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Healthcare Is No Longer Too Complicated to Disrupt

New Competition Is in Town

The healthcare industry is ripe for disruption. Many healthcare execs are focusing on incremental initiatives rather than a big picture strategy; all the while, tech industry giants Amazon, Microsoft, Apple and Google are heavily investing in healthcare. We can address this new and different threat, but it requires stepping back and re-visioning our every day in healthcare.

Ask almost any healthcare executive what his or her company is doing to avoid being disrupted, and most will speak to worthwhile initiatives on topics such as consumer-centered care, addressing the social determinants of health, simplifying operations, and aligning incentives through value-based care.

Such initiatives are important and have the potential to transform healthcare, but most companies are pursuing them incrementally. Pilots and tweaks are insufficient to retain patients in a healthcare system that needs more radical improvement. This familiar set of interventions may help companies keep pace with their traditional competitors, who likely are working on similar projects. But addressed in this manner, they won't bring the fundamental, strategic change required to head off the real long-term threat: tech giants such as Amazon, Apple, Google and Microsoft, who do have their sights set on more ambitious changes.

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No doubt, you've already heard about new entrants wanting to disrupt healthcare — but many healthcare executives feel the risk is abstract, rather than one to address each day. After all, numerous companies from other industries have tried and failed to have an impact on a sector as complex and resistant

to change as healthcare.[1] Google and Microsoft both famously abandoned early forays.

And there are also plenty of pressing reasons to put the threat from Silicon Valley on the back burner. Health industry insiders understand the unique challenges and pitfalls of our current models for healthcare finance and delivery. We recognize the challenge of misaligned incentives, complex data, and underdeveloped infrastructures. We know how difficult it is to improve the quality and convenience of care, despite the dedication we see from those who serve consumers and work to make the system better every day. What's more, years of trying to achieve system-wide changes has led to a pervasive weariness and cynicism about the possibility of improvement. Those who remain determined to do more often feel under-prepared or unempowered. Sometimes there is even a righteous, warrior-like pride in being too busy for pie-in-the sky notions of disruption.

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A new and different threat

But this threat from the tech giants is new and different. We have not seen this movie before. Amazon, Apple, Google, and Microsoft are the four most valuable companies in the world, with a combined market capitalization of $3.2 trillion. They have $519 billion in cash lying around, to buy or develop technology, acquire market-leading companies and hire some of the brightest leaders in healthcare. Our economy has never had concentration of wealth like this before, and these companies possess an even more monumental advantage: their hold on consumers' allegiance. No companies, with the possible exception of Facebook, have ever embedded themselves in the daily lives of so many people as successfully as these behemoths.[2] Here's a recap:

We buy from Amazon. According to one recent poll, nearly two-thirds of Americans have purchased something from Amazon, and 40 percent buy something every month. A staggering 64 percent of Americans voluntarily pay $99 a year for Amazon Prime to get access to free shipping, content, and other benefits. Amazon has earned this trust. The company is ruthless about customer service, and for its willingness to make massive investments for long-term dominance, quarterly results be damned! This $232 billion-a-year giant grew a sprightly 31 percent in 2018, and its formidable position in artificial intelligence and cloud computing bode well for its future.

We give our information to Google. Americans may be getting more concerned about privacy, but we still share immense amounts of priceless personal information with Alphabet, the parent company of Google and YouTube. Americans used Google for searching 90 percent of the time in the last year, and nearly three quarters of Americans reported using YouTube in 2017. The Google Chrome browser is the market share leader with 68 percent,[3] and Android powers 55% of mobile devices in the US.[4] It's not unreasonable to argue, as many experts have, that Google knows many Americans better than they know themselves.

Microsoft works. Guess what? The company that not so long ago looked to be a has-been is currently swap-

1 Christensen, Clayton, Andrew Waldeck, and Rebecca Fogg. "How Disruptive Innovation Can Finally Revolutionize Healthcare." Innosight.com. Spring 2017. https://www.innosight.com/wp-content/uploads/2017/05/How-Disruption-Can-Finally-Revolutionize-Healthcare-final.pdf

2 Taplin, Jonathan. "Is It Time to Break Up Google?" The New York Times. April 22, 2017. Accessed March 11, 2019. https://www.nytimes.com/2017/04/22/opinion/sunday/is-it-time-to-break-up-google.html

3 "Desktop Internet Browser Market Share 2018 | Statistic." Statista. January 2019. Accessed March 11, 2019. https://www.statista.com/statistics/544400/market-share-of-internet-browsers-desktop/

4 "Mobile OS Market Share in the U.S. 2018." Statista. March 2019. Accessed March 11, 2019. https://www.statista.com/statistics/266572/market-share-held-by-smartphone-platforms-in-the-united-states/

ping slots with Apple and Amazon to be the world's most valuable company. It dominates the PC market, with more than 83 percent of desktop PC operating systems, and more than 120 million business people use its Office 365. But what's really driving the stock is its lock on the corporate technology market, particularly how it went from nowhere in cloud computing to a strong, rapidly growing No. 2 to Amazon's AWS division. Under CEO Satya Nadella, this long-time monopolist has proven it can indeed alter its ways and lead in a fast-changing world.

Apple creates an experience. It may feel like it's been a while since Apple came out with an amazing new invention, but its hold on Americans – particularly more affluent Americans – is miraculous. Despite high sticker prices, Apple had 44%[5] market share of mobile devices with Americans, and the company is focusing on selling more services to its massive installed base of 189 million users worldwide. That could include entertainment, payment processing and health monitoring. Apple is one of the most profitable companies in the history of the world and the first to reach a $1 trillion market value.[6]

When it comes to disrupting hidebound industries, these companies don't need any help.

Large healthcare payers and providers spend millions of dollars trying to capture a fraction of the attention that many of us willingly give to these tech giants. They have access to information on where we go, what we buy, what we watch, who we spend time with, and what we want to know or understand.

Needless to say, this positioning adds up to huge advantages for these giants, each with large initiatives – if not whole subsidiaries – dedicated to their efforts in healthcare.

When it comes to disrupting hidebound industries, these companies don't need any help. Back in the day, Microsoft had to be broken up because of its ability to use its monopoly power to win large swaths of the business software market, not to mention the browser war with Netscape. After digitally transforming the music business with the iPod, Apple's Steve Jobs waltzed into the communications business – like healthcare, a highly regulated, multi-channel industry – and revolutionized not only what a mobile phone is, but how they are sold and financed. While Google's track record at "moonshots" is mixed, the parent company, Alphabet, is investing heavily in healthcare, with its subsidiary company, Verily, dedicated entirely to the industry.

And Amazon may be the greatest threat of all. CEO Jeff Bezos started out in books and then methodically disproved skeptics as Amazon moved into every conceivable retail market, from office supplies to bathroom faucets. Amazon Web Services (AWS), a cloud-based information services and storage platform, has disrupted the commercial technology business by giving companies – including healthcare companies – a totally new way to run their IT operations. Amazon's most visible healthcare project is a partnership with JP Morgan Chase and Berkshire Hathaway, formed to address the healthcare needs of the three companies' employees. While this initiative does indeed have the power, scale, and funding to disrupt healthcare, it also could serve as a diversion. When Amazon sells new services to consumers, disrupting entire industries, they typically don't announce it in advance; they just start doing it. Many mistakenly consider Amazon to be a virtual company, but the giant could acquire brick-and-mortar assets quickly by purchasing any number of retail chains, such as Target.

It's wishful thinking to believe these companies will just go away. At their massive size, they need huge new markets to continue growing, and healthcare spending at 17.9% of GDP fits that bill.[7] With no legacy business

5 "Mobile Vendor Market Share United States Of America." StatCounter Global Stats. March 2019. Accessed March 11, 2019. http://gs.statcounter.com/vendor-market-share/mobile/united-states-of-america

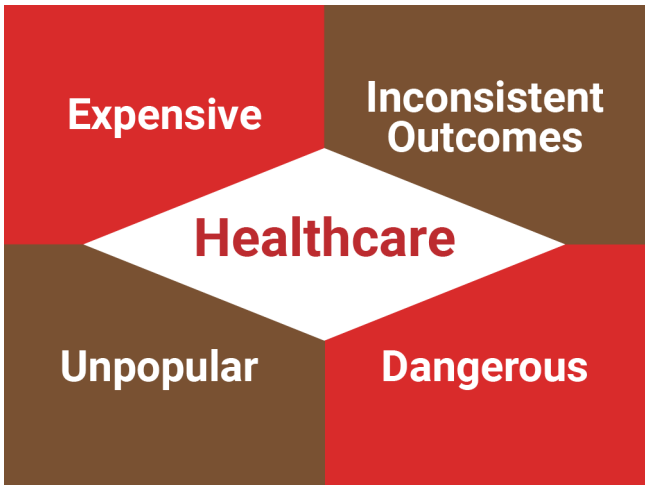
6 Gurman, Mark. "Apple Becomes First U.S. Company to Hit $1 Trillion Value." Bloomberg.com. August 2, 2018. Accessed March 11, 2019. https://www.bloomberg.com/news/articles/2018-08-02/apple-becomes-first-u-s-company-to-hit-1-trillion-market-value

7 "National Health Accounts Historical." CMS.gov Centers for Medicare & Medicaid Services. December 11, 2018. Accessed March 11, 2019.

models to protect, these giants can cherry-pick market segments with lower regulatory obstacles and move as aggressively as they want once they figure out solutions that offer better care at lower prices.

How outsiders see healthcare

As many of us have learned over dinner parties and chance encounters, those outside the industry are tired of hearing about the longtime obstacles that have stood in the way of a more efficient, effective healthcare system. They see a system that is expensive, produces inconsistent outcomes, is sometimes downright dangerous, and is extremely unpopular. That's a pretty enticing starting point, if you're in the disruption business. Let's take a closer look:



How people perceive healthcare

Expensive. Healthcare conferences twenty years ago all included a slide charting the unsustainable cost curve for healthcare in the US, and yet the curve continues. As a system we have failed to address the cost crisis. In 2017, the United States spent more than $10,200 per person on healthcare, while the average cost of other comparable countries is only $5,280 per person.[8] We know that 11% of Americans still go without health insurance, and that 15.5% of those with coverage have skipped or delayed care due to costs. Close to half of people in fair or poor health (46.4%) are uninsured or still face affordability challenges with the coverage they have.[9] Simply put, our healthcare costs too much and we don't see any economic relief in sight.

Inconsistent Outcomes. We rightly marvel at improvements in treatment for life-threatening/life-altering diseases. When we have access to coverage and care, Americans enjoy many of the greatest advances in healthcare. In our current system these benefits are not universally experienced, and so they have limited impact on the day-to-day lives of many Americans. When compared to ten other industrialized countries, the US ranks last in performance on access, equity, and healthcare outcomes.[10] Access to effective healthcare also varies across the US population. People of color, those living on low household incomes, and those living in rural areas face more health challenges as well as more barriers to timely and effective healthcare.[11] That's a lot of people. For all that we're spending, we don't seem to be getting our money's worth.

Dangerous. Healthcare in the US isn't only expensive and inconsistently accessible, it can also be downright dangerous. Most of us have stories of our own or about someone close to us who has either been directly harmed due to a healthcare error, or who narrowly averted a crisis. Medical errors are estimated to be the third leading cause of death in the US, representing 10% of all deaths.[12] These errors don't usually reflect bad decisions

https://www.cms.gov/research-statistics-data-and-systems/statistics-trends-and-reports/nationalhealthexpenddata/nationalhealthaccountshistorical.html

8 Sawyer, Bradley, Cynthia Cox, and Kaiser Family Foundation. "How Does Health Spending in the U.S. Compare to Other Countries?" Peterson-Kaiser Health System Tracker. December 2018. Accessed March 11, 2019. https://www.healthsystemtracker.org/chart-collection/health-spending-u-s-compare-countries/#item-relative-size-wealth-u-s-spends-disproportionate-amount-health

9 Altman, Drew, and Kaiser Family Foundation. "It's Not Just the Uninsured - It's Also the Cost of Health Care." Axios. August 20, 2018. https://www.axios.com/not-just-uninsured-cost-of-health-care-cdcb4c02-0864-4e64-b745-efbe5b4b7efc.html

10 Kaiser Family Foundation, and Peterson Center on Healthcare. "Health System Dashboard." Peterson-Kaiser Health System Tracker. May 19, 2017. https://www.healthsystemtracker.org/dashboard/

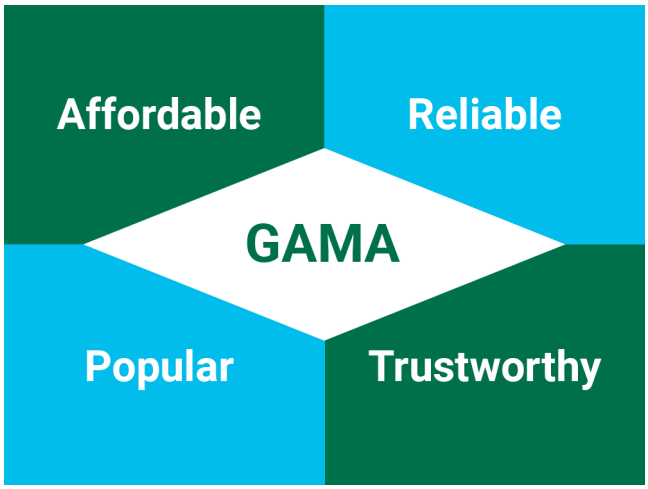
11 Orgera, Kendal, and Samantha Artiga. "Disparities in Health and Health Care: Five Key Questions and Answers." The Henry J. Kaiser Family Foundation. August 08, 2018. https://www.kff.org/disparities-policy/issue-brief/disparities-in-health-and-health-care-five-key-questions-and-answers/

12 Makary, Martin, and Michael Daniel. "Study Suggests Medical Errors Now Third Leading Cause of Death in the U.S." Johns Hopkins Medicine News and Publications. May 3, 2016. https://www.hopkinsmedicine.org/news/media/releases/study_suggests_medical_errors_now_third_leading_cause_of_death_in_the_us

by poor providers, but rather system failure. According to a Johns Hopkins study, "most errors represent systemic problems, including poorly coordinated care, fragmented insurance networks, the absence or underuse of safety nets and other protocols, in addition to unwarranted variation in physician practice patterns that lack accountability." It seems that we are set up to fail.

Unpopular: With a healthcare system that is expensive, has inconsistent outcomes, and can be sometimes downright dangerous, it is no surprise that many Americans are not satisfied. While Americans are largely positive about the healthcare they personally receive, most Americans believe that the system is deeply troubled. 71% of Americans report that the system is "in a state of crisis" or "has major problems."[13]

If there was ever an industry ripe for disruption, look no further than American healthcare.



How people perceive the disruptors (Google, Amazon, Microsoft, Apple)

Now is the time to take this threat off the back burner

Many look at the early efforts of tech companies and conclude they only want to play at the fringes of healthcare – focusing on data and devices, which play to their traditional strengths. But what happens when these companies truly challenge the healthcare status quo? What if they were to develop target solutions that shift the care financing and delivery models for segments of consumers?

What if one of these companies were to offer a virtual primary care solution partnered a local retail chain as a health coverage option that essentially pulls a large swath of young, healthy consumers out of traditional health insurance markets? Or what if they assemble pharmaceutical drug bundles by disease at a significantly lower cost? This approach could be coupled with dedicated service solutions for chronic conditions, effectively channeling some of the highest cost/revenue patients to a new service model. An upstart could develop a low-cost network for durable medical equipment, select pharmaceuticals, and other medical needs, shifting consumers to purchase healthcare needs online. Any of them could be positioned to integrate social and lifestyle needs, such as food and transportation, with healthcare benefits, developing a more comprehensive approach to healthcare maintenance. All of these examples could significantly impact the care and revenue models of existing payers and providers in relatively short order.

The scale, experience, resources, and energy of these companies make them risky to bet against. No one can say for certain which solutions will be winners, at what pace, and for which consumers. However, waiting for certainty is a certain way of being too late.

What to do?

How are healthcare leaders to manage the transition to a market that will almost certainly involve these formidable players? For sure, healthcare executives cannot surrender to weariness, or let champions of the status quo continue to decide on the top priorities. Here are some immediate things executives can to do address this threat:

1. Learn your risk: Conduct a Disruption Risk and Opportunity Assessment. At Spring Street Exchange, we have a methodology for this, but you can also do it yourself. In order to address the threats, you need to understand where you are vulnerable. This exercise

13 Reinhart, RJ. "In the News: Americans' Satisfaction With Their Healthcare." Gallup Healthcare. February 2, 2018. https://news.gallup.com/poll/226607/news-americans-satisfaction-healthcare.aspx

can also be empowering as it can leave leaders feeling more optimistic about opportunities for partnership and innovation.

2. Envision the future. Or many futures. Don't just list risks of disruption as bullet points on a PowerPoint slide; instead viscerally understand what future scenarios could mean by playing them out. At Spring Street Exchange we tackle the unknown through strategic visioning exercises. Our immersive process is energizing and practical, helping executives to see competitive threats differently, and to recognize opportunities to proactively face change. This perspective can bring greater strategic focus, as well as fresh approaches to shorter-term challenges and opportunities.

3. Act now: Update decision-making and advisory circles. You don't have to dismantle the present day to begin preparing for the future. Too many executives feel trapped by current restraints and so do little to move outside of them. Instead, we can try things to start thinking differently. Create a Millennial Advisory Council; give the council problems to address and listen to what you hear. Build in time for the executive team to step back together and envision the future together. Include unexpected projects in your annual portfolio planning process. Celebrate the results. Put a seat in your meeting rooms to represent the consumer. We have an Act Pack of short-term, low-cost, low-tech interventions to help your organization to act-future, but you can think of these too.

4. Engage your board in long-term planning. Help your board to see risks on the horizon and partner with them in longer term thinking. In addition to your short-term one- and three-year operating plans, develop five and ten year future scenarios. Your board is there to help steer the ship and assist the organization to achieve its mission and remain sustainable in the long term.

As an industry, we need to recognize that we cannot continue assuming we can keep raising prices in healthcare, and expect that there will always be someone to pick up the tab. We cannot keep allowing the operational to trump the strategic. We cannot keep assuming that we are immune from disruption.

While I welcome some of the changes that could come from tech giant disruption, I am worried for the impact on the industry, my peers and colleagues, and especially on consumers. When business models suddenly shift, people can fall through the cracks. When this happens to people with health needs, the results can be devastating.

Many of us came to work in healthcare because we wanted to make a difference in a broken system. Updating assumptions and business models is not just protection against disruption, but it is also leading forward with vision for how we hope healthcare can be.

Let's not be too busy to do something great.

"Let's not be too busy to do something great."

Nancy Wise, Managing Partner, Spring Street Exchange

Nancy founded Spring Street Exchange because she wanted to be wholly free to work with like-minded individuals in striving to make healthcare how it should be, rather than the way it has always been. Her work in the industry has ranged from tiny, community-based nonprofit service organizations to billion-dollar insurers, and most things in between. She specializes in the intersection between big ideas and practical planning, which she believes can only be accomplished through radical collaboration and using a new set of tools. Her secret sauce is in leading strategic planning and visioning initiatives.

Nancy has a master's degree in Public Health and an MBA from the University of California at Berkeley and a BA in American Civilization from Brown University. She is from both Pittsburgh and Alameda, CA, but now lives in Lexington, MA, where the shot was fired that was heard around the world.