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HOW DATA IS DISRUPTING THE HEALTHCARE INDUSTRY

KRISTINA TOBER AND GIRI RAO

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The healthcare industry is under pressure from all sides.

U.S. consumers spend twice as much per person on healthcare as those in comparable countries, despite having fewer office visits and shorter average hospital stays.ⁱ Consumer advocates are pushing for more transparent pricing models, and providers are compelled to negotiate stricter terms with insurance companies and government programs like Medicare and Medicaid.

In parallel, payers and providers are actively engaged in both horizontal and vertical mergers and acquisitions, thus rearranging the industry and disrupting the field of competition from all directions. For example, high profile mergers like that between Cigna and Express Scripts, or the acquisition of Aetna by CVS, may ultimately lead to desired size and economies of scale which would have been successful in the past, but the verdict is still out as to whether these measures will be effective in today's environment. Newcomers to the healthcare industry like consumer giant Amazon are also breaking down the barriers to entry via acquisition channels (in this case with online pharmacy [PillPack](#)), leaving long-established pharmaceuticals rattled and rushing to adapt.

As a result of the mounting pressures, the healthcare environment is highly dynamic and faces significant uncertainty and change. Payers and providers are essentially being forced to reinvent themselves, or at least update their business models to prepare for the emerging ecosystem. For some, traditional tactics like introducing more flexible organization models, fostering a culture of experimentation, or reducing hierarchical decision-making might be enough.

We sat down with Giri Rao, HighPoint Associates Senior Advisor, to discuss the current tensions in the healthcare industry and get his perspective on the topic. Giri leads HighPoint's healthcare practice and has over 25 years of experience assisting healthcare and insurance clients with strategic and operational transformations. In his opinion, for most, the real game changer relates to the adaptation of new digital capabilities and how companies can leverage data to differentiate themselves.

"Greater digitalization creates value by reducing the friction that exists at the interface between companies," asserts Rao.

For many, the "first step" toward greater digitalization lies with data. "To succeed, companies must think about their business models and how they can harness the power of data to capture incremental value," asserts Rao. "New and enhanced digital capabilities allow each player in the healthcare industry to access and disseminate data more efficiently, eliminating the barriers to making use of healthcare information. Companies are now able to break down the hierarchical structures that [once] stood in the way of productivity, allowing information to be available where real work gets done."

IMPROVING CARE AND LOWERING COSTS THROUGH PATIENT DATA

"Traditionally within the healthcare system, you had the patient, payer and provider each making decisions in a vacuum. Information was isolated, delayed, even distorted or lost, leading to significant inefficiencies and productivity costs," explains Rao.

Just consider patient data. The industry has historically been limited in its ability to centralize patient medical information across providers (primary care physicians (PCPs), specialists, hospital systems). Providers and health systems have access to clinical information. Likewise, health insurers have patient information on every claim, be it diagnosis, medication or procedure. Marrying the clinical information with the data that payers have is what some of the new Population Health Management (PHM) players are trying to do in their efforts to offer better quality care at an affordable cost.

One example is [Oscar Insurance](#), started in 2014 by a CEO who studied artificial intelligence (AI) at Stanford. Oscar is disrupting the traditional health insurance model by reducing friction and enhancing the consumer experience through advantages like an innovative, user-friendly app and dedicated concierge teams.ⁱⁱ The integrated system allows for collaboration and a seamless flow of data from patient to concierge team to general practitioner to specialist to hospital. Oscar is also proving a point: despite giving members a narrow network from which to access services, patient satisfaction is up (as is enrollment, with membership doubling from 2017 to 2018). By partnering with premium regional hospital systems like Mount Sinai, the Cleveland Clinic and Humana, everybody wins – Oscar guarantees patients for the providers, patients

get easy access to highly qualified professionals, and costs are tightly managed.

Providers and payers are also using patient data to **engage with consumers at the point of need** and to steer them into more cost-effective medical solutions. Here are a few examples:

- The insurance company [Clover Health](#) offers coverage for customers using Medicare Advantage. Not only have they focused on a demographic that sees greater plan loyalty than traditional ACA users, but Clover also utilizes member data to control costs. Using their own customized software to run patient-centered analytics and a dedicated care management team, Clover focuses on improving health outcomes for low-income and senior patients, ultimately saving on costs by avoiding expensive hospitalizations
- [Omada Health](#) is using behavioral science techniques to influence patient behavior, and has gained full recognition status by the Center for Disease Control and Prevention for meeting standards in behavioral counseling curriculum, a minimum level of participant engagement, and average participant weight loss
- [Carrum Health](#) connects self-insured employers to regional healthcare providers using comprehensive bundled payment solutions. Using analytics to improve program performance, Carrum puts an emphasis on patient care, provider quality and cost control.

Other companies are **analyzing electronic health records** to better understand population health management and to advance medical research.

- Microsoft and GV (formerly Google Ventures) invested in [DNAnexus](#), a platform that enables a network of enterprises to gain insight from large genomic and biomedical databases, boosting collaboration, data sharing and machine learning, and advancing the development of precision medicine
- Researchers are just starting to use patient medical records, along with insurance billing information, to refine treatments and to identify new uses for drugs. Using "real-world evidence" data offers a more cost-effective and timely study alternative to expensive clinical trials. For example, one company, [Cota](#) (which crunches data from medical records), is partnering with five other organizations to determine whether they can use electronic medical records to improve cancer treatment.ⁱⁱⁱ

By tapping into patient data and creating a digital infrastructure, companies across the healthcare industry are able to foster better care management and decision making, and to more keenly tailor their products and services. As Oscar Insurance is demonstrating, data analytics is making it possible for them to both control costs with a tight network and ensure consumer satisfaction. In an industry where the interests of payers and providers have too often conflicted with those of patients, digitalization and accessibility of data is making it easier for everyone involved to improve the quality of care and control costs.

"Moving forward, we will continue to see innovative startups tapping into the copious patient and medical data in ways that transform how patients are treated and healthcare is managed," asserts Rao. "Big data and analytics will continue to impact everything from customer service to defining and pricing insurance plans."

HOW DATA IS ALTERING BUSINESS MODELS

Data is more ubiquitous than ever. As new sources of data are introduced and the speed of access increases, industry players must continue to not only adjust business tactics and strategies, but their business models as well.

We're already seeing changes in how care is being administered and managed. For example, two national pharmacy chains, CVS and Walgreens, are each teaming up with regional hospital systems (Cleveland Clinic in Ohio and New York Presbyterian in New York) to offer cost-effective alternatives to the emergency room or urgent care. Walgreens will offer remote "telemedicine" access to NYP physicians on its website, as well as self-service kiosks that offer basic diagnostic tools at certain New York stores.^{iv}

Today, smaller, more nimble companies are using data to design and tailor their experiences and offerings in a much more targeted way. They don't need size to compete, but rather agility establishes the foundation for their competitive advantage. "We are seeing more industry players focus on very specific niches within healthcare," explains Rao. For example, in 2017 Cigna bought [Brighter](#), a digital IT startup company, to accelerate the development of their mobile and desktop platforms. The goal? To improve the member experience through technology that enables members to better engage with plans, providers, and wellness programs.

"It has become critical for industry players to identify and bring together the best of solutions to really meet patient needs,"

says Rao. "Companies need to be willing to try new things and be flexible in nature. Often that means quickly pulling the plug on an existing project and redirecting focus (as opposed to the old model when a company might invest in a multi-year project to bring out a new capability). There's no time for tweaking anymore, particularly since there will likely be a new, more agile company that can offer the capabilities you need."

At the same time, competition continues to dive in from outside the traditional health care arena – and more than a few of these new industry entrants are almost a decade ahead in the use of data analytics. For example, while some note that the PillPack business model isn't necessarily an innovative offering, they need to think about the other advantages offered to a company like Amazon when PillPack is acquired. "What scares competitors about Amazon is not just their size and breadth, but their ability to use consumer data to continually refine their business model and wipe out competition," asserts Rao.

THE DATA TRANSFORMATION

"Data is certainly having a transformative effect on the healthcare industry, as it has with every other industry out there," concludes Rao. "As HighPoint Associates Senior Advisor Robert Kaplan reminded us in a past *InSights* piece, companies need to understand how they will derive value from all the data and keep their business objectives front and center."

For players in the healthcare industry, companies are just learning how to best harness data and how to use that collective intelligence to foster the dramatic changes required of the industry going forward. Rao echoes the need for anyone using data, be it patient, payer or provider, to first think about the problem you are trying to solve. For a patient, it might be using a health app on your smart phone to understand whether the steps you are taking each day are enough to support weight loss. For an insurer, it could be understanding trends in diabetes care, and adjusting networks to include more innovative and cost-effective providers, i.e., reducing costs while improving care. For providers, it could be using electronic health records to more meaningfully examine a group of patients suffering from the same condition, i.e., ensuring optimal outcomes while generating growth at reasonable margins.

"Every player in the healthcare industry needs to develop a data strategy that is not just actionable, but closely aligned to its strategy and business goals," concludes Rao. "There is an infinite amount of data. The challenge is to focus the mining of that data on creating competitive advantages. Often, that will mean reorienting and re-educating the organization towards data-driven decision-making."

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GIRI RAO has more than 25 years of experience in assisting clients with strategic and operational transformations. He has served clients in the healthcare and insurance industries and has worked with national and regional insurance carriers, BCBS plans, PBMs and other healthcare service players as well as large life insurance and P&C carriers. Most recently, Giri has advised several VC-backed firms developing innovative business models, on their growth and revenue strategies as well as helping with fundraising and M&A activities. Previously, he was a partner at The Boston Consulting Group in their healthcare and insurance practices. Prior to that, he was a partner at Booz & Company. Earlier in his career he worked at i2 Technologies and American Airlines. Giri has an MBA in Finance from The Wharton School, University of Pennsylvania, an MS in Industrial Engineering from Purdue University, an MS in Mechanical Engineering from State University of New York at Buffalo and a B-Tech in Mechanical Engineering from the Indian Institute of Technology (IIT), Madras, India.

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