



New Health Economy

Health Research Institute (HRI)

The healthcare industry has been slow to deliver customer-centered value. But the ground is shifting rapidly.

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For decades, American consumers, policymakers, business leaders and healthcare professionals have experienced repeated, costly, contradictions in our \$2.8 trillion fragmented system of care. Put simply, we have not gotten our money's worth.

Despite breathtaking scientific achievements, the United States has a mixed record of health outcomes. Insurance coverage is expanding but millions still lack basic care. Unnecessary procedures and administrative waste account for more than a third of spending.¹ Productivity gains have been modest as misaligned financial incentives have rewarded inefficiency. And the purchasers of care have no easy way to compare prices or measure the value of services they buy.

But the ground is shifting rapidly, giving way to what we call the “New Health Economy™.”

Technological advances, empowered consumers, disruptive new entrants, and rising demand by an aging population are ushering in a new era in healthcare. While many of those trends have been emerging for some time, never before have they been accompanied by a rapid shift in dollars, triggering major changes in behavior and fundamentally altering the business.

Today healthcare revenue flows from government and employers through third-party payers, insulating consumers from true costs. In the future, purchasers—government, employers and individuals—will direct

payment to the entities providing the best value, whether it is a clinical team or a sporting goods company, a nutrition counselor or a website.

In the New Health Economy, “patients” will be “consumers” first, with both the freedom and responsibility that come with making more decisions and spending their own money. These consumers will demand a continuum of well-being, rewarding the trusted advisers that can help achieve that.

In the New Health Economy, the mere collection of data will be replaced with lightning-fast analysis delivered directly to a care team that anticipates problems before they arise. Individuals will be co-creators of their health decisions, spending more of their discretionary dollars on tools that help them live well.

In reality, the revenue opportunity in the New Health Economy is much greater than \$2.8 trillion, though many more players will be fighting for their share. In one survey by PwC’s Health Research Institute (HRI), consumers indicated they are willing to spend collectively up to \$13.6 billion a year of their own money on medical products such as health-related video games and ratings services.² At the same time, HRI estimates the ancillary health market of

products and services such as personal trainers, mobile apps and vitamins generates an additional \$267 billion.

Care delivery, following the move from inpatient to outpatient services, will inch ever closer to the home via retail businesses, remote monitoring and mobile devices. For incumbent health companies, the emergence of these popular technologies presents a central challenge: to partner or compete?

Successful organizations will squeeze out administrative waste, improve the health of entire communities, reduce costly errors, better manage chronic conditions, understand consumer preferences or develop targeted therapies with proven advantages for a given patient group. Transparency in cost and quality will fuel these developments.

The New Health Economy represents the most significant re-engineering of our health system since employers began covering workers in the 1930s. It goes beyond the recent period of convergence in which business roles blurred. Yes, siloes are coming down as providers, insurers and life sciences companies begin to coalesce around the pressure to demonstrate value. But in the New Health Economy, as the money flows from consumers to new players, today’s siloed disease treatment industry will be replaced by a wide open health marketplace.

1 Donald M. Berwick, Andrew D. Hackbarth; Eliminating Waste in US Health Care. The Journal of the American Medical Association. 2012 Apr; 307(14):1513-1516.

2 PwC Health Research Institute. The new gold rush: prospectors are hoping to mine opportunities from the health industry, 2011.

Change with the swipe of a finger



Remember the days of having no other option than getting in the car and driving around in search of that must-have item?

Today, consumers have a choice: the easy swipe of a finger and a package at the front door. Mobile devices, sophisticated customer segmentation and demands for convenience and transparency gave birth to new winners in industries such as publishing, entertainment, travel and banking. Money followed the innovators.

Many of the incumbents in those industries took notice too late. Now the shakeup is coming to healthcare and the sector is moving toward the traditional economic principles that govern other industries. Market forces such as robust competition, revenue based on results, and the notion that the customer is king, will play a greater role in the health and wellness space.

Venture capital firms, a leading indicator of economic trends, have diverted their healthcare dollars. Since 2007, investment in medical devices has fallen 40% while software start-ups experienced a 75% increase.³

Employers, as major purchasers of care, will continue to drive change. Successful health businesses of the future will tailor strategies to this influential customer. In recent surveys, 44% of employers indicated they are considering offering only high-deductible health plans, while 45% are contemplating moving to a private insurance exchange.^{4,5} Defined contribution plans will likely follow.

³ PricewaterhouseCoopers/National Venture Capital Association MoneyTree™ Report, Data: Thomson Reuters

⁴ PwC 2013 Health and Well-Being Touchstone Survey (large employer > 1,000 employees, small employer <1,000 employees).

⁵ Private Exchange Employer Survey Findings, Private Exchange Evaluation Collaborative, December 2013.

Combined with the 51 public exchanges created by the Affordable Care Act, health insurance marketplaces signal a major change in the industry business model from today's B-to-B environment to a retail-style B-to-C approach.

Next-generation health companies will need different skill sets and investments. Core competencies must evolve to take advantage of technological advances, delivering better clinical outcomes and improving the overall customer experience. Organizations must have the courage and agility to fail frequently on their way to success, perhaps via pilots, incubators, crowd sourcing or computer modeling. Expertise in unconventional areas such as behavior change and social media take on greater importance in the New Health Economy.

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Many of today's health companies have begun the journey, refashioning care delivery, tapping into Big Data, taking on more risk and forging unconventional alliances. Consider the number of insurance companies that have invested in major analytics divisions, physician group practices, affordable housing, and healthy food programs.

“We believe in this time of incredible change across the industry that a diversified portfolio matters,”

Aetna CEO Mark Bertolini said in describing his strategy of broadening the insurer's offerings to compete in the changing landscape.⁶

Drug companies are pursuing relationships with universities, patient groups, the makers of remote sensors and computers all with an eye toward faster, cheaper discoveries and proven value for cost-conscious purchasers.

The lines are already blurred. Health systems are securing insurance licenses. A telephone giant advertises its role in treating sick children in India and the Philippines. And drugstores are pushing deeper into care delivery.

Walgreens, for example, sells immunizations, infusion therapy, cholesterol screening and counseling for chronic conditions. The company posts prices publicly and tracks the habits of 74 million customers through a rewards program. It has formed a partnership with a lab business, aligned with nearly 200 well-known health systems, bought an online prescription company and expanded internationally through two major alliances.

These innovators—some incumbents, some newcomers and some hybrids—are sketching out the contours of the New Health Economy.

In the coming months, we will detail our vision for this new era in a series of reports. We'll calculate the revenue opportunities, illuminate the danger zones and offer practical guidance as businesses navigate a value-based, customer-centric, data-driven world. The first installment, included here, is a look at the new entrants, a cast of retail and telecommunications companies seeking first-mover advantage in the New Health Economy.

⁶ Aetna CEO Mark Bertolini speech, JP Morgan Healthcare Conference, Jan. 15, 2014.