The New Health Economy in the age of disruption:
Novel combinations attempt to remake the health system

April 2018

While the US health industry has experienced active deal-making in recent years, deals announced in the past six months have been unusual. New business models are emerging in an industry that has long resisted significant change, signaling the possibility that profound disruption may occur. These new models—Vertical Integrators, Employer Activists, Technology Invaders and Health Retailers—largely involve new entrants combining with traditional players to offer consumers more convenient, affordable and effective care while cutting costs and creating value and scale to compete more effectively. Their arrival in the industry should prompt players new and old to reconsider their roles, business models and strategies.
The last six months have seen an explosion in unusual deals with the potential to reshape the US health ecosystem. CVS Health announced its intention to purchase Aetna for $69 billion.\(^1\) Cigna Corp. has announced an agreement to buy Express Scripts Holding Co. for $67 billion.\(^2\) UnitedHealth Group’s Optum purchased DaVita Medical Group for $4.9 billion.\(^3\) Albertsons Cos. has agreed to merge with Rite Aid Corp.\(^4\) Other high-profile and novel healthcare deals have been floated in the press.

Several unusual partnerships also have been announced, including one among Amazon, JPMorgan Chase & Co. and Berkshire Hathaway Inc.\(^5\) In an April 2018 letter to investors, JPMorgan Chase & Co., CEO Jamie Dimon listed poorly aligned incentives, waste, fraud, administrative costs, cost transparency, wellness, drug prices and end-of-life costs as issues the three would attempt to address. “To attack these issues, we will be using top management, big data, virtual technology, better customer engagement and the improved creation of customer choice (high deductibles have barely worked),” Dimon wrote. “This effort is just beginning.”\(^6\)

And these are just the largest and most recent deals and partnerships. In 2017, 967 deals occurred in the US health services market, including healthcare payers and providers.\(^7\) Deal value increased 146 percent over 2016. The US health industry is undergoing seismic change generated by a collision of forces, including the shift from volume to value, rising consumerism and the decentralization of care.\(^8\) This shifting terrain is creating uneven opportunities in the New Health Economy and will likely drive players new and established to reconsider their business models and strike the sorts of deals announced in the past six months. Some will be driven to seek returns in new markets as their core revenues shrink. Others will find success creating value for other players, including consumers. Still others will thrive by building infrastructure for the emerging virtual health system.

These shifts are occurring in an industry that has long been impervious to structural change. For decades, the US health industry was a business-to-business system of silos—hospitals, insurance companies, government institutions, pharmacies, drugmakers, medical device-makers, employers—bound by contracting models. Consumers interacted with the system as patients, playing more passive roles. Now emerging in place of this siloed industry is a modular ecosystem that operates similarly to industries such as retail, technology and hospitality. This ecosystem, in which consumers can choose care according to their wants, needs and wallets, is far more accessible to newer players, which can tackle discrete parts of the system without having to control, own or understand the whole. This ecosystem is more dynamic, responsive to consumers and fertile for innovation—in other words, an ecosystem ripe for novel deals.
The US health system is starting to reorganize to obtain more favorable pricing and reimbursements. Companies are building capabilities to cut costs and meet customer needs in more convenient and transparent ways. Companies with capabilities across vast swaths of the health ecosystem are emerging, offering consumers one-stop shops for care, treatments, financing and risk management, wellness products and services—and in the case of retailers, toys, milk and wireless speakers (see Figure 1).

**Figure 1: Some integrated companies would have capabilities in multiple healthcare areas**
Including pharmacy benefit management, insurance and healthcare services

<table>
<thead>
<tr>
<th>Acquirer</th>
<th>Target</th>
<th>Insurer</th>
<th>Pharmacy benefit management</th>
<th>Retail health provider</th>
<th>Health provider</th>
<th>Retail locations</th>
<th>Pharmacy</th>
<th>Finance</th>
<th>Retail supply chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>CVS Health</td>
<td>Aetna</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>Cigna Corp.</td>
<td>Express Scripts Holding Co.</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>UnitedHealth Group’s Optum</td>
<td>DaVita Medical Group</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
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<td>✓</td>
<td>✓</td>
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<tr>
<td>Albertsons Cos.</td>
<td>Rite Aid</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Company</th>
<th>Partnership with</th>
<th>Insurer</th>
<th>Pharmacy benefit management</th>
<th>Retail health provider</th>
<th>Health provider</th>
<th>Retail locations</th>
<th>Pharmacy</th>
<th>Finance</th>
<th>Retail supply chain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amazon</td>
<td>JPMorgan Chase &amp; Co., Berkshire Hathaway, Inc.</td>
<td>✓</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

- Full capability
- Limited capability in an area

Source: PwC Health Research Institute analysis
An analysis of recent deals and partnership announcements by PwC’s Health Research Institute (HRI) identified four new archetypes: Vertical Integrators, Employer Activists, Technology Invaders and Health Retailers. Some of the announced deals could fit into two or more archetypes, perhaps combining integration-focused approaches with technological or retail capabilities to better differentiate themselves from their competitors and meet customer needs (see Figure 2).

**Figure 2: Four archetypes of emerging healthcare deals**

Archetypes aren’t mutually exclusive, and some capabilities may overlap

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**Vertical Integrators**

*What:* Companies looking to control the costs of their supply chain by owning more of it

*Examples:* CVS Health/Aetna; UnitedHealth Group’s Optum/DaVita Medical Group; Cigna Corp./Express Scripts Holding Co.

*Capabilities:* Ability to control more of the supply chain and reduce unit costs of goods through increased negotiating power, elimination of middlemen, more data on patients, greater ability to steer patients to lower-cost care

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**Employer Activists**

*What:* Employers seeking to limit the growth of their healthcare costs

*Examples:* JPMorgan Chase & Co., Berkshire Hathaway Inc, Amazon, Health Transformation Alliance

*Capabilities:* Huge pools of employees, vested interest lowering costs, technological and business prowess, and pooled negotiating power

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**Technology Invaders**

*What:* Technology companies seeking to grab a greater foothold in healthcare

*Examples:* Google, Apple, Amazon, Uber, Lyft

*Capabilities:* Strong knowledge of consumer behavior, knowledgeable employees and innovative culture; general trust of consumers; strong analytics and technological capabilities

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**Health Retailers**

*What:* Retailers looking to gain market share by better understanding consumer desires and behavior, and providing some types of healthcare directly

*Examples:* Walmart, CVS Health, Amazon, Albertsons Companies/Rite Aid

*Capabilities:* Retail locations with existing consumer traffic and financial systems, knowledge of consumer behavior, supply chains

Source: PwC Health Research Institute analysis
The new archetypes

Vertical Integrators

Companies such as CVS Health and Aetna, UnitedHealth Group’s Optum and DaVita Medical Group, and Cigna Corp. and Express Scripts Holding Co. have announced mergers or acquisitions to offer millions of consumers access to a broad array of cost-efficient, integrated, transparent services and products. They are doing this, in part, by absorbing some of the industry’s middlemen and vertically integrating parts of the US health ecosystem. “In a value-based environment, the more pieces of the supply chain that you can influence, the more you can impact utilization and cost, driving a win-win across providers, payers and patients,” said Jane Sarasohn-Kahn, a healthcare economist and founder of the group THINK-Health, in a conversation with HRI.

These integrated capabilities extend to data as well. Customer and cost data are dispersed throughout the US health ecosystem, making it difficult for companies to ascertain the bigger picture about consumers’ health (see Figure 3).

**Figure 3: Key customer experience data are spread across the ecosystem**

Integrated companies could have more of this data at their disposal

<table>
<thead>
<tr>
<th>Type of data</th>
<th>Insurer</th>
<th>PBM</th>
<th>Provider</th>
<th>Retail</th>
<th>Pharmacy</th>
<th>Tech</th>
<th>Pharma</th>
<th>Supply chain</th>
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<tbody>
<tr>
<td>Clinical family history</td>
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<td>Benefits/medical and Rx claims</td>
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<td>Call center</td>
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<td>Appeals, grievances, complaints</td>
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<td>Cost of care</td>
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<td>Value of care</td>
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<tr>
<td>Real-time monitoring</td>
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<tr>
<td>Preferences, expectations</td>
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<tr>
<td>Motivators, lifestyle, personality, behavior and habits</td>
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<tr>
<td>Social determinants of health</td>
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<tr>
<td>Drug adherence</td>
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<tr>
<td>Drug costs</td>
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</table>

Source: PwC Health Research Institute analysis
Companies also need a wider, data-driven view to develop new ways to cut waste and improve outcomes at lower costs. Vertical Integrators can, in theory, pull together many sources of key consumer data, allowing that broader vision to come into focus. “Data is really key to integration efforts,” said Eric Topol, founder and director of the Scripps Translational Science Institute, which uses data from insurer claims and pharmaceutical companies to find ways to improve patients’ health outcomes, in a conversation with HRI.

An integrated approach could help give companies a competitive edge in the New Health Economy, especially when it comes to managing pharmaceutical benefit spending, a key frustration for payers and patients alike.

“If you own the right to manage the pharmacy spend, you can provide transparency to your insurance clients and members,” said John Sivori, president and chief operating officer of Envolve Pharmacy Solutions, a pharmacy benefit manager (PBM) owned by Centene Corp., in a conversation with HRI. “By not having to go through a third party, you avoid a lot of frustration as an insurer about pricing transparency. And I think you’re going to see further vertical integration to address that.”

Even companies without PBMs are partnering or investing in them to better control costs. Anthem Inc. is partnering with CVS Health to launch a PBM called IngenioRx, and Centene Corp. has announced an investment in PBM technology company RxAdvance.9,10

Integration could help provide a more consistent consumer experience and resolve problems caused by a lack of communication, transparency and coordination. Nineteen percent of consumers surveyed by HRI in 2018 said they had little or no idea what their prescription would cost the last time they picked one up at a pharmacy.11 Just 24 percent of consumers surveyed by HRI thought their insurer was doing enough to keep drugs affordable.12 These integrations also may allow companies to pass on more savings to patients.

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– John Sivori, President & COO
Envolve Pharmacy Solutions
Implications

Health integrations are especially tricky.

In the months and years following a deal, Vertical Integrators will be large, complex healthcare organizations consisting of teams with different missions, cultures, staffs, electronic health records (EHR) systems and other databases holding sensitive, protected data. Fifty-eight percent of executives involved in M&A transactions surveyed by PwC in 2017 said integrations were more difficult than expected; 42 percent said their staff and organizations were still not fully integrated. Vertical Integrators should devote sufficient resources to assign accountability, communicate change, define new organizational roles and responsibilities, create incentives around integration milestones, change the organizational culture and develop a unified set of policies and procedures for the new organization. Compared with horizontal integrations, vertical integrations typically involve few synergies, requiring companies to find cost savings through new models of care or product delivery. Broadly, just 50 percent of executives involved in mergers or acquisitions and surveyed by PwC say the deals were financially successful, while 55 percent said they were strategic successes and 47 percent said they were operationally successful. Companies should also give thought to the long-term sustainability of their integrations. Previous waves of healthcare consolidation and integration have been pared back or disintegrated for various reasons, including consumer dissatisfaction at their lack of out-of-network care options in the case of Health Maintenance Organizations.

Gain insights from unparalleled access to critical data.

Some Integrators will now insure patients, provide pharmacy benefits, provide primary care and simple acute care at retail clinics, sell them groceries and even provide them with transportation to their appointments. Vertical Integrators will collect a wealth of data and should invest in systems and staff to create customized customer experiences, reduce costs and improve outcomes. Integrators may not possess all of these capabilities and can partner, build or acquire to obtain them.

Focus on cost.

Several Vertical Integrators have stated they will be able to bring down the costs of goods and services through increased negotiating power and scale. But in some cases, increased scale might not have the intended effect of decreasing costs. “Until these companies are able to affect physician workflow and are able to inspire and support value-based care, these enlarged companies are only addressing limited elements of the supply side,” economist Sarasohn-Kahn told HRI. However, increased integration at scale may allow some companies to better compete in a value-based environment by having more exposure to—and control of—patient outcomes.
Employer Activists

Employer Activists are banding together to find ways to cut their employees’ healthcare costs. In February 2016, 20 US companies formed the Health Transformation Alliance (HTA), which has since worked on developing tools for its members to cut employee healthcare costs. In January 2018, Amazon, JPMorgan Chase & Co. and Berkshire Hathaway Inc. announced they would partner to form an independent company to lower healthcare costs and improve satisfaction for their employees by addressing healthcare quality and transparency.

Employers have, of course, long worked to reduce the amount they spend on health benefits. They have shifted premium costs to employees, raised deductibles and other cost-sharing, narrowed choices of in-network providers, experimented with reference pricing, launched pricing transparency tools to help employees and their families make price-conscious choices, and used formulary decisions and pre-authorizations to curb use of higher-priced therapeutics. More than 25 percent of employers surveyed by PwC said they offer only high-deductible health plans to their employees; another 28 percent of employers surveyed by PwC said they are considering doing so, according to PwC’s Touchstone Survey of major US companies.

Fifty-seven percent of employers told PwC that they planned to require increased employee premium contributions in 2018; 38 percent plan to increase employee cost-sharing.

These strategies have had an impact. Utilization has been mostly flat for the last decade, HRI data show. Medical price, however, has risen 3-6 percent each year and remains an important medical cost trend driver. So Employer Activists are setting their sights on prices and utilization to push medical cost trend lower than the 4 percent or so it has settled into over the past few years (see Figure 4).
Figure 4: Price continues to be a major driver of medical cost trend for employers

Utilization has remained relatively stable since 2007

The HTA, now consisting of 46 member companies, has saved its members 6-22 percent on employee drug costs by using its collective size to negotiate more favorable reimbursement from PBMs, said HTA CEO Rob Andrews, a former member of the US House of Representatives and an architect of the Affordable Care Act, in a conversation with HRI.

HTA also is building data capabilities to better allow members to obtain the most cost-effective treatments, learn which social determinants of health—such as access to housing and healthy food—can affect business costs, and to eventually strike smarter, value-based contracts. “The more we learn, the more we learn the importance of unstructured data about population health,” Andrews said.

That approach resonates with Rebecca Onie, co-founder of Health Leads, a company that focuses on the social determinants of healthcare. “These costs are on the balance sheets of companies whether they like it or not,” Onie told HRI. “It’s about whether companies choose to address them in smart ways.” More than just addressing healthcare costs when they occur, Employer Activists could benefit from finding ways to avoid those costs in the first place, which would also benefit their employees’ health and productivity.
Implications

Think big.

To significantly drive down healthcare costs, companies will need to rethink how they purchase and deliver care. Options include creating massive purchasing groups capable of negotiating rates on a national scale; finding new innovations in care capable of treating the sickest patients more efficiently or prevent them from getting sick in the first place; or replacing existing health industry incumbents with more cost-effective alternatives.

There’s no silver bullet for healthcare.

As large and well-capitalized as Employer Activists are, their negotiating power with providers remains relatively modest. Their employees tend to be spread out across the country, making it more difficult to leverage their full size in negotiations with local providers. Employer Activists with combined employees of several million are still dwarfed by the number of people covered by a large national payer or a Vertical Integrator with a payer and PBM at its disposal. “You can’t just be a big company,” said Paul Fronstin, director of the Health Research and Education Program at the Employee Benefit Research Institute, in a conversation with HRI. “You need to have effective purchasing power focused in a particular area to be able to drive costs down.”

Get buy-in from employees.

Sixty-seven percent of consumers surveyed by HRI said they would be more likely to, say, get a flu shot or an annual checkup if they could earn rewards for doing so. This likely would require collecting employee health data. Defining a public strategy about how data will be used, for what purpose, and what the limits of cost control efforts would be can help build trust and improve employee buy-in. In a tight labor market, employers that mismanage this process may be at risk of losing key talent, while those who do it well may be better able to compete and retain valuable staff.
Technology Invaders

Technology Invaders have been trying to disrupt the US health industry for almost a decade. In 2013, HRI found, 76 percent of the Fortune 50 were engaged in the healthcare industry; several were technology companies aiming to use their digital prowess, pragmatism and consumer savvy to develop better ways to deliver, pay for and access care. In 2018, a slightly higher percentage of the Fortune 50 is involved with health, with about the same number of tech companies (see Figure 5).

**Figure 5: 84% of the Fortune 50 have healthcare-related offerings**

Up from 76% in 2013

Source: PwC Health Research Institute analysis of Fortune 50 companies.
These Technology Invaders are gaining traction. Besides being an Employer Activist, Amazon has quietly started selling private-label over-the-counter medical products, from hair growth formula to allergy medicine.\textsuperscript{25} It also started offering Medicaid recipients discounted access to its Prime subscription service.\textsuperscript{26}

Apple’s newest operating system allows users to access parts of their EHRs on their phones; the company has partnered with more than three dozen hospitals for its Apple Health Records platform.\textsuperscript{27} “The data has been set free,” Rush University Medical Center chief information officer Dr. Shafiq Rab told the Chicago Tribune, describing the Chicago-based hospital system’s decision to partner with Apple in connecting patients with their health records through the app.\textsuperscript{28}

Meanwhile, Uber and Lyft are launching healthcare services to shuttle patients to and from medical appointments in partnership with providers and payers.\textsuperscript{29,30} Facebook even explored matching personal information that its members share with the company, such as vacation photos and lists of friends and relatives, with anonymized health information provided by partnering health systems in an attempt to find ways for each health system to better serve its patients. That project has been put on hiatus, according to the company, but the effort represents another Technology Invader’s attempts to bring its vast data collection to the health industry.\textsuperscript{31}
Consumers are bullish on the Technology Invaders’ potential to improve the health system. An HRI consumer survey found that more than half were confident that technology companies could help solve some of the healthcare industry’s most pressing problems. More than half of surveyed consumers said they believed technology companies could improve patient experience, reduce costs, make healthcare simpler and help them keep track of their health information. The majority also were willing to buy healthcare products and services from Technology Invaders (see Figure 6).32

**Figure 6: Consumers have high hopes that Technology Invaders can improve healthcare**

Half of consumers think tech companies can make progress on some of healthcare’s largest problems

*How confident are you that technology companies can achieve each of the following healthcare goals?*

<table>
<thead>
<tr>
<th>Health Care Goal</th>
<th>Very or somewhat confident</th>
<th>Not very or not at all confident</th>
<th>I don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve patient satisfaction and experience</td>
<td>52%</td>
<td>32%</td>
<td></td>
</tr>
<tr>
<td>Reduce costs</td>
<td>54%</td>
<td>31%</td>
<td></td>
</tr>
<tr>
<td>Simplify healthcare and make it more important</td>
<td>53%</td>
<td>33%</td>
<td></td>
</tr>
<tr>
<td>Aggregate personal healthcare information and make it more accessible to the patient</td>
<td>58%</td>
<td>26%</td>
<td></td>
</tr>
</tbody>
</table>

Questions: “A number of non-traditional healthcare companies have announced plans to enter the healthcare market (e.g. Apple, Google, and Amazon-Berkshire Hathaway-JP Morgan Chase & Co.) How confident are you that these non-traditional healthcare companies will be able to achieve each of the following goals?”

Yet consumers seemed more willing to purchase products than services from these companies, especially when those services involved complex healthcare interactions such as purchasing health insurance or having a virtual visit with a doctor (see Figure 7).33

**Figure 7: Would you see a doctor or buy health insurance from a technology company?**

Consumers say they are generally more comfortable buying products from tech companies rather than buying healthcare services from them.

<table>
<thead>
<tr>
<th>Service</th>
<th>Very comfortable</th>
<th>Somewhat comfortable</th>
<th>Not very or not at all comfortable</th>
<th>No opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over-the-counter medicines or other medical products</td>
<td>28%</td>
<td>35%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>A product that would help me pull all of my healthcare information together in one place</td>
<td>25%</td>
<td>36%</td>
<td>26%</td>
<td></td>
</tr>
<tr>
<td>Prescription medicines</td>
<td>23%</td>
<td>36%</td>
<td>29%</td>
<td></td>
</tr>
<tr>
<td>In-person visit with a doctor at a clinic</td>
<td>25%</td>
<td>33%</td>
<td>29%</td>
<td></td>
</tr>
<tr>
<td>Diagnostic tests</td>
<td>19%</td>
<td>32%</td>
<td>36%</td>
<td></td>
</tr>
<tr>
<td>Health insurance</td>
<td>19%</td>
<td>31%</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>Virtual visit with a doctor</td>
<td>16%</td>
<td>31%</td>
<td>38%</td>
<td></td>
</tr>
</tbody>
</table>

Questions: “To what extent would you feel comfortable purchasing the following healthcare products or services from a non-traditional healthcare company, such as Apple, Google, and Amazon?”


Consumers told HRI they are most concerned about product or service quality, the privacy of their healthcare information and the cost of products these technology companies might offer. Technology companies’ successes in offering premium-priced goods or selling advertising based on reams of consumer information may prove to be as much a liability as an asset in the healthcare space, especially as many try to offer services bundled by technology.
Implications

Changing consumer behaviors are creating new opportunities.

In 2008, 11 percent of US consumers owned a smartphone and 17 percent of physicians had an EHR system. As of 2015, 79 percent of American consumers have a smartphone and 87 percent of physicians have an EHR system in place. These changes and others will allow Technology Invaders to better leverage their products and capabilities to meet new consumer wants and needs, such as accessing their healthcare information on their phones. However, companies will have to be mindful that widespread change in consumer behavior can be slow.

Partnerships can lead the way.

While Technology Invaders have the capability to disrupt, they likely will need partnerships with existing healthcare companies to actually do so. One example of this is Onduo, a diabetes-focused company formed as a partnership between life sciences company Sanofi S.A. and Verily Life Sciences, a subsidiary of Alphabet Inc. Onduo CEO Josh Riff told HRI that the partnership allowed him to tap into the engineering, analytics and consumer expertise of Alphabet and the diabetes expertise and physician access of Sanofi. “Any tech company can build a diabetes product. Few tech companies can build a diabetes product knowing the history of what’s worked, what hasn’t worked,” Riff told HRI. “By combining these two companies, you really get the best of both worlds.”

Gain fluency in three languages to succeed.

There are many ways in which Technology Invaders may offer value to patients, employers and other parts of the healthcare system. Companies should think about which existing offerings can be scaled to healthcare and how, the regulatory hurdles they may need to clear, what part of healthcare to get into, and the capabilities they will need to compete. “I think the healthcare companies that are going to emerge and going to make a difference are the ones that are fluent in three languages,” said Jeff Arnold, Chairman and CEO of Sharecare, a digital health company that helps providers, employers and health plans drive engagement and change across their populations, in a conversation with HRI. “You have to be fluent in healthcare. You have to be fluent in technology, like analytics and artificial intelligence. And you have to be fluent in media, in driving discussions and having dialogues with patients to make them feel a certain way.”
Health retailers

Health Retailers such as CVS Health, Walgreens Boots Alliance, Walmart, Albertsons Cos. and others use their vast network of store locations, troves of consumer insights, national and global supply chains and national (and sometimes global) branding to attract consumers looking for affordable, convenient care and goods in a system known for its lack of affordability and convenience. Over the past five years, consumers have consistently told HRI that they are open to receiving a wide range of services in retail settings, from wound care to MRIs (see Figure 8).40

**Figure 8: Consumers are open to seeking care from Health Retailers**

Consumers say they are generally comfortable seeking routine care in nontraditional settings if the cost is less than it would otherwise be

<table>
<thead>
<tr>
<th>Service</th>
<th>Very or somewhat likely</th>
<th>Very or somewhat unlikely</th>
<th>I don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have a wound or pressure sore treated at a clinic in a retail store or pharmacy</td>
<td>52%</td>
<td>41%</td>
<td>5%</td>
</tr>
<tr>
<td>Have stitches or staples removed at a clinic in a retail store or pharmacy</td>
<td>53%</td>
<td>41%</td>
<td>6%</td>
</tr>
<tr>
<td>Use an at-home strep test purchased at a retail store</td>
<td>61%</td>
<td>31%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Questions: “How likely would you be to choose the following for yourself if it cost you less than a traditional option and the technology or services were available?”


Big box retail stores and supermarkets, such as Walmart, Target and Safeway Inc., and retail pharmacies, such as CVS Health, Walgreens and Rite Aid, often offer access to in-store medical clinics. About 20 percent of consumers surveyed by HRI said that in the past several years, they have been to one of these clinics for care. Of the 20 percent of consumers who said they had been to a retail clinic, 43 percent had been to one in the last year.41
Meanwhile, Health Retailers are expanding in size and adding to their health offerings. The Albertsons-Rite Aid deal would give the chain 4,350 pharmacy counters in 4,900 stores and an additional 320 medical clinics, according to the companies. They said they expected the combination of its retail locations and healthcare offerings to drive financial growth. “This powerful combination enables us to become a truly differentiated leader in delivering value, choice, and flexibility to meet customers’ evolving food, health, and wellness needs,” said John Standley, Rite Aid chairman and CEO, in a statement announcing the merger.\textsuperscript{42}

Health Retailer CVS Health, which has a pharmacy within 3 miles of 80 percent of Americans, said it is partnering with providers such as Cleveland Clinic to help manage its customers’ chronic conditions.\textsuperscript{43} The company has affiliations with more than 70 major health systems.\textsuperscript{44}

Health Retailers have an opportunity to use their consumer financial savvy to bring patients into the fold and keep them coming back, using reward programs and other strategies. For example, companies can offer consumers incentives to obtain care at a clinic, or offer subscription-type services to keep consumers coming back on a regular basis (see Figure 9).\textsuperscript{45}

\textit{Figure 9: It’s not just about the services offered, but about payment models}

Companies can benefit from offering subscriptions to routine services or rewards for participating in healthy behaviors like getting a flu shot.

If you could earn rewards for doing certain healthcare activities, such as getting a flu shot or having an annual checkup, would you be more likely to do these things?

\begin{table}
\centering
\begin{tabular}{|c|c|c|c|}
\hline
& Much more likely & Somewhat more likely & Less likely & No impact or don’t know \\
\hline
Flu shot & 35% & 30% & 4% & 30% \\
Annual checkup & 26% & 40% & 4% & 30% \\
\hline
\end{tabular}
\end{table}

For a repeat elective treatment, would you be more likely to get the treatment if a discounted subscription plan were available?

\begin{table}
\centering
\begin{tabular}{|c|c|c|c|}
\hline
& Much more likely & Somewhat more likely & Less likely & No impact or don’t know \\
\hline
Repeat elective treatment & 35% & 30% & 4% & 30% \\
\hline
\end{tabular}
\end{table}

Eighty-five percent of consumers surveyed by HRI said that they would be very or somewhat likely to take advantage of a service that would allow them to finance the costs of large medical expenses—a service some retailers already provide for their electronics or appliances sold at their stores.\textsuperscript{46}
**Implications**

**A neighborhood presence with access to the world of care.**

Health Retailers will continue to succeed if they strive to be a one-stop shop for consumers’ retail and health needs, even if reimbursement becomes more challenging. Retailers have a strength that most providers and insurers don’t: their deep understanding of consumer behavior and purchasing patterns, which can be used to anticipate and meet patients’ needs. Many providers lack key capabilities that many Health Retailers possess, including online bill pay, modern facilities, a social media presence, online scheduling and digital product support. But price is a critical factor. Without consumers’ inherent trust, Health Retailers may have to make it worth their while in the one place that often matters most: their wallets.

**Retail and health data can paint a broader picture of a consumer.**

A person with an illness often has a wide array of needs that a well-integrated retailer is uniquely situated to understand, including a key social determinant of health, access to healthy, nutritious food. Health Retailers are poised to manage the whole health of a consumer, including through dietary counseling, partnering with insurers to offer patients discounted healthy food options and a wide array of health services.47

**Beware of a changing environment.**

Health Retailers could find themselves competing for the same consumers as Vertical Integrators, which can use scale and negotiating power to push for more favorable reimbursement rates or provide incentives for enrollees to use in-network pharmacies, care clinics or mail order pharmacies. And a common shadow looms over pharmacies and retailers alike: Online retailers “like Amazon” can meet some key consumer needs without having pricey retail locations.
What comes next?

Dramatic change has been predicted for the US health system for many years. Finally, the industry is seeing the emergence of fundamentally new models: Vertical Integrators, Employer Activists, Technology Invaders and Health Retailers. Whether they will succeed in disrupting the health system, which has stubbornly resisted significant change, remains unknown. But they may find the environment more amenable to change than ever before, as healthcare costs are increasingly borne by consumers and pressure to pay for value instead of volume increases.

Companies may find success in these models, but they are unlikely to be bound by them. In fact, companies that are able to blend various archetypes may be positioned best to win in an evolving environment. At a minimum, companies should consider how they fit in this new environment and how they can succeed in their particular space. Consolidation and integration may put new pressures on existing healthcare organizations like pharmaceutical manufacturers, but they also might open up new opportunities, such as partnerships between providers and Health Retailers.

Players new and traditional come at the shifting landscape from very different directions, but there are resilient moves all healthcare companies should consider making:

• **Invest in customer experience.** Consumers’ views on health can change rapidly. Attitudes toward such things as openness to seeking care in a retail clinic and to sharing health data with a pharmaceutical company have changed in just the last five years, an analysis of HRI consumer surveys reveals. Many consumers are ready for healthcare to mirror other parts of their lives in terms of convenience, choice and the presence of affordable options with predictable pricing. Companies that invest in a deep data-driven understanding of their customers will be able to develop tailored products and services. Vertical Integrators, Technology Invaders and Health Retailers all have a leg up on many established health players in understanding consumers and tailoring experiences for them.
• **Plan for a broader workforce.** These new business models possess capabilities that are minimally present in established health players. The new models may have armies of workers coding, working on AI, analyzing data, prototyping new services and products, and focusing on customer experiences. These new companies also may have staff from traditional players with deep knowledge of the health industry. Health companies competing in this new world should plan for a much broader workforce. Some of that is happening already; 39 percent of provider executives told HRI their organization is investing in artificial intelligence, machine learning and predictive analytics. Yet few established companies have the in-house capabilities to develop and implement these tools, so they should acquire these skills or partner to gain access to them. And they should be prepared to pay for them—the rest of the global economy is seeking these capabilities too.

• **Focus on price.** Employers, the government and other players largely have focused on utilization over the past decade. Price is the next frontier. Vertical Integrators, Employer Activists, Technology Invaders and Health Retailers are positioned to address price through greater scale, ownership of middlemen and a wider grip on the US health system value chain. Consumers, employers and the federal government are seeking relief on price and likely will reward companies able to significantly cut them without downgrading quality.

Finally, a note of caution. History is littered with stories of companies announcing groundbreaking new models for healthcare and then, a few years later, quietly closing the door on them. The arrival of Vertical Integrators, Employer Activists, Technology Invaders and Health Retailers does not herald certain, sudden, disruptive change. These companies may fail in their attempt to transform the industry, or they may succeed modestly. But these companies’ emergence is something genuinely new, with vast capabilities. Their impact will be felt over the next few years in the splash they make and the ripples the rest of the industry makes in response.
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About this research

In addition to the original research contained within this paper, PwC’s Health Research Institute relied on several surveys conducted in 2017 and early 2018. The first survey of 1,000 participants, conducted in March 2018, focused on consumers’ attitudes toward nontraditional methods of obtaining healthcare. The second survey, conducted in March 2018, surveyed 1,501 consumers on their health, insurance, and their difficulties with obtaining and paying for care. A third survey, conducted in August 2017, assessed the capabilities and views of 314 healthcare provider executives.

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PwC’s Health Research Institute (HRI) provides new intelligence, perspectives and analysis on trends affecting all health-related industries. The Health Research Institute helps executive decision-makers navigate change through primary research and collaborative exchange. Our views are shaped by a network of professionals with executive and day-to-day experience in the health industry. HRI research is independent and not sponsored by businesses, government or other institutions.
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