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The Future of Health Is More, Better, Cheaper

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BY VAUGHN KAUFFMAN AND TRINE TSOUDEROS

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Healthcare, like so many other industries these days, is being democratized. A survey published in April 2014 by PwC's Health Research Institute (HRI) found that many consumers are willing to abandon traditional care venues for more affordable and convenient alternatives. Nearly one in two survey respondents said they would choose at-home or retail options for more than a dozen medical conditions or procedures such as self-diagnosing strep throat or administering chemotherapy. Kits already exist that enable people to test themselves for HIV. Respondents between the ages of 35 and 54 were very likely to opt for these types of affordable alternatives, as were those who indicated that their healthcare expenses had put a strain on family finances. As individuals are required to foot more of the bill for medical care through high-deductible or cost-sharing health plans, insurance exchanges, the

popularity of these options will only rise.

Within a decade, the health business will look and feel much more like other consumer-oriented, technology-enabled industries. It will have its own Amazon-style, iconic brands—companies that give consumers an easy way to access information, doctors, and treatments; provide them with a variety of services and products at a variety of prices; and centralize their care through user-friendly interfaces. And thanks to this growing trend, plenty of entrants into the market would like nothing better than to upend the old model of care, empowering consumers while taking some of the industry's annual US\$2.9 trillion market for themselves.

These new players will further propel the democratization and decentralization of the healthcare industry. Incumbents such as established pharmaceutical companies and health insurance firms, in turn, will face critical decisions. How should they compete with emerging players? Should they forgo competition and instead partner with them? This much is clear: Incumbents cannot continue to do business as usual.

Healthcare for the People

In 2013, 24 of the top 50 Fortune 500 companies were new entrants into healthcare. Of this group, seven were retailers and eight were technology and telecommunications companies. Both types arrived on the health scene boasting deep relationships with millions of customers and rich databases of information. There were even two automakers on the list: General Motors and Ford. The latter company is developing services to help drivers with chronic



conditions manage their health while they're behind the wheel. And at a time when venture capital investment in the life sciences is down, money is pouring into startups targeting digital health, price transparency, workflow, electronic medical record systems, and population health management.

Many of the products and services these entrants are developing are available now, or will be soon. Consumers can already access online services to evaluate digital photos of rashes, moles, and skin conditions, or to connect with a physician quickly and for a flat fee. CellScope's Oto, a smartphone accessory that captures digital images of the ear canal, went on the market at the end of 2014 at \$79 for home users and \$299 for medical professionals. Scanadu—developers of the Scanadu Scout, a *Star Trek*-inspired vital sign “tricorder”—hope the device will soon have a place next to the

thermometer in the family medicine cabinet. The company is currently testing it.

Some companies are taking established products that previously had nothing to do with healthcare and developing new and unexpected uses for them. Samsung's Galaxy S5 smartphone, released last year, includes a built-in heart rate monitor. In November 2013, Time Warner Cable Business Class announced a "virtual visit" experiment in partnership with the Cleveland Clinic in which caregivers interacted with patients through their televisions, using secure video technology. Other entrants have figured out that collaboration is an even faster route

data from fitness trackers to Walgreens in exchange for points that can be used like cash to purchase many products in the company's stores and on its website.

New Life for Old Players

With all these changes, it may seem that established healthcare companies risk becoming obsolete. But if they take the time now to make necessary adjustments, they can position themselves to compete—or collaborate—with these new players. After all, incumbents already have an advantage: They know the industry better than companies from other sectors, and they know the stakeholders, the regulatory

nies, many of which view insurance companies as their primary customers, must also move from a B2B model to one that includes the consumer. In this type of business-to-consumer-to-business (B2C2B) model, companies retrieve health app data from consumers and use it to personalize experiences and care, and create better products and services. To develop these models, they'll need to evaluate their service offerings and operating models. They'll also have to experiment and innovate proactively, and not as a reaction to a revenue dip.

Competing online is critical to all these moves. This means developing efficient, affordable ways to deliver care to consumers' digital devices while answering regulatory, privacy, and security concerns. To mitigate some of the complexity, companies could enter the market through the wellness and fitness categories. Consumers tend to pay out of pocket for goods and services such as personal health tracking devices, which has the added advantage of being relatively free of regulation.

Integration and accessibility of data are keys to success online. Skeptics point out that an à la carte medical system, in which patients access care at a variety of locations, will undermine efforts to integrate care if data is not readily available to all caregivers. Retail clinics have been criticized by some physician groups, which cite lack of access to information about patients and impeded continuity of care. And customers have not yet embraced the concept of universally accessible personal health records. Successful companies will find a way to combine all this information into a resource consumers want to use. (See "What Self-Made Billionaires Do Best," by John Sviok-

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to innovation that will attract consumers' attention: AT&T opened its mHealth platform to developers in 2012, with the aim of becoming the go-to creator of future game-changing apps.

In some cases, these companies are looking for a hefty slice of the \$2.9 trillion sick-care or \$267 billion wellness pies. In others, they hope to woo customers to other parts of their business with high-quality, affordable healthcare, perhaps enticing them to visit their stores or websites more frequently or for more time. Yet another group views the changing healthcare landscape as an opportunity to develop low-cost, DIY, or retail solutions for certain types of care, or as a hook to gather valuable data that can be monetized into insights or ad sales. For example, more than 1 million customers transmit

challenges, and the payment systems. They now have to use this knowledge in fresh ways.

Understanding the needs and wants of the consumer is a good place to start. As healthcare exchanges and new competitors offer customers more choices, healthcare companies need to differentiate themselves by providing customer experiences that earn loyalty and trust. Patients will abandon companies that can't deliver care on their terms. Incumbents should create new options for access, information, and products and services. They should consider making operating hours more convenient for customers, making clinicians available via digital devices, and making pricing and quality as transparent as possible.

Traditional healthcare compa-

la and Mitch Cohen, *s+b*, Spring 2015, for a profile of Judith Faulkner, founder of Epic Systems.)

Teaming Up

Success in the new healthcare environment will require inside knowledge of the complexities of the fragmented healthcare system, technological prowess, and strong ties to consumers. Because few organizations possess all these characteristics, both incumbents and entrants may find that partnering with one another, and taking advantage of one another's capabilities, is the best way to navigate the market.

can develop novel ways to add value by partnering with entrants that are targeting patients with specific diseases or conditions.

Healthcare incumbents are also experienced in the unique challenges of the industry. One big barrier to change is the third-party payment system, which doesn't exist in any other sector. Newcomers need to understand the interactions and roles among insurers, pharmaceutical and life sciences companies, providers, manufacturers, and patients.

Perhaps the biggest challenge in this transformation of the healthcare industry is that the digital world

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New players have several advantages in customer engagement. They may have access to large, diverse, and valuable customer segments where incumbents have yet to make an impact. And these entrants also have the platforms that enable them to interact with people more often and more meaningfully than traditional healthcare companies—and usually with a higher degree of customer loyalty. They're also better at using data analytics to determine what customers really want, even down to the individual level, making the experience better for consumers each time they use the service.

Upstarts can also benefit from smart alliances. As partners, traditional healthcare companies can serve as guides to the regulatory and payment maze. Pharmaceutical and life sciences companies, for example,

has trained consumers to believe they don't need to pay much for many online services, such as content and social media. Companies old and new will need to be creative in designing business models that draw people to pay for value. And ultimately, the consumer wins in this scenario—with the emergence of a marketplace filled with more, better, and cheaper options. +

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Vaughn Kauffman

vaughn.a.kauffman@us.pwc.com

is a principal with PwC's health industries advisory practice, and is based in Cleveland.

Trine Tsouderos

trine.k.tsouderos@us.pwc.com

is a director of PwC's Health Research Institute, and is based in Chicago.

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