

# Newspaper Advertising by Health Maintenance Organizations during the Reform of Healthcare Services in Israel

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## Abstract

**Background:** On 1 January 1995 a new mandatory National Health Insurance Law was enacted in Israel. The new law fostered competition among the four major Israeli healthcare providers (HMOs or sick funds) already operating in the market due to the possibility that an unlimited number of patients and the relative budget share would shift among the HMOs. This led them to launch advertising campaigns to attract new members.

**Objectives:** To examine newspaper advertising activities during the early stages of healthcare market reform in Israel.

**Methods:** Advertising efforts were reviewed during a study period of 24 months (July 1994 to June 1996). Advertisements were analyzed in terms of marketing strategy, costs and quality of information.

**Results:** During the study period 412 newspaper advertisements were collected. The total advertising costs by all HMOs was approximately US\$4 million in 1996 prices. Differences were found in marketing strategy, relative advertising costs, contents and priorities among the HMOs.

**Conclusions:** The content of HMOs' newspaper advertising was consistent with their marketing strategy. The messages met the criteria of persuasive advertising in that they cultivated interest in the HMOs but did not provide meaningful information about them. Future developments in this area should include consensus guidelines for advertising activities of HMOs in Israel, instruction concerning the content of messages, and standardization of criteria to report on HMO performance.

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Private health insurance systems manifest characteristics of a competitive market such as selective marketing and advertising. In contrast, public health insurance systems usually do not need to market their services since there is little, if any competition for clients.

Israel has a long tradition of social health insurance through not-for-profit health maintenance organizations (known in

HMOs = health maintenance organizations

Israel as sick funds). In 1995 this insurance was implemented through the National Health Insurance Law. The healthcare market prior to the new law created financial incentives for "cream skimming" by appealing to the young, the healthy and those with above-average income. The three relatively small HMOs, *Maccabi*, *Meuhedet* and *Leumit*, grew rapidly due to increased enrollment of young and relatively wealthy populations (together comprising about 30% of the market share).

In contrast, Kupat Holim Clalit, the largest HMO with 3.5 million members (70% market share), was much less selective in its marketing and enrollment strategy. Thus, it had the highest proportion of sick, elderly and low income members. The healthcare market became unstable and Israel was headed towards a two-class health care system [1]. The main features of the National Health Law enacted on January, 1 1999 are:

- Mandating compulsory health insurance and universal access to a defined basket of services.
- Free choice of health plan (members of an HMO may choose to transfer to any other on 1 January or 1 July each year).
- Dissolution of old political ties between healthcare providers and political parties.
- HMOs were also authorized to offer their members a "supplementary health insurance" that provides additional health services not included in the basic compulsory basket of health services.

The National Insurance Institute (social security) allocates the healthcare budget to HMOs on the basis of a capitation formula that compensates for age-related costs. This financing mechanism made the HMOs indifferent to the income levels of prospective members and therefore reduced the incentive for selective marketing. As a result, the four HMOs began to compete in the poor neighborhoods, among the elderly and among the minority populations (e.g., Arabs, Bedouins).

## Advertising by HMOs

Marketing and advertising foster the competition that drives a free market economy. While generally used to motivate purchase decisions, in the case of HMOs, marketing is used to encourage beneficiaries to become or remain members of the plan [2]. The subject of advertising as an avenue for competition among healthcare providers has been the subject of research only since the early 1980s [3]. In a highly competitive

atmosphere, medical care becomes just one more commodity to be bought and sold and is perceived in terms of competing interests or contractual arrangements more than in terms of cooperation and partnership [4]. A criticism frequently raised against advertising by not-for-profit healthcare organizations is that it is too expensive or is a waste of the valuable healthcare budget. It is evident that advertisements work against cost containment by contributing to the growth of administrative costs [5]. However, there is no evidence that such competition actually serves to restrain health expenditures or to restrain demand for health services [6].

The success of most HMOs depends, at least in part, on their ability to respond to the information needs of consumers [7]. Effective advertising is advertising that stresses:

- the importance of decision making in choosing a suitable health plan by the consumer
- the quality of coverage
- the empathy between the insurer and the insured.

Any of these three elements has the power to influence a client's decision to join a health organization [8]. However, most HMO advertising falls into the "persuasive advertising" category [6], which cultivates interest in a product but does not provide information about it [9].

It should be noted that the Israeli situation is unique in the western world in that it incorporates competition through advertising in the framework of a national health insurance law. In European countries health insurance laws have been in effect since the turn of the century and competition through advertising is prohibited. In contrast, in the United States there is unlimited competition among HMOs, but there is no national health insurance law. In Israel, research into the use of paid advertising as a means of promoting competition among health organizations is still in its infancy and there is only one published study on the competition between two hospitals [10].

The present study analyzes the newspaper advertising activity of the major healthcare providers in Israel during the period of the *de facto* nationalization of the healthcare service system. The aim of the study was to examine newspaper advertising activities during the early stages of healthcare market reform in Israel.

Three questions were addressed:

- What were the main priorities (strategies) for advertising expenditures of the four HMOs in Israel?
- What advertisement content did HMOs use?
- What lessons were learned and what changes are needed to provide better newspaper advertisements that meet the needs of the public?

## Methods

### Data collection

The three main daily newspapers in Israel (*Yediot Aharonot*, *Ma'ariv* and *Ha'aretz*) were surveyed for all advertisements placed by the four active HMOs in Israel between July 1994 and June 1996. All HMO advertisements during the relevant period were recorded, photocopied and compiled into a catalog. For each advertisement, the day of appearance, the newspaper in

which it appeared, the page of the paper on which it appeared, the size of the advertisement and the use of color in the advertisement were recorded. The number of members in each HMO and the number of transfers between the funds at each of the five occasions relevant to this study were provided by the National Insurance Institute.

Advertising efforts were reviewed during a study period of 24 months (July 1994 to June 1996), comprising the 6 months prior to the enactment of the National Health Insurance Law and 18 months after. This was the main period in which the HMOs concentrated their marketing efforts.

### Expenditures for advertising

The expenditures for newspaper advertising were evaluated according to a price list provided by the newspapers for January 1996 and represent direct advertising costs only. All prices are quoted in U.S. dollars. The exchange rate at the time of the study was \$1 = 3 New Israeli Shekels.

The cost estimates were based on standard criteria such as size, place in the newspaper, day of publication, and number of colors. Our estimates do not include indirect costs such as marketing research, production costs, advertising agency fees, the possible employment of marketing and advertising experts, etc. We also did not take into account possible discounts from the basic price lists that the HMOs may have received.

Additional financial parameters were used in order to provide more information on the HMOs' strategy in placing newspaper advertisements:

- The average cost of a single advertisement, defined as the total of advertising expenses incurred by each HMO, divided by the total number of advertisements.
- The amount of money spent on advertising for each new member, calculated by dividing the total amount of expenses for advertising during the study period by the number of additional members of each HMO (not including the natural internal growth of each HMO).
- The relative advertising expenditures per 100,000 existing members in each HMO, calculated for the representative month of July 1995 by dividing an HMO's total advertising expenses by the number of existing members in a given month. This parameter reflects the amount of money spent to retain existing members in the HMO.
- The relative expense for 100,000 members of the competitor HMOs, calculated by dividing the HMO's total advertising expenditures by the total number of members in the other three HMOs. This parameter reflects the amount of money spent to recruit new members from the other HMOs.

### Content of the advertisements

The research team consisted of five professionals from the fields of marketing, healthcare management and medicine. The team analyzed the contents of all advertisements and defined four major advertisement categories:

**General information.** These advertisements present information about the activities of the HMO, such as hours of clinic

operation, emergency facilities, "phone in" events on special topics, etc.

**Image.** These advertisements stress the advantages of one HMO over the others, without mentioning specific services or facilities (for example: "For years, survey after survey proves what any child knows; *Maccabi* is the best sick fund in Israel.")

**Information about supplementary insurance and additional services.** These ads present information about the acquisition of additional services that are not covered by the new law and supplementary insurance (for example, second opinions and medical insurance for travel abroad).

**Direct appeals to join an HMO.** These advertisements call on people to join an HMO without reference to competitors or comparisons with them (for example, "Until March 31, 1995 you have a chance to join the best sick fund in Israel").

Each advertisement was classified in one, and only one, category. Ads with additional elements that did not refer to the major category were classified according to the main message in the main category.

## Results

During the study period, a total of 412 newspaper advertisements were collected: 166 by *Maccabi*, 134 by *Kupat Holim Clalit*, 66 by *Meuhedet* and 46 by *Leumit*.

### Advertising expenditures and efforts

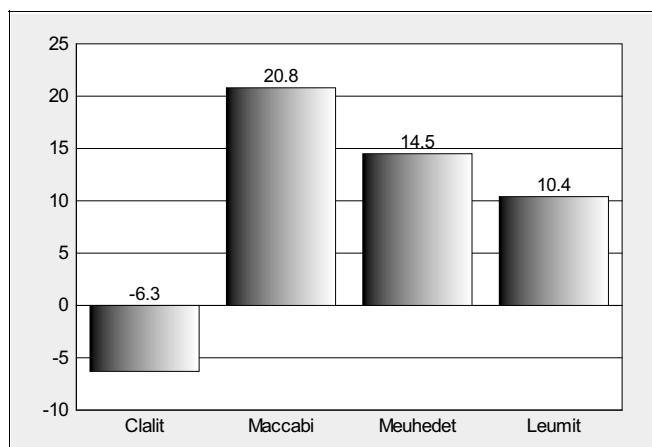
The total cost of newspaper advertisements by all HMOs was estimated to be 13 million shekels (approximately US \$4 million) in 1996 prices. *Maccabi*'s share was 39%, *Kupat Holim Clalit*'s 36%, *Meuhedet*'s 19%, and *Leumit*'s 6%. The mean cost per advertisement was *Meuhedet* \$12,350, *Clalit* \$11,650, *Maccabi* \$10,300, and *Leumit* \$5,300.

Each of the smaller HMOs spent \$10–21 dollars on advertising per new member, but *Clalit* had a negative expenditure value of \$–6.3 for each new enrollee. This figure reflects its negative membership enrollment due to shifting of members among the sick funds [Figure 1].

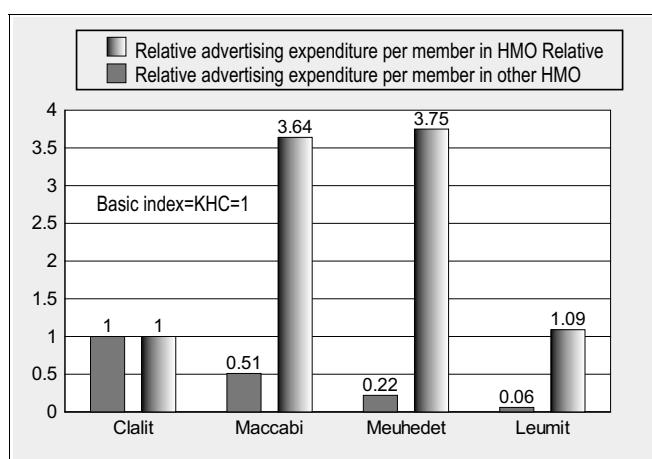
The advertising expenditure per 100,000 existing members in each HMO depicted in Figure 2 is relative to *Kupat Holim Clalit* (basic index = 1). *Meuhedet* and *Maccabi* spent 3.75 and 3.64 times more per capita, respectively, than *Clalit*, while *Leumit* had approximately the same expense rate as *Clalit* (1.09).

The relative expense for 100,000 members of the competing HMOs is also shown in Figure 2. The results are relative to *Clalit* (basic index = 1). *Clalit* spent twice as much as *Maccabi* (0.51) in order to attract new members from other HMOs, almost 5 times as much as *Meuhedet* (0.22), and more than 15 times as much as *Leumit* (0.06).

The three small HMOs expended greater resources for advertising in the first 12 months of the study period. In the second year smaller amounts were devoted to newspaper advertising. The major share of the advertisements appeared



**Figure 1.** Total newspaper advertising expenditure per recruited member in \$US (June 1995–June 1996)



**Figure 2.** Relative advertising expenditure per member in HMO

in March and September 1995, the final months of each of the two enrollment periods.

### Advertising contents and priorities

HMOs' advertising expenditures were divided among four major subjects: 33% on image advertising, 28% on advertising of supplementary insurance and additional services, 23% on provision of general information, and 16% on direct appeals to join an HMO.

Analysis of the relative expenses revealed different priorities for each HMO [Table 1]. Investment in image improvement either directly (through image advertising) or indirectly (by advertising general information) was the first priority of *Clalit*, *Meuhedet* and *Maccabi* (70%, 64% and 45%, respectively). In contrast, this was *Leumit*'s third priority, comprising only 8% of its advertising costs. Promotion of supplementary insurance was the first priority of *Leumit* (59%), the second priority of *Maccabi* (32%) and *Clalit* (27%), and the third priority of

**Table 1.** The content of HMO advertisements (%)

| Content                 | Relative expenditures |         |          |        |       |
|-------------------------|-----------------------|---------|----------|--------|-------|
|                         | Clalit                | Maccabi | Meuhedet | Leumit | Total |
| General information     | 35                    | 21      | 8        | 8      | 23    |
| Image                   | 35                    | 24      | 56       | 0      | 33    |
| Supplementary insurance | 27                    | 32      | 13       | 59     | 28    |
| Appeal to join          | 3                     | 23      | 23       | 33     | 16    |

Meuhedet (13%). Appeal to join the HMO was the second priority of Leumit (33%) and Meuhedet (23%), but only the third and last priority of Maccabi (23%) and Clalit (3%).

## Discussion

The new National Health Insurance Law created a *de facto* nationalization of the healthcare market in which every citizen is entitled to full health coverage and the freedom to choose a health plan. The prices and content of the "basket of health services" are dictated by the Minister of Health and the Minister of Finance, and HMOs are funded in accordance with a capitation formula that compensates for age. These new rules helped policy makers to foster more competition among the four health plans in Israel.

Before the enactment of the new law there was some concern about the possibility that large shifts in membership among HMOs could undermine some of their financial stability while endangering the level of quality in others. Recent findings from the JDC-Brookdale Institute survey [11] indicate that despite the fact that the vast majority of the population was aware of its right to transfer among HMOs, large shifts did not occur. In our study no correlation was found between the market share of HMOs and their respective share of newspaper advertising expenditures.

It seemed likely that the public would gain the impression that the new law abolished any real differences among the HMOs. Therefore, HMOs had to attract the attention of clients by advertising and providing higher quality and more accessible services. The aim of competition among the HMOs was to attract new members and avoid the transfer of existing members to other HMOs. This underpinned the difference in marketing and advertising strategies evidenced by the different priorities of the four HMOs.

Advertising activities in Israel are still in their infancy. The newspaper advertising campaigns of the four HMOs discussed here represent the different marketing approaches of these sick funds. Since the main measure of an HMO's success is enrollment growth, the three small HMOs employed a variety of marketing techniques to attract new members. In this business environment each of the four non-profit healthcare organizations tried to recruit members, at any cost, regardless of their income, age or health condition, mainly during January and June 1995 [Table 2].

The four HMOs competed with each other to sell additional healthcare services and "supplementary" health insurance,

**Table 2.** Newspaper advertising expenditures of the four HMOs for the study period (thousands of US\$)

|               | Clalit | Maccabi | Meuhedet | Leumit | Total |
|---------------|--------|---------|----------|--------|-------|
| July-Dec 1994 | 35     | 450     | 293      | 85     | 863   |
| Jan-June 1995 | 1,260  | 760     | 335      | 95     | 2,450 |
| July-Dec 1995 | 285    | 455     | 160      | 0      | 900   |
| Jan-June 1996 | 5      | 85      | 53       | 70     | 213   |
| Total         | 1,585  | 1750    | 841      | 250    | 4,426 |

which enabled them to attract more members, provide enlarged healthcare coverage, and guarantee extra income.

The contents of the HMO newspaper advertisements were consistent with the different marketing strategies of the HMOs. These messages met the criteria of persuasive advertising since they cultivated interest in the HMOs but did not provide meaningful information about them. None of the HMOs provided information needed by their consumers, such as cost, cost sharing, health performance, health promotion, or any relevant medical consequences.

In Kupat Holim Clalit there was some concern that the new health law would lead to a massive transfer of members to other HMOs, therefore Clalit invested mainly in advertising that stressed a new image for existing members. The same approach was seen in advertisements designed to sell additional health insurance. They published almost no advertisements targeting potential new members. In contrast, Maccabi and the other two smaller HMOs mainly aimed at attracting new members, by stressing their advantages over the other three HMOs in the additional health services and insurance coverage that they provide.

Clalit tried to improve its new image by informing the public through the newspaper advertisements of new opening hours and the provision of additional supplemental health services (at extra cost). Indeed, this strategy helped to improve its image in the eyes of the public. Maccabi and Leumit also made efforts in this direction, while Meuhedet did relatively little.

One goal of advertising healthcare services is to provide information that enables potential members to broaden their choices and to select the optimal alternative and the best available health facilities and services. Our analysis did not permit us to determine whether the contents of the newspaper advertisements provided potential members with the information needed to decide which health provider was best suited to their needs.

In Israel, no rules for HMO advertisements have been implemented and no guidelines have been adopted from a competitive, experienced and mature healthcare market such as the American, where Medicare and Medicaid HMOs must comply with national marketing guidelines [12]. As a consequence, total expenditure on advertising of all HMOs in Israel grew steadily following enactment of the law. The general expenses for marketing and advertising were \$23 million in 1995 and \$33 million in 1996. It is clear that this represents a waste of limited resources, considering that there is no limitation to the

allocation of funds for marketing and advertising within the budgets the HMOs receive under the new law. Health authorities have assumed that these expenditures not only did not contribute to the promotion of public health, but may have even added to the demand for health services. This led the Israeli government to decide toward the end of 1997 to pass legal limits to the total expenditure of HMOs for advertising and marketing. The limit was set at \$10 million, which is about 0.2 % of the general budget of the healthcare system. Our preliminary data suggest that following this administrative intervention the expenses on marketing and advertising decreased significantly. Moreover, a shift to advertising supplementary services that were not included in the basic basket of services (e.g., alternative medicine), as well as preventive medicine, was observed.

In conclusion, this study describes the newspaper advertising campaigns of the four non-profit HMOs in Israel during the early stages of implementation of a mandatory National Health Insurance Law. We found that the advertising expenses and content were in accordance with the position of the HMOs in the healthcare market. Most of the newspaper advertisements were in the category of persuasive advertising, promoting mainly the health plan's self-interests and not providing significant information needed by consumers to choose between health plans.

Future developments in the area of newspaper advertising efforts should include the establishment of consensus guidelines for advertising activities of HMOs in Israel, instruction concerning the content of messages (information), and standardization of criteria to report on HMO performance (e.g., standardized quality of care measures, cost, cost comparisons, benefit packages, choice of provider, customer satisfaction surveys, access to care). Further research is needed to define the information for Israeli consumers that will foster competition among the healthcare providers.

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