The Role of Patient Amenities in Hospital Demand

Hospitals have various dimensions along which they can differentiate themselves in order to compete against other area hospitals. One is clinical quality, as measured by patient outcomes. Another is their ability to offer the latest technology and equipment. A third is the amenities they offer to patients and their families.

Previous research has established that the first two factors affect patient demand for hospitals. In **Hospitals as Hotels: The Role of Patient Amenities in Hospital Demand** (NBER Working Paper 14619), researchers **Dana Goldman** and **John Romley** provide the first systematic evidence on the role of amenities in hospital demand.

Anecdotal evidence suggests that many hospitals are investing in patient amenities and promoting them to prospective patients. Hospitals increasingly offer perks such as wireless internet access and on-demand video entertainment, and some have introduced hotel-like amenities including room service style dining, massage therapy, and lobbies outfitted with fireplaces and a concierge. Some hospitals have even recruited executives who formerly worked in luxury hotels to direct their hospitality programs.

To learn whether patients respond to amenities such as these when deciding where to seek care, the authors study the hospital choices of nearly 9,000 pneumonia patients with traditional Medicare who were treated at Los Angeles area hospitals in 2002. These patients are a convenient group to study. They generally have the opportunity to consider where they would like to be treated, unlike some other patients (for example, those with HMO coverage or acute conditions such as heart attacks). They should care about clinical quality as well as amenities, since clinical quality has been shown to influence pneumonia mortality outcomes; in fact, the risk-adjusted pneumonia mortality rate at hospitals used by these patients ranges considerably, from a low of 7 percent to a high of 20 percent. Finally, since Medicare covers almost all of the cost of these patients' hospitalizations, the authors can safely ignore differences in hospital pricing in their analysis.

The authors' measure of amenities, which comes from a marketing research survey, is the percentage of survey respondents in the area who named each hospital their first choice for best amenities. To control for clinical quality, the authors include pneumonia mortality rates in their analysis; while these data were not publicly available at this time, the authors argue that patients nonetheless may be reasonably well informed about clinical quality from their doctors, friends, and family. They also control for the distance between the hospital and the patient's zip code, as this is another important determinant of hospital choice.

Turning to the results, the authors find that amenities have a positive and substantial effect on hospital choice. Interestingly, the effect of amenities is much larger than that of clinical quality. The authors estimate that a one-standard-deviation increase in the amenities measure raises a hospital's demand by 38 percent, while a similar increase in the clinical quality measure raises demand by only 13 percent.

These findings imply that hospitals may have an incentive to compete in patient amenities, which has potentially important implications for welfare. Hospitals can poach business from other hospitals by investing in better amenities, so to the extent that hospitals ignore the losses suffered by other hospitals when deciding how much to spend on amenities, they will over-invest from society's point of view. On the other hand, if hospitals are not able to appropriate the full value of the amenities to patients, then they will under-invest.

As the authors note, under Medicare's prospective payment system, reimbursement for medical services and amenities are bundled, making the system neutral with respect to the trade-off between clinical quality and amenities. Under such a system, hospitals' decisions to invest in clinical quality vs. amenities will depend on their own private costs and benefits. However, the authors conclude "as the Centers for Medicare and Medicaid services increasingly pursue 'value-based purchasing,' the social benefits and costs of amenities and clinical quality, and the provision of each in market equilibrium, become all the more important. These are worthwhile directions for future research."

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