

The business of transforming healthcare

WHAT'S NEXT: PREDICTIONS FOR THE YEAR AHEAD IN HEALTHCARE

From the embrace of omni-channel experiences to the revision of physician alignment strategies, this series captures Oliver Wyman's 2016 healthcare industry outlook

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10 PREDICTIONS FOR THE YEAR AHEAD IN HEALTHCARE



From the embrace of omni-channel experiences to the revision of physician alignment strategies, the following infographic captures our team’s 2016 “What’s Next” industry outlook:



THE YEAR AHEAD IN HEALTHCARE OLIVER WYMAN’S 10 PREDICTIONS

<p>01 Payers shift away from one-size-fits-all products and curate experience to create customized products for different market segments.</p>	<p>Providers take advantage of the disruption caused by payer M&A to launch their own health plans, accelerating the shift to value. 06</p>
<p>Forward-thinking health systems abandon the fortress mentality; embrace the omni-channel experience; work with partners to create a new front door to healthcare. 02</p>	<p>07 Exclusive provider contracting marches on – particularly in Medicare Advantage plans – offering consumers a seamless experience.</p>
<p>03 Empowered by the digital revolution, consumers help morph the marketplace from a sick-care FFS model to a highly personalized, when-how-and-where-they-want-it one.</p>	<p>The Medicare Advantage space starts to thin out. Smaller players that are unable to improve Star ratings will exit in increasing numbers. 08</p>
<p>The rise in high-deductible plans pushes cost and price transparency to the fore; plans invest in user-friendly price tools; patients embrace their role as selective consumers. 04</p>	<p>09 Health systems abandon the buy-everyone/employ-everyone strategy of recent years and revise physician alignment strategies to include a variety of alignment mechanisms.</p>
<p>05 The market determines if the individual exchanges are sustainable. Health plans and employers evaluate what segments can be profitable, setting up possibility of significant disruption.</p>	<p>Retail health moves beyond “doc in a box”; major retailers carve out different segments and compete on different models. (Insurance enrollment @Walmart; care coaching @Rite Aid, etc.) 10</p>

Source: Oliver Wyman analysis

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CONSUMERISM EXERTS REAL PRESSURE ON THE MARKET

by Terry Stone, Global Managing Partner,
Health & Life Sciences, Oliver Wyman



This week we are running our “What’s Next” industry outlook series examining the market influences that will have the most impact on healthcare in 2016. Oliver Wyman partners break down five different disruptive innovations that will take root this year, each initiating a chain of reactions and innovation across the industry. Oliver Wyman’s Global Managing Partner for Health & Life Sciences Terry Stone kicks off the series with a prediction about the overall marketplace (see sidebar for more on what’s next):

There is a long-held misconception in healthcare that things can either be high quality or low cost; the two are thought to be incompatible and mutually opposed. But innovative players are upending that mindset, serving consumer needs with value-based care and a focus on great experience.

Consumer-minded upstarts and retail health companies (primarily) are demonstrating that the one-size-fits-all, not-on-your-terms-or-schedule days are over. Legacy organizations that don’t bend to this rise in consumerism will see market share walk out the door, because 2016 is the year consumers will start to shop with their feet to get what they need, when they want it, the way they want it.

The tipping point to the consumer-centric market is two-fold. First, the rise in high-deductible insurance products will lead consumers to become more informed and selective. With real dollars at stake, consumers will have much larger incentive to “price comparison shop” for major medical expenses, just as consumers would for major home appliances. But it’s not only going to be about price. As more consumers become informed shoppers, they will make use of quality ratings and customer-experience reviews, driving them to reject status-quo options and choose those that offer the best overall value.

SKIN IN THE GAME

According to Mercer’s National Survey of Employer-Sponsored Health Plans, 25 percent of people with employer-sponsored coverage are in high-deductible plans (HDHPs), defined as \$1,500 or higher for an individual. These figures are only going to rise, as HDHPs are expected to be the fastest-growing insurance offering over the next decade.

There has been much discussion about how these “skin-in-the-game” products will impact the market. The criticism of HDHPs is that they may encourage consumers to delay or avoid seeking care, and so they will end up sicker with higher costs. And some research indicates consumers are not yet ready to price-check their providers.

But that is largely because up to now consumers have had precious little information available to them. Consequently, they had low motivation and little reason to comparison shop. As tools now become more sophisticated and relevant, consumers will have the ability – and increasingly the inclination – to be cost-conscious shoppers. Already, consumers in HDHPs are twice as likely to use the online cost-tracking tools offered by health plans.

As HDHPs proliferate, we can expect to see this sort of engagement increase, with more people utilizing cost tools and exploring provider reviews until informed consumer decision-making becomes the norm, rather than the exception. As this happens, the tools will become even more valuable, collecting feedback from a broader consumer basis, driving more users, and leading to the development of new and better tools.

EXPERIENCE MATTERS

What starts with cost consciousness builds an upward spiral of transparency, driving better decisions, and demanding maximum experience from the healthcare marketplace. Consider Oscar Health Insurance, a Google- and Goldman Sachs-backed start-up that offers itself as an alternative to traditional health plans. It relies on technology and design to deliver a simpler, friendlier user experience – and it nabbed about 7 percent of the New York City-area individual marketplace this year, despite being priced 15 to 20 percent higher than low-cost players. Oscar is an example of how the digital revolution is shifting consumer expectations, as people begin to demand healthcare organizations deliver the same curated, optimized experience that they get from online shopping, travel, and lifestyle sites.

While questions remain about Oscar’s ability to manage risk as well as the legacy insurers, it is indisputable that they have created a great consumer experience. The underwriting and risk-management aspect of their business is not what sets them apart – and leadership on those fronts can always be hired and acquired. What makes Oscar formidable, and why legacy insurers should take them seriously, is the fact that they have cracked the consumer-experience code. Just last week, it was reported that Fidelity Investments believes in the Oscar model enough to invest more than \$150 million in the company.

Retail is another segment that recognizes the importance of experience, and this year retailers are expanding their footprint, offering health services with hours and accessibility better suited to consumers’ schedules and lives. CVS Health has plans to expand its retail clinic business to more than 1,500 clinics by 2017; and Walmart is continuing toward its goal to become the nation’s largest primary care provider. If a person can walk into a Walmart Care Clinic without an appointment and pay a flat \$59 fee (\$4 for employees on Walmart insurance plan), \$3 for a pregnancy test, and \$15 for a cholesterol test at the same time they pick up their groceries for the week, the traditional physician’s office is going to have a very difficult time staying relevant.

TURNS OUT, VALUE AND QUALITY ARE COMPATIBLE

Healthcare organizations have historically paid scant attention to consumer science and invested little in consumer experience. That is because experience was a value-add and not the driver of the fee-for-service market. The world is becoming a different place now, though, and consumer engagement is more than a PR investment; it's one of the most critical success factors.

Consider Amazon.com, the largest retailer in the world. Its simple interface allows consumers to shop a wide variety of products at varying price points, while the website's technology platform curates and tailors the experience to each user. High quality, low cost, and a homerun consumer experience. In return, consumers awarded Amazon with an industry-leading net promoter score (NPS) of 69.

Companies across all industries aspire to achieve anything close to Amazon's customer loyalty and high NPS. Meanwhile, lora Health, a new kind of team-based primary care model, is quietly upending primary care delivery, delighting its patients, reducing health costs, and netting an NPS of 93. For some perspective, that's a higher score than Apple; and Kaiser Permanente, a company often lauded for its high customer satisfaction, led the insurance industry with a NPS of just 31.

Innovators such as lora and Oscar are proving quality and value are not mutually opposed. This is the year consumer-centric models will emerge from obscurity and start to exert real influence on the market: lora is doubling the number of clinics its opening and Oscar has expanded and tripled its market.

Legacy organizations should heed the example of these innovators and consider how they can boost their consumer experience. Of course, becoming the Nordstrom of healthcare is no easy – or overnight – task; but it is critical that legacy organizations begin the hard work of examining their value promise. The innovators aren't sitting around waiting, and consumers won't either.

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TERRY STONE

RETAIL CLINICS DEFINE ROLE AS HUB OF PROVIDER NETWORK



by Sam Glick, Partner, Oliver Wyman



Our “What’s Next” predictions series continues with this view from Oliver Wyman Partner Sam Glick. He shares his perspective on retail health and the evolution of retail clinics, highlighting traditional health systems’ embrace of retail care as an extension of their impact, not as a competitor:

Over the past few years, there has been much excitement about the potential for retail healthcare. To date, however, retail health has largely been realized as urgent care clinics in pharmacy settings. These so-called doc-in-a-box clinics certainly extend the reach and convenience of low-acuity care, but most of them are still grounded in the old-fashioned sick-care, bricks-and-mortar world of medicine.

This year will usher in a new era of retail health. Retail clinics 2.0 will be different; they will be the hub of the provider network of the future. These clinics will still provide inexpensive urgent care at convenient hours and locations, but they’ll also provide insurance enrollment (like Walmart is doing); care coaching (a la Rite Aid); full primary care (as Walgreens is piloting); a community-health focus (like Target); and whole-health services (like CVS). The retail healthcare experience will be like the best of any other retail experience – that is, tailored, affordable, and easy.

In the coming year we will also see traditional health systems embrace retail care as an extension of their impact, not as a competitor. Continued growth in value-based payments mean health systems have incentives to find new, lower-cost ways to reach patients before they show up in the emergency room. And what system wouldn’t want to be able to deliver a primary care visit for \$45, when their cost is two to four times that amount today?

Why is this the year that retail health will take root? Consumers are now comfortable with retail care (our research shows that more than a quarter of Americans have used a retail clinic and more than two-thirds are willing to do so); retailers are continuing to invest (CVS, for example, wants to nearly double its retail care footprint by the end of 2017); and providers have more incentive than ever to get costs down and improve the patient experience.

2016 is going to be an exciting year indeed.

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SAM GLICK

PIONEER SYSTEMS LOOP TOGETHER FIRST FULLY INTEGRATED EXPERIENCE



by Dan Shellenbarger, Global Head, Provider, Oliver Wyman



Our “What’s Next” predictions series continues with this view from Dan Shellenbarger, Oliver Wyman’s Global Head, Provider. He shares his perspective on the healthcare provider space, noting that in 2016—after several years of acquisition and partnering—a few pioneer health systems will stitch together a fully integrated experience. And when they do, they will start to distance themselves from the pack:

The past few years have seen health systems extend beyond “tall, gleaming assets,” acquiring primary care practices, building up physician networks, and venturing into retail. This is a departure from the pure brick-and-mortar, service-line mentality and reflects systems’ embracing of the omni-channel business model—a model that aims to deliver a seamless healthcare experience with multiple entry points and options for care.

While many systems are committed to building this type of consumer experience, a good percentage of them are still in the “gathering stage” acquiring assets and/or forming partnerships with key partners (telehealth, retail, urgent care, etc.). In most cases, the full network is not yet stitched together. Not by a long shot.

But this is a year of change. In 2016, a few pioneers will deliver a fully integrated experience. They will demonstrate that the multitude of interactions in an omni-channel system can be connected for a better overall experience. In the process, they will create a more durable relationship with the consumers they serve and start to distance themselves from the pack. It is the beginning of a new race.

Why now? Systems’ maturing IT systems are creating interoperability and granting previously isolated partners the ability to share data more effectively than even a few years ago. Further, the transition to value-based reimbursement is motivating providers to push some care to lower-cost, consumer-centric sites of care.

Pushed by these internal and market influences, systems will start to weave a multitude of key assets into an integrated system with a more intuitive, transparent, and consistent experience. Technology will play a key role in the integration of various assets, as telehealth, e-visits, and other forms of virtual and complementary care help to create a seamless experience in terms of data, coordination, payment, and follow-up care.

As consumers become more informed about the variety of options, they will become more adept at navigating the system—and that will result in both improved consumer experience

and more efficient use of resources. For example, a sinus infection may not necessitate a trip to the physician's office when it can be handled right in the neighbourhood at a retail clinic; or better yet, from the comfort of home via a telehealth appointment.

This year, as the pioneers eliminate barriers between the various channels, consumers will begin to realize a very different experience. They will find value in the convenience, commonality, and power of choice. And as consumers become accustomed to this deeper relationship, they will develop loyalty to the "ecosystem" (rather than a single physician or office); and they will seek insurance plans that sustain access to this new, preferred experience. The system, with its varied entry points and multitude of care encounters, will become the community's preferred provider.

To be clear, this will not be the year of dramatic upheaval; there are only a handful of systems poised to weave together the fully developed, omni-channel experience. But the transition gets underway in 2016; and organizations that take the lead today will garner the health and loyalty of tomorrow's healthcare consumers.

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DAN SHELLNBARGER

PRICE TRANSPARENCY TAKES CENTER STAGE

by Todd Van Tol, Head of Health & Life Sciences, North America, Oliver Wyman



Our “What’s Next” healthcare predictions series continues with this view from Todd Van Tol, Oliver Wyman’s head of Health & Life Sciences for North America. He shares his perspective of what the future holds for health services in 2016:



According to Oliver Wyman estimates, about one-third of today’s healthcare spending has characteristics that make it shop-able, meaning it’s not emergency care, or a complex or unique procedure. That’s about \$900 billion in healthcare spending that could be price shopped if consumers had the knowledge and tools to do so. But up to now, they have had neither.

Price-comparison tools have been in the market for some time, but use of the tools has historically been low – primarily because the price information available via such tools has been unwieldy, complicated, and often not specific to a consumer’s unique situation and benefit plan. In addition, benefit structures did not provide incentives for consumers to comparison shop, and so few patients felt compelled to do so. What’s more, many providers still do not have a good understanding of patients’ share of costs – given the complex contracting arrangements with payers – and so could not discuss cost with their patients even when the consumer was motivated to do so.

Today, however, cost is foremost on consumers’ minds. Nearly 40 percent of people in employer-based plans are in a high-deductible plan and many of the ACA plans have shifted to high deductibles. With so many facing more out-of-pocket exposure, cost of services has taken on greater importance; and consumers are beginning to show interest in incorporating pricing into their healthcare decision making. At the same time, plans are mobilizing to make price more relevant with user-friendly pricing tools.

After years of price-transparency discussion, 2016 is the year that cost of services will not only enter into the conversation, but move meaningful volume.

The key, though, to making price transparency actionable will be tools that are meaningful to consumers. Cost is incredibly complex, and it is not always rationale or intuitive in terms of how different services are priced and reimbursed. The new generation of price tools will need to be easier to use, move beyond the general cost range of a procedure, and be specific to an individual’s insurance product.

While some providers are threatened by cost conversations, those who take a proactive position and introduce price into patient relationships will benefit in the coming year. That's because as consumers take on a greater share of costs via high deductibles, providers will be billing patients directly more than in the past; and collecting payment from consumers is often more onerous for them than extracting claim payment from insurers. Consequently, providers who introduce price into care-planning discussions and reinforce consumer behaviors to shop for care will likely face fewer hurdles when it comes time to collect payment.

At the same time, providers will need to pay greater attention to their price points for shop-able services and make sure they are competitive and relevant.

Of course, not all healthcare is shop-able. If you require a complex cardiac procedure, there may be only one qualified provider in your area. However, \$900 billion is a lot of shop-able care. Armed with accurate cost information, consumers will now increasingly incorporate cost into those decisions, causing volume to move in more than token ways.

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TODD VAN TOL

EXCLUSIVE CONTRACTING KEY TO SOLVING CONSUMER EXPERIENCE PUZZLE



by Jim Fields, Global Head, Health Services, Oliver Wyman



Our “What’s Next” predictions series continues with this view from Jim Fields, Oliver Wyman’s Global Head of Health Services. He shares his perspective on the rise of exclusive network arrangements, explaining how in 2016 they move beyond traditional narrow networks to deliver meaningful value-based components and differentiated consumer experiences:

The use of narrow/exclusive networks is commonplace across the ACA/Individual and Medicare Advantage markets. However, until recently organizations haven’t captured the full value of these arrangements. First-generation narrow networks were simply super-charged ‘discounts-for-volume’ arrangements.

In 2016, we see these arrangements being extended into exclusive network arrangements that have two distinctive characteristics over traditional narrow networks: (1) meaningful value-based components and (2) differentiated consumer experiences for patients/members.

With exclusive provider contracting, payers will be able to offer providers wrap-around support, such as communication and care management resources, that will help clinicians better manage patients’ care and lead to improved outcomes.

In the past, many plans viewed customer experience as a marketing effort; now plans are starting to recognize the business rationale behind enhanced customer experience and the direct link to Stars ratings. In 2016, more Medicare Advantage plans will pursue exclusive provider contracting in an effort to deliver a more navigable healthcare experience, drive higher quality, manage the cost of care, while boosting Star ratings and risk scores.

From the consumer perspective, an exclusive network can create a more streamlined and easier-to-navigate healthcare experience. Members benefit from new care management and wellness tools, as well as increased access to clinicians. For example, if a provider is exclusive to a particular Medicare Advantage plan, the consumer could have preferred appointment slots, and the ability to communicate with providers via email or telehealth.

If, as a member, it becomes easier to get an appointment with my doctor or communicate with my doctor’s office, and if I gain access to enhanced benefits or programs (such as health coaching), I will be more willing to engage with my provider. When the doctor’s office (or my health plan, through coordination with my doctor) contacts me about getting an annual check-up, it will feel less like an annoyance and more like a relationship.

From the plan perspective, granting consumers an improved experience will lead to more plan loyalty, greater member stickiness, and higher quality ratings. 2016 is the year of the next-generation exclusive provider network; one that focuses on consumer experience and value.

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JIM FIELDS

ABOUT OLIVER WYMAN HEALTH

Oliver Wyman Health is a virtual community of innovators convened by the Health & Life Sciences practice of global management consulting firm Oliver Wyman.

As the healthcare world changes and leaders look for direction, guidance, and new ideas, Oliver Wyman Health offers a digital platform for diffusing proven value-based solutions. Our in-house team of experts as well as a range of external thought leaders provide practical insights on the business challenges of transforming healthcare from volume to value.

We invite you to share ideas and infographics, contribute novel approaches to the financing and delivery of healthcare, subscribe to receive updates on effective strategies, and connect with other healthcare industry professionals.

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