The disruption challenge

As new entrants and cross-sector models abound, which direction should healthcare organizations turn?
With unexpected forces entering the healthcare arena and some legacy players taking on new roles, the rest of the industry is trying to determine which moves are true industry-changing disruptions – and which are merely distractions. Only a few short years ago, it may have seemed farfetched to imagine that a retail chain would merge with a major payer, or that so many regional providers would be absorbed by large health systems, or that technology companies would be making bold entries into the sector.

Today, however, the volume and velocity of deals, and the dollar value they represent, speak to fundamental change to the status quo.

Unlikely bedfellows are becoming more the norm than the exception. Many of these deals reimagine traditional boundaries or reduce fragmentation, in efforts to reset the way healthcare works and pursue value in all its forms.

To that end, disruptive forces hold the potential to answer the following questions:

1. How can we make real progress toward value-based care?
2. Where can we uncover new economic value pools?
3. Which avenues are best for delivering value to consumers?

This paper seeks to illuminate how disruptors could be changing the game as they make inroads on these issues and how healthcare organizations still in waiting mode can take steps to ensure they are, ultimately, part of the solution.
Part 1: The Disruptors
Driving the industry from fragmentation to alignment

1 A new path to clinical value

The situation:
The public is impatient with the fact that the U.S. continues to spend close to 18 percent of its GDP on healthcare, with that number poised to approach 20 percent by 2026.1 Meanwhile, a recent HFMA survey found that health plans’ use of value-based mechanisms grew from 12 percent to 24 percent between 2015 and 2018,2 certainly a positive trend, but well short of adoption by a majority of providers and payers. Many of the organizations surveyed say they have been hindered in their pursuit of value-based models by insufficient access to relevant patient data caused by internal and external interoperability limitations.

The strategy:
Since true value-based care hasn’t been facilitated through conventional methods, disruptors are taking a fresh approach through a variety of different models that aggregate and assimilate previously disparate capabilities. Through horizontal, vertical and virtual mergers and strategic partnerships, organizations are betting they will be able to improve health outcomes and make real reductions in the total cost of care (TCoC). The end goal is coordinated, efficient, high-quality healthcare at the lowest cost in the most appropriate settings.

The impact:
On total cost of care. Mergers between major health insurers and retail pharmacies, pharmacy benefits managers (PBMs) and/or other horizontal entities open up a world of new possibilities for value across the healthcare spectrum:

– **First, better coordination** between medical and pharmaceutical benefits could give merged organizations a unique view across patient health trends, procedures, treatments, and medication protocols to allow more holistic management of patients and true value returns.

– **Second, expanding the role** of retail clinics could allow these popular and convenient alternative channels to serve as the front doors to healthcare, e.g., by eliminating unnecessary emergency room visits for non-life-threatening illnesses and injuries, shepherding patients to the right follow-up care settings when necessary, and offering coordinated care through partnerships with specialty providers.

– **Finally, offering a higher level of care** in retail outlets aligns with the belief that social determinants of health can have as much impact as medical interventions.3 This philosophy could be a foundational element for how some of the impending combined entities evolve over time.

It is important to recognize that these new models may be exciting in concept, but realizing their value requires a lot of hard work. For example, managing patients across the care spectrum will necessitate reorganization around patient conditions and benefits, a focus on health outcomes, and clear definitions of episode treatment protocols and total cost of care. Further, becoming a one stop shop for medical care cannot be achieved without analyzing why patients come into a clinic, what services draw them, and how they view retail care within the healthcare ecosystem.

“Horizontal, vertical and virtual mergers are aimed at improving clinical outcomes and cost of care.”
Technology disruptors’ contribution to TCoC: advanced analytics.

Technology disruptors’ entry into healthcare may provide an opportunity to accelerate and scale partnerships with healthcare organizations in new and exciting ways. Many of these companies have powerful analytics platforms that could provide much-needed solutions to the problem of aggregating disparate data elements and converting them into analyzable form. The result could be greater insight into how the total cost of care varies among disparate treatment protocols and sites of care. Particularly when conducted from a longitudinal perspective, such analyses will likely prove to be critical in healthcare providers’ future value-based contracting discussions with payers.

On the role of PBMs. Several of these mergers hold the potential to integrate PBM capabilities into the broader healthcare benefit management structure. The stand-alone PBM business model of simply leveraging discounts and volume rebates is under siege and arguably has a limited life expectancy, given the call for transparency into sector practices. There are opportunities to go beyond PBMs’ commodity value to enhance, integrate and redirect data capabilities to total cost of care and quality across the continuum.

Further, absorbing a PBM into a health plan has the potential to drive progress on reining in specialty drug costs and aligning prices with their value. For example, payers currently reimburse for a drug to the same degree across different indications, regardless of the therapeutic value. However, this new model has the potential to yield insights that could influence value-based and indication-specific drug pricing discussions between PBMs and manufacturers.

It is worth mentioning that, given the shifting of power across the industry, pharmaceutical companies are accelerating their own consolidation efforts, both defensively and offensively. From a defensive perspective, some of these deals may give them greater influence in payer negotiations. From an offensive view, consolidation deals, many of which span multiple geographies, will be beneficial for pharmaceutical companies (and PBMs/payers) under recent tax reform.

Representative transactions under consideration

— Cigna/Express Scripts
— Aetna/CVS Health
— Humana/Kindred/Wal-Mart
— Centene/RxAdvance
— UnitedHealth OptumCare unit/physicians’ practices
The disruptors (continued)

2 The synergistic approach to new economic value pools

The situation:
Due to cost pressures, many healthcare organizations are facing a diminishing ability to generate returns and maintain adequate margins. It is, therefore, increasingly critical to find more diverse ways to manage the financial health and sustainability of their businesses.

The strategy:
While mergers and acquisitions must be pursued strategically, large-scale deals can help organizations access and unlock new economic value pools, gain market power, and preserve margins through control of more economic levers.

The impact:
There are a growing number of cross-geographical mergers and acquisitions among health systems that allow cost-cutting through bundled services; help contain the total cost of care by directing patients to the most appropriate treatment sites, including distributed care providers and virtual settings; pool resources for investments in innovative technologies; aggregate influence to negotiate with organizations in other parts of the healthcare value chain; and enhance capabilities in next generation care, such as precision medicine and genomics.
Proposed health system transactions

— **Large Catholic systems:**
  Catholic Health Initiatives/Dignity Health – Improved population health and community-based care
  Bon Secours Health System/Mercy Health – Clinically integrated network

— **Regional systems**
  Advocate Health Care/Aurora Health Care – Geographical expansion
  Beth Israel Deaconess Medical Center/Lahey Health – Geographical expansion

— **Joint venture health plans**
  Anthem/Aurora Health Care
  Aetna and Allina Health/Banner Health/Texas Health Resources
  Tower Health/University of Pittsburgh Medical Center
The technological approach to delivering consumer value

The situation:
As patients put more of their own dollars on the line, they want to be able to select what care they receive and where they receive it. More and more, consumer healthcare decisions are based on perceived value – a concept that comprises better outcomes, cost transparency, and digitally connected patient experiences.

The strategy:
Serving a connected consumer is where technology disruptors stand to have tremendous impact in the evolving healthcare landscape. There are many opportunities to use technology-driven solutions to demonstrate tangible connections between costs and outcomes; shift the points of care from hospitals to digital and retail channels; and allow patient data-sharing between hospitals in a network, hospitals and physicians’ practices, and health systems and payers. These are all critical drivers of the improved outcomes consumers seek. Technology innovation, particularly in the area of data analytics, is also critical to achieving cost transparency, which benefits consumers by driving more robust competition among provider organizations and, ultimately, lower prices.4

Finally, technology is a game changer when it comes to patient experiences that are appealing, intuitive and easily accessed across both traditional and unconventional care continuums. In fact, disruptive technology players in healthcare may play an important role in pushing healthcare organizations to find ways to meet consumers where they are.

The impact:

On connectivity. In the short term, high-profile joint ventures like the one between Amazon, Berkshire Hathaway and JP Morgan (ABJ) are geared toward addressing what Warren Buffett calls “the hungry tapeworm” in healthcare, i.e., escalating health insurance costs. Although ABJ will start small by testing their initiative with their own employees,5 in the longer term there is real potential for ventures like this to carve out and scale some aspects of commodity care and make them more streamlined and consumer-oriented.

Forces like Amazon may also play a role in bringing unlikely collaborators together to align on a universal definition of “value.”6 And, in partnering with leading consumer-centric companies, health systems will likely find that they are better able to bring that value to the consumer through granular customer segmentation, predictive analytics, and meaningful touch-points along the patient journey.

Finally, the struggle to improve medical record-sharing with patients has seen some progress with recently announced and launched technology offerings that allow patients and their doctors to use mobile phone apps to access medical records.7 And, while health systems, providers and their technology partners continue to improve the interoperability of medical records, some health systems are exploring and piloting more sophisticated solutions for cross-institutional data sharing, e.g., distributed ledger technologies.

On patient empowerment. The healthcare industry as a whole recognizes the value of patient self-care, which can help reduce the onset of serious illness and/or facilitate management of existing chronic conditions. While still in the early stages, several recent healthcare disruptions signal a growing focus on healthier lifestyle choices and enhanced patient understanding of disease progression and management.
On the disease management side, there are a growing number of partnerships between providers, device manufacturers and drug companies across a variety of conditions and patient populations. It is worth noting that such solutions are already taking hold in diabetes care, e.g., mobile monitoring programs; patient-centered disease management platforms; AI-based apps to predict blood glucose trends in conjunction with continuous glucose monitors; and cloud-based apps that transmit real-time glucose readings to providers.

Some of the examples to the right are company-specific initiatives – and still others are narrowly focused on benefitting the disruptor’s own employees. However, we expect to see a growing trend toward disruptions, both within and outside of the healthcare industry, that center on using technology to empower patients to take control of their own health.

Potential disruptions to enhance the consumer experience

- **Amazon** – Drug and device distribution/online pharmacy
- **Amazon, Google, Apple** – D&A solutions
- **Apple** – Health Record EHR
  Patient Data Viewer
- **Google/Alphabet/Verily,**
  **Clover Health** – Population health
- **Amazon/Whole Foods,**
  **Apple Clinics** – Wellness
- **Uber, Lyft** – Medical transport
Part 2: The incumbents
How to embrace disruption

From new operating models to unexpected entries into the healthcare sector, there are some truly novel and potentially transformative ideas arising that could help healthcare organizations alter the cost and quality equation. Of course, how and when an organization embraces or reacts to disruption depends on the specifics of their market and sector, as well as the ability to balance opportunities for innovation with the risks and realities of today.

For example, if a health system competes with others that are moving toward value-based care, it may make sense to explore the development of new capabilities, either organically or through partnership. If the transition to value isn’t urgent, an organization may want to focus on meeting consumer preferences and building trust in its brand, instead.

In general, healthcare organizations should not be paralyzed by uncertainty and instead should seek ways to embrace disruption in ways that make strategic sense in their markets. For example:

1. **Navigate a new path to clinical value**
   **Care continuum optimization.** When it comes to the total cost of care, one area where incumbent health systems are already embracing disruption is in care delivery redesign. To improve outcomes, organizations are instituting protocols that reduce clinical variability and standardize care across a number of variables, including scheduling, care management, care coordination, and clinical documentation. And, as different sectors of the healthcare value chain converge, this discipline is expected to expand to include directing patients to the most appropriate sites of care, e.g., emergency department, inpatient, ICU, ambulatory, rehabilitation center, hospice, etc.

2. **More targeted medicine.** Although the healthcare industry is committed to assembling useful data on clinical and economic outcomes, there is significant untapped potential to use this data to realize additional value. With the breadth of patient claims, EMR, population-based, and wearables data, combined with the insights of medical experts, there are opportunities for granular, longitudinal analyses that could move the industry forward toward more targeted care.

3. **Wade into new value pools**
   **Finding synergies with retail health outlets.** As discussed, payers are merging with entities from other points in the value chain in an effort to increase revenue and margins. This land grab leaves many provider organizations (and pharmaceutical manufacturers) wondering not only whether they will have diminished leverage in reimbursement negotiations, but also where they may fit within new models.

Some health systems are pursuing system-to-system mergers and joint ventures with payers to uncover new profit pools. At the same time, creating larger entities is not the only way for healthcare delivery enterprises to ensure they aren’t left out of the equation. Legacy organizations should look for ways to capitalize on the retail trend, as several health systems have already done, e.g., through partnerships with retail clinics where the clinic directs patients needing a higher level of care to the health system.

**Aggregating medical and pharmaceutical benefits.** There is a movement toward billing for a total episode of care, with medical services, medical devices, post-acute care, and drugs bundled together. Such an approach puts the patient at the center of decision-making and holds the promise of improved outcomes made possible by the right care in the right place at the right time. Most important, bundling care creates new profit pools with cross-sector benefits. And, as drivers of the care redesign needed to make this model a reality, health systems may be in a position to take the lead on these initiatives.
As new entrants and some legacy players make bold moves in healthcare, it is natural that more prudent healthcare organizations would watch the disruption with some anxiety. However, given the trajectory of healthcare costs and patient demands, it is arguable that dramatically new models in healthcare are not only positive, but also critical to the industry’s continued viability. This is not to say that the road to a vastly different healthcare paradigm will be a smooth one. Real change will take time. However, there is great promise if all healthcare sectors find ways to pool their capabilities around value-based care, new profit pools, and the consumerization that will surely determine what healthcare will look like in the future.

**Partner with new entrants for consumer value**

**Data and analytics (D&A) partnerships.** Many of the companies mentioned here are skilled at bringing together disparate datasets to be aggregated, scrubbed and analyzed. However, to use this data to deliver dramatically improved outcomes and true cost transparency, healthcare organizations should look to partner with these disruptors to create solutions based on advanced cognitive computing and artificial intelligence.

Currently, although cognitive supercomputers can digest data from medical studies conducted at institutes and universities throughout the world—and combine it with less formal but equally valuable data from doctor’s notes—they still function as adjuncts to human decision-making. Expanding cognitive capabilities to a level where machines can make difficult diagnoses and suggest new treatment protocols themselves may sound like a science fiction fantasy. However, with robust collaborative partnerships between medical experts and technology companies, most futurists believe that this scenario will become a reality.

**Joint platforms.** On the customer experience front, competing with platform companies like Google, Amazon and Apple may seem like a difficult proposition for most healthcare organizations. It remains to be seen whether legacy players have the agility to become the platform themselves. And, of course, competitive dynamics make it difficult to favor one healthcare organization’s platform over another. However, healthcare provider organizations, together with pharmaceutical and medical device manufacturers, have a number of intriguing opportunities to offer consumer-grade experiences by collaborating with each other and with technology innovators. In the end, becoming part of technology disruption is likely to open up many more possibilities than trying to resist it.
How KPMG can help

KPMG is one of the largest providers of professional services to healthcare and life sciences organizations globally. We serve about half of the top 200 healthcare systems and academic medical centers in the U.S.

Our healthcare teams comprise clinicians, data scientists, and specialists across information technology; strategy; restructuring; corporate finance; tax, economic and valuation services; and deal advisory, so that issues can be addressed individually, or as comprehensive, multi-year transformation efforts.

Further, as our healthcare clients increasingly require substantial data to justify and calibrate transformation initiatives, KPMG has put a particular emphasis on continuing to expand and enhance our data & analytics capabilities. We have done this via organic building of an in-house think tank (Lighthouse), strategic acquisitions of analytics consultancies and tools, and an infusion of D&A into our industry-focused teams. This allows us to help clients define problems, gain institutional support for transformation efforts, benchmark against internal and external players, and monitor and sustain change.

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2. HFMA (2018). Health leaders cite limited ability to share clinical information as key obstacle to value-based payment; https://www.hfma.org/Content.aspx?id=69416

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