall

(Note: sample only)

Other possible criteria include contract status, contract terms, PA rules, cost-share levels, dose limits, exclusivity, pre- and recertification periods, payer market share, annually out-of-pocket maximums, step-edits, physician reimbursement rates, infusion and/or administration fee levels, and so forth.

Selecting Segments and Developing Value Messages

The evaluation of candidate criteria generally yields a set of 4-7 segmentation bases with which accounts can be grouped. Once accounts have been assigned to specific segments, some preliminary descriptors are developed. At this point,



the commercial value of the each segment can be estimated. Finally, segments can then be prioritized, based on the size of the commercial opportunity, the strategic importance of the segment, or the magnitude of the threat of lost business.

The final step involves the development of segment-specific value messages. These will derive from the more general value message developed out of primary research, but will be refined to reflect the specific descriptors and value drivers of each individual segment.

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