

A pair of hands is shown from the wrist up, holding a glowing, wireframe heart shape. The heart is composed of a network of interconnected lines and dots, giving it a digital or data-driven appearance. The background is a solid, deep purple color. The hands are positioned centrally, with the fingers slightly curled around the heart.

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# Consumers at the heart of healthcare

Retailers are creating a new industry perspective

IBM Institute for Business Value

# Consumer convergence

Healthcare has long aspired to “patient-centricity.” Now, new players vying to enter the healthcare market are finding abundant opportunities to own a piece of the industry. Large scale, customer-focused companies are demonstrating that they have the balance sheets to buy into healthcare in a big way, anything from a payer to a pharmacy benefit manager to a hospital. Rumors are rampant that leading retailers and e-tailers with the scale to unleash operational efficiency and pricing optimization, the reach for customer intimacy and technical savvy to integrate experience across channels will soon join the party. They will likely change the industry as we know it.

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## New entrants, new spaces

One of the biggest retail mergers in years, Amazon's 2017 purchase of Whole Foods means it will ultimately be able to tailor food shopping to the individual. The online retailer has yet to tap into the massive pool of data from transactions made in physical stores, but can now leverage the grocers' customer history to personalize the shopping experience. Buyers with deep pockets and brand recognition are entering the healthcare industry as well, and changing it into a more consumer-centric environment. The market capitalization of the largest consumer and retail giants dwarfs most all healthcare players. As these new entrants threaten to disrupt healthcare, traditional industry participants cannot afford to be complacent.

What will healthcare look like in the next two, five or ten years? Of course, most hope for medical discoveries like a cure for cancer or Alzheimer's. The future of healthcare from an industry perspective may begin with dramatic changes in how researchers, providers, payers and regulators interact with patients and caregivers.

The major retailers have the scale and technical proficiency to change healthcare as we know it. Leading retailers already know our preferences, favorite colors, clothing sizes and more. Those that employ predictive analytics often know what products we need before we do and innovations in supply chains bring 24 x 7, overnight delivery to the doorstep.

Both health professionals and consumers also say that they are ready to embrace similar levels of capability and convenience. Eighty-four percent of healthcare companies that responded to an IBM Institute for Business Value hybrid cloud survey said they are now pursuing cloud initiatives.<sup>1</sup> And 73 percent of healthcare professionals said they will use the cloud to put empowerment tools like self-service wellness apps into the hands of patients so that they can better educate themselves, monitor their health and virtualize health records.<sup>2</sup>

### Stronger bargaining power

By rethinking their relationships with pharmacy benefit managers and pairing with retail companies, insurance companies are able to use scale to negotiate pricing terms and formulary control when drugs are distributed. United Health Group, the largest US insurer, has agreed to buy DaVita Medical Group with nearly 300 clinics, 35 urgent care centers and six outpatient surgery centers.<sup>3</sup> CVS Health has announced its acquisition of Aetna, the third-largest health insurer in the US,<sup>4</sup> and has stated that it will begin delivering prescriptions to customers' doors for free in early 2018.<sup>5</sup> In terms of the physical retail opportunity, 76 percent of the US population lives within five miles of a CVS pharmacy.<sup>6</sup>

### The doctor won't see you now (but will if necessary)

For individuals without current healthcare conditions or complaints who are in overall good health, or those located either far from high-density areas or in developing countries, a digital doctor will inevitably become the norm in the future. Technology meets healthcare in the form of telehealth to enhance public health and health education using telecommunications technologies. Finnish multinational communications company Nokia has launched a HIPAA-compliant Patient Care Platform, now in use in clinical studies in the UK and in trials in the US. It offers doctors a holistic view of patient health and access to more data to examine than they could get from individual office visits.<sup>7</sup>

## Health in the flow of life

An overriding goal for healthcare is to control costs and improve quality of care. One way to achieve this is to keep patients out of the doctor's office and away from hospitals. It's more convenient, accessible and less expensive. A growing focus on preventive care, bringing medical services to more convenient locations for individuals and greater awareness of wellness supported by more personal ownership is reshaping the industry. For example:

- *Retail clinics.* When the doctor's office is booked for the next two weeks, or while traveling on business in another city, patients turn to retail clinics to cure minor ailments. Renting space in a drugstore chain, major retailers and even hospitals, clinics are filling a need for convenience, lower costs and a more consumer-centric approach to healthcare.
- *Online retail.* Shopping for drugs online or on mobile devices improves the consumer experience. Home delivery of everything from over-the-counter and pharmacist-approved prescription medication, vitamins and supplements and even books on nutrition can help promote self-care and a healthy lifestyle.
- *In-home assistants.* Nurses and home care aides are testing the use of voice assistants as a gateway to healthcare in the home. The systems provide more access to family members and help to ensure elderly patients get and take their medication on time. By being in the home virtually to communicate with the consumer, in-home assistants can connect patients to pertinent information and expertise and social and emotional support.<sup>8</sup>
- *Digital doctor referral.* Finding a doctor or specialist online is as easy as booking a table in a popular restaurant with online referral tools. The patient can choose by location, specialty, cost and other factors that personalize the experience.
- *Personal wellness tools.* Applications that use cognitive computing capabilities can help individuals track their health and wellness habits, including the amount of quality sleep they get each night and reminders to drink more water, data that might be used to reduce health insurance rates.

## Breathing life into opportunity

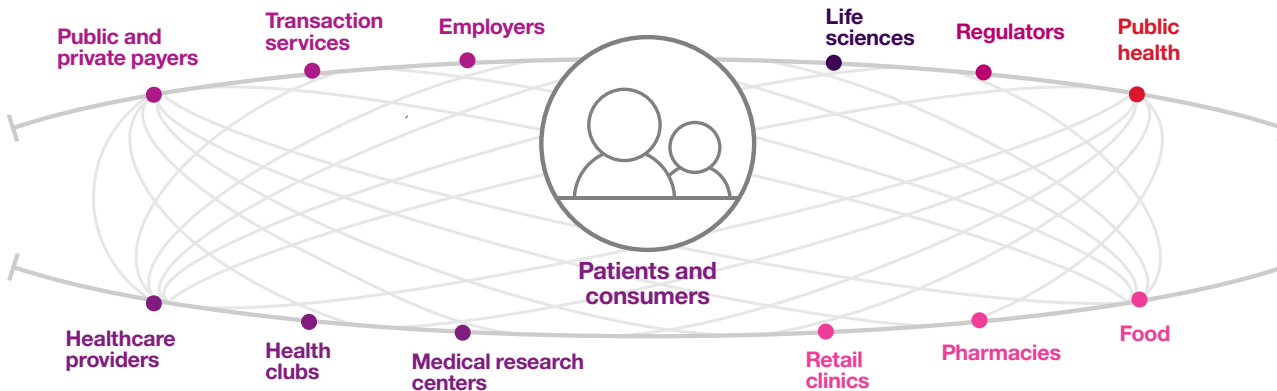
Consumerism in healthcare has been an inescapable and growing trend as patients choose to take a more active role in their care experience. This new model of the healthcare industry is built on an ecosystem with the patient and consumer at its core. With the mergers and acquisitions now occurring across the health and wellness value chain, organizations may choose to partner in the health and wellness

ecosystem to compete. Traditionally, healthcare has been made up of payers, whether an insurer, the government or employer and the hospitals and clinics providing care (see Figure 1). There has been an influx of new entrants to the healthcare industry, such as:

- Pharmaceutical companies undertake independent research to create personalized treatments.
- Medical device companies produce wearables that automatically record and transmit information, such as heart rate, blood glucose and physical activity to monitor one's health.
- Community pharmacies and other retailers now offer simple health services, for example an annual flu shot or basic physical required for a high school athlete, at a location and time that is convenient to the individual.

**Figure 1**

Partnering is moving beyond traditional players



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## For the benefit of the well

Entrants to the healthcare industry have been mostly piecemeal thus far. But now, as large consumer companies buy into new and existing spaces, the yet unknown is how these entrants will transform the norm, such as creating a healthcare company out of a drug store chain. There's more to do, and to learn, and so this report is the first of a planned series. We will further explore healthcare industry transformation in 2018.

Cloud and artificial intelligence (AI) will be increasingly essential for success as the industry evolves towards a consumer-driven approach to care and necessitates greater collaboration across ecosystem partners to sustain long-term growth. Just as ride sharing

changed transportation and digital technology redefined music and television as streaming services, digitally-enabled healthcare innovation will increasingly empower patients, consumers and caregivers. Data science and evidence-based insights will, out of necessity, drive medicine.

For companies who've found success built on traditional healthcare models, making necessary changes could be slow going and costly. But embracing such change is essential. Not only for organizations themselves, but for their patients (or customers), partners and other stakeholders — and for the population as a whole — as the industry aims for better health and improved wellness throughout their lifetimes.

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Produced in the United States of America  
January 2018

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GBE03909USEN-00

