

# HEALTHCARE'S NEXT DISRUPTORS

## HOW CAN CONSUMER PACKAGED GOODS COMPANIES AND RETAILERS TRANSFORM DIRECT-TO-CONSUMER HEALTHCARE?

The rise of consumerism in healthcare is putting pressure on existing business models. It is also bringing about new outsized opportunity in direct-to-consumer categories. January's announcement from Amazon, JPMorgan, and Berkshire Hathaway clearly heightens this pressure. This groundbreaking news confirms for healthcare's biggest players that health and wellness is a major aspect of consumerism's future direction. As potentially industry-shaking partnerships such as this come to fruition, the question still remains: "Who is in the best position to stake a claim in this about-to-explode market?"

Exhibit 1: Health 2.0 new paradigm: the consumer-driven health market

### FORMER PARADIGM: THE REACTIVE PATIENT



### NEW PARADIGM: A PROACTIVE CONSUMER



Source: Oliver Wyman analysis



Healthcare is evolving from a sick-care market, treating people who are already sick, to a consumer-driven health market, with consumers taking more control of their own health and wellness decisions. We call this new paradigm “Health 2.0.” (See Exhibit 1.)

Three main factors are driving this shift. Firstly, the costs of being sick are escalating, creating a major crisis for consumers who have not yet switched to more active management of their own health. Secondly, new technologies are empowering consumers. Multiple solutions like wearables and virtual care such as video calls with doctors are becoming more mainstream, allowing consumers to find alternatives to the traditional healthcare approach. Last but not least, governments and payers are encouraging this evolution because it reduces costs through preventive care and cheaper management of chronic conditions.

With this shift comes opportunity, especially in consumer healthcare products that are focused on areas like nutrition, healthy living, fitness, mental health, and better sleep. Recent innovations include foods that offer health benefits (for example, better digestion and healthier skin) and wearables that track fitness activity and sleep patterns. A future market of services and offerings will allow consumers to take charge of managing their vital signs, behavioral health, and wellness.

This consumer health market is predicted to double in size by 2020. This steep growth is, understandably, gaining the attention of different types of players – from traditional providers (pharmaceutical companies, hospitals, doctors) to retailers and consumer packaged goods companies (CPGs) – who all want their share of this significant opportunity. In other words, it is ripe for the taking.

## AN OPPORTUNITY PRESENTS ITSELF

Traditional providers may struggle to respond to this opportunity. They generally have not managed people’s healthcare over multiple years, not because they do not want to, but because the incentives and profit model do not support this. As a result many have not developed refined capabilities in customer management or engagement. But the picture may not be so black and white; some forward-thinking payer and provider organizations are working successfully to engage with consumers outside healthcare’s usual boundaries via non-traditional offerings.

In diabetes or heart disease, for example, some organizations realize successful outcomes cannot be achieved by only treating the problem reactively (that is, once the symptoms have appeared). They recognize the opportunities to engage consumers through everyday areas of contact (or “touch points”) like nutrition, exercise, and social support by proactively managing health and preventing disease. Yet most of these healthcare organizations lack the infrastructure, consumer insights, and abilities to engage with consumers to implement this vision.

Meanwhile, new entrants, including digital tech companies, are bringing innovative devices and solutions to the market, forging relationships with consumers through things like biometric sensors and health apps. But, beyond the early adopters – people who always like to be among the first to try a new product – not many consumers are aware of these start-ups.

Given the important role pharmaceuticals play in managing chronic conditions, they too have a vested interest in engaging consumers, but they are battling perceptions and negative press surrounding prices. Most people still view pharmaceutical companies as drug suppliers rather than health partners. And while these companies are good at advertising and promotion, getting consumers to ask a doctor about a specific drug is a meaningful step removed from actively engaging with consumers directly.

## ENTER CONSUMER PACKAGED GOODS COMPANIES AND RETAILERS

Our point of view is that the shortfalls of the traditional providers leave an opportunity for other types of players who have (i) customer touch points or ownership, (ii) consumer engagement skills, and (iii) consumer trust. These three dimensions are all core to the DNA of large food retailers and consumer packaged goods companies (CPGs). Interestingly enough, these players are being heavily disrupted in their historical markets by those that operate only on the internet (“pure players”) and new technologies – but they now have an opportunity to become disruptors themselves.

With their existing footprint and deep understanding of consumer behavior, CPGs are well positioned to win in the health and wellness space. They have the marketing engine and consumer DNA to deliver a comprehensive (or “end-to-end”) health experience in a way that the other players cannot. They already occupy space in the larger nutrition ecosystem and, perhaps more importantly, they are hardwired to understand consumers and help them improve their consumption behaviors. While ample attention is focused on how tech companies will disrupt healthcare, the reality is that CPGs already have the capabilities and footprint to own the consumer healthcare products space. They may just be sleeper disruptors – waiting until the right moment to lead the reinvention of healthcare.

The catch? Many CPGs broker in products (fatty, high-sugar goods and drinks) that directly contribute to poor health outcomes. To secure a strong foothold in this space, CPGs will have to prioritize healthier products, some of which will compete directly with existing lines of business. This will be challenging for some, as the quicker, easier return is in continuing to promote unhealthy decisions. But the long-term advantage of gaining consumer trust in this important market can pay dividends. This is the strategy set by Nestlé more than

10 years ago, with a progressive shift of its investments into its nutrition and health science line of business, which has grown at a faster pace than others. Categories like confectionery, prepared dishes, and ice creams have shrunk in size over the same period, showing a commitment to rebalance the overall company portfolio.

Retailers are also well positioned to seize the opportunity, but they face similar challenges. And some players have already made bold moves to promote health and wellness. A good illustration would be the CVS decision to stop selling tobacco products in 2014 because it conflicted with its purpose of helping people on their path to better health. Despite discarding a \$2 billion annual business, CVS has managed to grow by double digits since then, thanks to a very effective rebranding strategy and alignment of its portfolio of products and services with its new purpose.

The pressing question for CPGs as well as retailers now is: “Can they evolve their business model to take advantage or will other players beat them to it?”

## THE FUTURE IS NOW

Health 2.0 is not theoretical. It has already taken root. According to a recent Oliver Wyman Consumer/Retail Healthcare survey, people are most interested in healthcare offerings that are convenient and personalized. Millennials, in particular, look for a wellness-focused experience. Their responses indicate that they expect to engage with the healthcare system in an everyday, potentially pleasing way rather than only during times of sickness; they want a health and wellness experience centered more on their day-to-day life than their occasional interactions with the traditional healthcare system. Exhibit 2 shows new needs emerging across the various patient touch point categories.

Leaders of CPGs are already addressing some of these emerging needs, building the foundations of what could become a significant disruption for traditional players. Danone, for instance, has established a strong early-life offering, through its early-life nutrition division. Although still focused mostly on the products it brings to market, it is increasingly positioning itself as a health partner committed to engaging with and nurturing mothers and babies. Meanwhile, Nestlé is investing in nutritional therapy through Nestlé Health Science. Since 2010, Nestlé has completed multiple strategic acquisitions and partnerships, including several medical food products. In January 2018, Nestlé announced the sale of its US confectionery business, further positioning it as a consumer health product company. In September 2017, the company announced two new acquisitions: Blue Bottle Coffee and Sweet Earth Foods, both eco-conscious brands, further materializing Nestlé’s strategic business transformation towards nutrition, health, and wellness. And in January 2018, it emerged that Nestlé is taking the lead bid for Merck KGaA’s consumer health business.

## Exhibit 2: Emerging and traditional offerings along consumer touchpoints in health (excerpt)

CONSUMER TOUCHPOINT	TRADITIONAL	EMERGING
<b>Information and advice</b>	<ul style="list-style-type: none"> <li>• Static repositories of clinical information</li> <li>• Some patient-created content</li> </ul>	<ul style="list-style-type: none"> <li>• Guidance, advice, and navigation provided by third parties independent of the doctor</li> </ul>
<b>Wellness and prevention</b>	<ul style="list-style-type: none"> <li>• One-size-fits-all dieting and exercise advice</li> <li>• Focus on aesthetic appearances</li> </ul>	<ul style="list-style-type: none"> <li>• Personalized diet management plans</li> <li>• Real-time activity and behavioral monitoring</li> <li>• Gamification of exercise/wellness</li> </ul>
<b>Diagnostics</b>	<ul style="list-style-type: none"> <li>• Doctor-led, post-symptomatic lab work and imaging etc. in clinical setting</li> </ul>	<ul style="list-style-type: none"> <li>• At-home diagnostics sent remotely to doctor</li> <li>• Predictive genomic testing</li> <li>• Precision medicine</li> </ul>
<b>Condition management</b>	<ul style="list-style-type: none"> <li>• Outbound call centre-based case management</li> <li>• Untimely with disjointed data usage</li> </ul>	<ul style="list-style-type: none"> <li>• Real-time monitoring, linked to other personal data</li> <li>• Big data analytics to deliver personal insights</li> </ul>
<b>Care delivery</b>	<ul style="list-style-type: none"> <li>• Traditional sickness and repair healthcare in: <ul style="list-style-type: none"> <li>– Hospitals</li> <li>– Physician clinics</li> <li>– Workplace</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Accountable care organizations (ACOs)</li> <li>• Convenient care settings</li> <li>• Mobile phone-based delivery platforms</li> <li>• Centres of Excellence for specific diseases</li> </ul>
<b>Therapeutics</b>	<ul style="list-style-type: none"> <li>• Classic pharma, consumer health and medical device business models</li> </ul>	<ul style="list-style-type: none"> <li>• Advanced packaging and drug delivery to monitor adherence and simplify medications</li> <li>• Use of big data and real-world evidence</li> <li>• New product categories</li> </ul>

### Information-based healthcare.

All emerging models are underpinned by rapid advances in technological infrastructure through collection, coordination, and analysis of vast amounts of data that can provide value-creating insights

Source: Oliver Wyman analysis

Given the increasing pressure from Amazon, retailers are also looking at new growth avenues. They can make good use of the fact that consumers are increasingly open to receiving health guidance from non-traditional sources. For example, an Oliver Wyman survey of UK shoppers found that 60 percent believe it is their supermarket's responsibility to help them be healthier. A separate US-focused survey found that almost 80 percent of consumers who had visited a health or wellness clinic within a grocery store, discount retail store, or drug store within the past two years said the experience was about the same or better than a traditional doctor's office (see "The New Front Door to Healthcare is Here," Oliver Wyman, 2016).

In fact, the US now has twice the number of retail clinics it had only three years ago, with key players like Walmart and Target generating substantial new revenue streams out of it and strengthening their value proposition in the process. In another significant move by a large retailer, the US pharmacy chain CVS Health is looking to acquire Aetna, which sells healthcare insurance and related services (such as dental, long-term care, and disability plans). The merger will enable CVS Health to provide a broad range of services at its nationwide network of drug stores and clinics, reducing its reliance on the retail sales that face such tough competition.

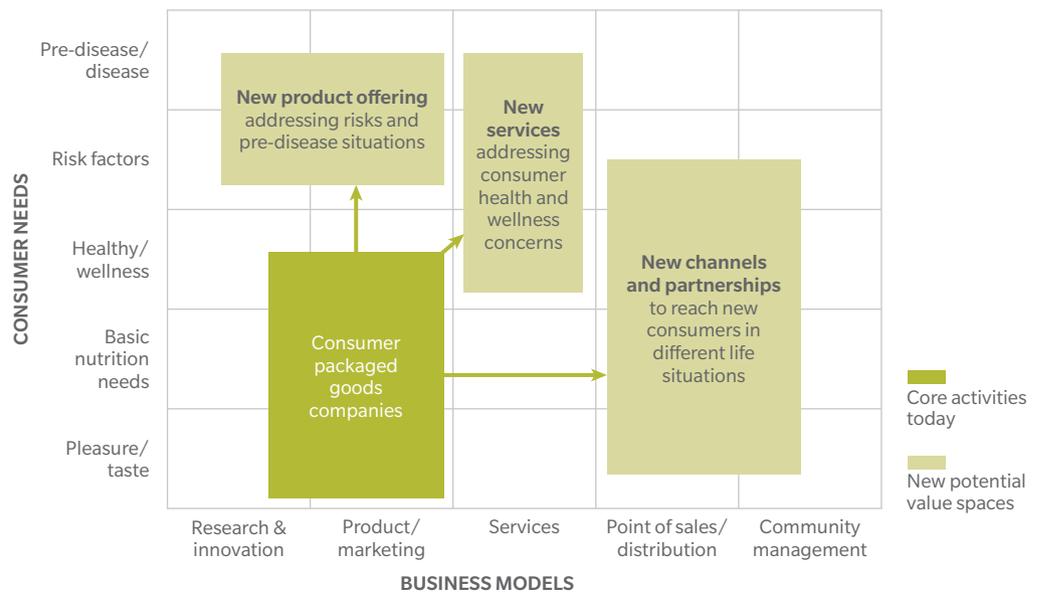
# THE KEY SUCCESS FACTOR: CREATING HEALTH ECOSYSTEMS

In the new health market, consumers want to move seamlessly between daily living and their interactions with the healthcare system. Consumers expect a singular experience, without borders and boundaries separating wellness efforts from shopping, social support, or a visit to a healthcare provider. A comprehensive health ecosystem needs to address these multiple consumer touch points, to effectively surround particular life stages and situations with the right level of consumer support and engagement.

Because CPGs and retailers have existing consumer touch points, trust, and engagement skills, they are well positioned to create such an ecosystem. The playing field is very large and there are many ways in which companies can use the new space to meet consumers' needs. Exhibit 3 illustrates how CPGs can approach the strategic thinking behind these opportunities.

One such approach would be a pregnancy and early-life management offering. Danone has taken steps in this direction, notably through its Nutricia website and mobile app targeted at pregnant women and young mothers; it is already considered a leading player in this field. To build an end-to-end ecosystem for this area of healthcare, retailers or CPGs need to make certain kinds of tools easily available to expectant and young mothers.

**Exhibit 3: Mapping of direct-to-consumer healthcare opportunities**



Source: Oliver Wyman analysis

**These could include offerings that:**

- Monitor the mother's own and baby's health data.
- Track dietary information.
- Order diapers, baby wipes, or formula immediately.
- Track vitamin consumption.
- Plan doctor appointments and receive automatic reminders.
- Seek and receive age-specific information through a live Q&A forum with experts.
- Track and store photos and development milestones via a personal diary interface.
- Participate in social communities, such as other mothers at similar stages.

For this and other examples, companies cannot have all the necessary expertise and capabilities in-house; retailers and CPGs need to look for external partners with which to build a health ecosystem. Research partnerships with universities and biotech companies can supplement internal research and development efforts. Working with start-ups that have developed new medical devices and solutions is another way to build innovative tailored offerings. Last but not least, partnering with digital and tech companies can help accelerate the development of new leading health solutions. In a similar initiative, Samsung and Nestlé are combining their "internet of things" and nutrition science capabilities to provide new consumer insights. The first pilot schemes started in 2017 and are focused on understanding the human body's "voice" to provide personalized recommendations for nutrition, lifestyle, and fitness. The winners will be those companies that are able to broaden their capabilities so they can expand their presence across the value chain – and multiply consumer touch points in the process.

## WHAT COMES NEXT?

The consumer healthcare opportunity is immense with plenty of room for CPGs and retailers to grasp key aspects of it.

Most players are still in the scoping stage and identifying possible entry points. To explore and get ready for new approaches, CPGs and retailers should focus on understanding consumer hassles and thinking beyond their normal interactions to come up with several potentially disruptive ideas. They can then progressively shorten the list through more thorough investigation and consumer focus groups before finally evaluating and acting on the business viability of these ideas within the framework of the overall company strategy.

Are retailers and CPGs willing to take the leap and step outside their comfort zone to become healthcare's next disruptors?