

# Thriving in an Era of Disruptive Change

## **Healthcare Innovation Roundtable**

New York | 15 October 2013



Most of the more than two dozen senior executives who participated in the October healthcare roundtable had never met. Their unconventional collaboration prefigured the shape of healthcare to come. The roundtable, an A.T. Kearney partnership with the Center for Healthcare Innovation (CHI), brought together executives from multiple points in the healthcare value chain—payers and providers, big pharma, biotech, startups, academics, and venture capitalists.

The group's animated conversation was given structure by the *Healthcare Disruptor Study*, an A.T. Kearney-led analysis conducted with executives across the healthcare ecosystem that identified the forces reshaping the industry (see figure). Their candid exchanges illuminated the product and process innovations cropping up in every sector of healthcare.



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The dominant theme of the coming era is likely to be less a story of blockbuster drugs than of innovation in the delivery and coordination of care. It is already difficult for any one player, regardless of size, to make a measurable difference in the way healthcare is delivered, and not only in the United States. The new era of healthcare will be characterized by frequent, even bold, partnerships between established and nontraditional collaborators. New, smaller players are building creative responses to the

reformation of the industry, but without access to the scale and reach of large enterprises, their contributions will struggle to achieve attention.

Nontraditional collaboration is expected to play out primarily in process innovation, a central topic of the roundtable. In large part, process innovation will be the result of increasing patient centricity—the movement from a product and specialty focus to a patient and process focus.

Healthcare is an industry of interventions, of applying solutions to problems as they arise. The right intervention at the right time makes a huge difference not only to the patient but to the healthcare system in terms of outcomes and costs. Consider the treatment of lung cancer. Until relatively recently practitioners had a limited number of strategies for treating the disease. Now they consider its multiple morphologies, examining how these vary in individual patients. This determines not only treatment of the cancer but strategies for patient support, which are customized for each therapeutic area.

Figure

### Five factors that will change the rules of the game

Current models unsustainable	Expanding role of government	Patient-centric healthcare	Global growth opportunities	Accelerating innovation
<ul style="list-style-type: none"> <li>• Inability to fund existing models</li> <li>• Dependency ratios out of balance</li> <li>• Rising costs as a percentage of GDP</li> <li>• Significant waste, fraud</li> </ul>	<ul style="list-style-type: none"> <li>• Governments aggressively trying to stem rising costs</li> <li>• Significant uncertainty</li> <li>• Changing rules, more regulation</li> <li>• Government role as a change agent</li> </ul>	<ul style="list-style-type: none"> <li>• Move from outcome- to population- or episode-based models</li> <li>• New care settings</li> <li>• Greater transparency</li> <li>• Need for IT integration</li> </ul>	<ul style="list-style-type: none"> <li>• Emerging market driving growth</li> <li>• Growing middle class</li> <li>• Healthcare expenditures</li> <li>• Western diseases in emerging markets</li> </ul>	<ul style="list-style-type: none"> <li>• New technologies</li> <li>• Big data</li> <li>• Care coordination</li> <li>• Personalized medicine</li> <li>• Medical industrialization</li> <li>• Co-opetition</li> </ul>

Source: A.T. Kearney analysis

Integrated processes promote interaction among previously separate points along the value chain. How will they combine profitably and coherently in creating a response to illness that wraps expertise, technology, and services around a patient? As one executive put it, getting that one right is the Holy Grail in the new era of healthcare.

In such a world, where does power and influence reside among patients and providers? The answer used to be simple: with the local doctor. Later, power shifted to providers of products and services, and now it's moving toward a hybrid of payer and provider (especially providers of information). Power shifts will be further complicated by consolidation among industry participants. What will the response of regulators be as they try to make sense of the industry's engagement with a volatile, unfamiliar operating environment?

The ferment of new thinking at the October roundtable raised other topics with rich potential for deeper investigation. Notable among them were two that derive from globalization: reverse innovation and new approaches to managing regulators. These and other ideas form the foundation for an ongoing series of roundtable discussions over the course of the next several years.

## Emerging Models of Care

Roundtable participants were in agreement that the conventional model of healthcare is rapidly unwinding and that the new model will stress personalized patient care at a lower cost. They also recognize that the healthcare system of the future will become less capital intensive as it inevitably shifts away from centralized delivery of care in great building complexes to a more distributed and ambulatory model.



Left to right: **Dave Powell**, partner, A.T. Kearney; **James Haynes**, vice president, Consumer Office of Strategy & Execution, Johnson & Johnson Consumer Products Worldwide

This trend will also accelerate the delegation of healthcare delivery to other providers, notably nurses. The visiting-nurses model creates up-close knowledge of communities—ethnographies, family structures, behaviors—with all that means for care management and care coordination. A related phenomenon is the emerging employment of social networks to encourage behavior change, including what several participants referred to as patient “self-care.” All of these approaches hold promise for lowering the cost of healthcare.

Further savings will derive from innovations such as telecare and other technologies built entirely on cloud-based platforms.

These approaches also hold potential for both personalizing the delivery of care and raising its quality. For example, it is increasingly commonplace in medicine to use biomarkers to customize drugs targeted at a specific patient response. Expansion of such personalized protocols can have a significant effect on patients. The challenge lies in making such potent personalized care affordable, which places pressure on drug makers to decrease the cost of research—for example, by moving to Phase 1 trials more quickly. Such a shift will disrupt the conventions of running clinical trials, and it will test regulators' ability to respond to innovation in the interest of patients.

A more stubborn arena for personalized medicine may be mental health. What are the biomarkers for schizophrenia, for example, or bipolar disorder? Behavioral-disorder therapies

now administered in hospitals and clinics are often very structured, lending themselves to automated approaches such as software and online applications. A collateral benefit could be standardization and better measurement of outcomes—concrete responses to the growing pressure for evidence-based assessments of care, which is a particular ambition of the Food and Drug Administration in the United States.

These forces lead inevitably to consideration of the looming but still uncertain impact of big data on the healthcare system. The most immediate obstacle is patient privacy, but so is the mélange of disconnected technologies with which data is harvested. Resolving the challenges raised by big data and IT-based processes will have direct implications for new approaches to sharing insurance risk.

The potential to profit from disruption in the healthcare industry is evidenced by the sheer number of new players eager to enter the business. These innovators offer unconventional solutions to what they view as unmet medical needs—the financing of expensive treatments by consumer finance companies, for example, or the development of patient-support tools in collaboration with mobile-application developers.

## Pressure on Providers

It is hardly news that healthcare reform and the creation of state health exchanges in the United States are putting heavy pressure on the system to improve affordability. As one participant in the New York roundtable put it, “Affordable care is turning the provider side upside down.” Fifty percent of U.S. physicians are now employed by hospitals rather than in private practice, even as American hospital networks are impelled to consolidate.



Left to right: **Quentin Roach**, chief procurement officer and senior vice president, global supplier management, Merck; **Carol Cruickshank**, partner, A.T. Kearney; **Wim Vandenhouweele**, executive director emerging markets, commercial innovation, Merck

Providers are feeling unprecedented pressure to increase accountability and transparency. In the United States, both state and federal regulators are calling for real-world data as a means of achieving better transparency. There are also calls to open clinical trial dossiers to essentially anyone with an interest, including patient advocates, whether the trials are successful or not. Not only does this create financial and logistical burdens for providers, it also opposes the protocols of confidentiality that pharma companies have developed for clinical

trials. Clinical trials, they argue, are only a part of the healthcare ecosystem; they don't offer transparency into outcomes.

Furthermore, the technical and legal standards for sharing data have not been developed, although there is excited discussion about the application of big data solutions to this problem. Its promise is in its potential for making sense of unstructured information captured from multiple sources, not all of them connected. But what of the privacy problems big data solutions raise? Assuming patients become comfortable sharing personal medical data, what are the technical challenges of “de-anonymizing” data from something such as a clinical trial in an effort to make the patient experience as transparent as regulators would like it to be?

## The Challenges of Innovation

Innovation challenges the best efforts of regulators in every industry. In healthcare, for example, how does the FDA determine when a cell phone becomes a medical device? On the process side, phenomena such as tele-health technologies test regulators' ability to keep up. These are gray zones, and regulators don't like gray zones. Gray zones will proliferate as new players form partnerships and create new approaches to solving problems, as will new venture structures in an industry in which informal partnerships have not traditionally been encouraged.

Pfizer, Novartis, and Kaiser Permanente are responsible for just a few of the intriguing innovation outreach efforts undertaken by established industry participants, not simply for sharing costs and risks but for the innovations such collaborative networks engender. Other unconventional healthcare alliances include those with nontraditional partners such as mobile application developers, consumer financial services organizations, academic institutions, and companies such as Google and Apple. How much influence such new entrants will have on the quality of patient care remains an open question. They may help improve speed-to-market for new drugs and new technologies. They will also put new kinds of pressure on both regulators and the regulated.

One example of reverse innovation among regulators comes from Japan's Ministry of Health, Labor, and Welfare. Concerned about the lag time between approval of new drugs in other countries and their availability to Japanese patients, the ministry formed a special unit tasked with smoothing the way for foreign drug makers looking to enter the Japanese market.

## Patient-centric Healthcare

Participants agreed that one clear direction for the future of healthcare is increased focus on the patient, or "patient centricity." Patient centricity begins with sensitivity to behavior and psychology, to lifestyle, and even to levels of literacy. Such efforts call for a new level of partnership with patients. Naturally, that means lowering communication barriers between patients and doctors. It also means pharmaceutical companies must speak more candidly about research, including protocols. Understanding patients as individuals can influence clinical development—one reason large pharma companies are trying to get closer to patients by getting closer to retail pharmacists.

Examples of the move toward this model of care are everywhere. Employers are partnering with providers in regions where they operate to gain more understanding of local culture and its impact on health, hoping to reduce health insurance premiums and lost productivity. Stanford University Medical Center has built a usability lab, which has developed mobile applications for ambulatory care. Kaiser Permanente is experimenting with peer influencers to encourage lifestyle changes—an aspect of what Kaiser calls "deep patient ethnologies as a basis of healthcare."

It is difficult to say, of course, if patients will capitalize on the tools provided to them. That the tools exist at all is evidence of heightened awareness that successful treatment is a continuum of care—treating a chronic disease and obesity, for example—that calls for patient involvement. As one participant remarked, for the new model of care to succeed, participants in the industry will have to become "more collaborative and less territorial." It is a conception of care organized around the way patients live, not the way providers want to deliver products and services—in other words, one ecosystem of care, not two.

## Global Growth Opportunities

No one in healthcare needs to be persuaded of the considerable opportunities that exist in global markets, particularly in emerging economies. Grasping these opportunities begins with being locally relevant, in addition to being sensitive to the objectives of national governments that, as one roundtable participant put it, constitute a multistate ecosystem of regulators.

In emerging markets, government tends to view itself as a necessary partner to healthcare providers. New entrants would do well to consider that local governments may be less interested in innovation than in jobs, and in controlling the patient experience and ensuring that it embodies affordability, access, and outcomes.



Left to right: **Dr. Kristine Bordenave**, medical director, Special Investigations Unit–Health Guidance Organization, Humana; **Ted Haack**, vice president, head of market access, rare diseases, Genzyme

There are risks attached to globalization, especially with respect to pharmaceuticals, including generics and, more insidiously, counterfeit drugs. Go-to-market strategies may need to be significantly altered in emerging markets, and managing reputation is different from what it is in the developed world. Emerging markets have unpredictable meaning for system dynamics; medicine formulation is only one of them. Quality standards generally have to be increased, and continuing education of health authorities

is indispensable. For pharma companies, especially, such infrastructure solutions may need to be part of the product offering.

Much is made of the unserved needs of a growing middle class in emerging markets. That middle class may not have the means to pay for Western-style care, leading to new approaches that can often prove successful back in the developed world—another example of reverse innovation.

As one participant observed, the importance of cultural understanding to succeeding abroad “is no joke.” Cultural missteps can range from a basic misunderstanding of the different way in which an illness is classified clinically to the more subtle issues involved in understanding employees, regulators, and patients. For instance, a large pharma company reported its “huge turnaround” in certain emerging Asian markets—where it had been on the verge of failure—was due primarily to focusing hard on improving cultural understanding. It is now the second-fastest-growing pharmaceutical company in the region.

To cite another example, an American manufacturer responded to challenges in India by changing not just how it went to market, but its business structure in the country. Both had a positive impact on patients and ultimately showed the company how to cut the cost of a CAT scan by a factor of 10—lessons it subsequently brought home to the United States.

## Healthcare Turns the Corner

Despite disparate points of view, roundtable participants agreed that healthcare as we know it is no longer sustainable. The industry is at an inflection point: new entrants, exciting collaborations, innovative approaches, big data, technology, and the experience of emerging markets will all contribute to upending the status quo, creating a future that increasingly places patients at the center of care delivery.

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