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Silicon Valley's new darling: Healthcare

Just what the doctor ordered

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Healthcare is out. "Techcare" is in.

Large technology companies, venture capitalists and telecommunications leaders are primed to revolutionize one of the largest and most complex industries in the world: healthcare.

In the US, the health cost burden is expected to reach \$5.4 trillion by 2024.¹ The potential to capitalize on a multi-billion-dollar profit pool is being urgently pursued as evidenced by the meteoric rise in health technology investments and exorbitant digital health start-up valuations witnessed in 2014.

Accenture Strategy analysis reveals that 85 percent of technology companies and 77 percent of venture capitalists surveyed consider disrupting healthcare to be a top strategic priority.² The vast majority are already making investments, with 100 percent of venture capitalists actively pursuing or in discussion with health-related strategic partners with clinical or US Food and Drug Administration (FDA) acumen.³ Accenture estimates that digital health funding will double in the next three years, growing to \$6.5 billion by 2017.⁴

If that is not convincing enough, consumers increasingly prefer non-clinical providers for their online healthcare needs⁵—such as general health information, telehealth services, and exercise and healthy eating advice. In a world where consumers speak the loudest, the "techcare" trend is definitely here. However, that does not mean companies are getting their investments right.

Four factors causing technology surge in healthcare investments

1 Lucrative profit opportunities

Forbes lists health technology as the most profitable industry in 2015 with a 21 percent net profit margin.⁶

2 Precedent of successful technology disruption

Recent feats to disrupt transportation, hospitality and media industries have bolstered the determination of companies as diverse as Intel and Qualcomm as well as newcomers such as Proteus and Oscar Health.

3 Cash and brand-name cachet

Ability of high-profile companies like Google, AT&T and Apple to attract top clinical and regulatory expertise to their teams.

4 Reduced regulatory barriers

FDA's 2014 decision to forego enforcing compliance on medical device data systems, storage or communications devices has made it easier for new entrants to tackle healthcare.

¹ Health Affairs, <http://www.healthaffairs.org>

² Accenture Strategy High Tech in Healthcare Survey, July 2015. This primary research consisted of 56 interviews with executives from technology firms (26) and venture capital firms (30) located in the Silicon Valley region.

³ Ibid.

⁴ <https://www.accenture.com/us-en/insight-healthcare-it-start-up-funding-fueling-digital-disruption.aspx>, Healthcare IT Start-up Funding Fueling Digital Disruption, Accenture Research, 2015

⁵ Accenture Communications, Media and High-Tech Consumer Internet of Things conjoint analysis, 2015

⁶ <http://www.forbes.com/sites/liyanchen/2015/09/23/the-most-profitable-industries-in-2015>

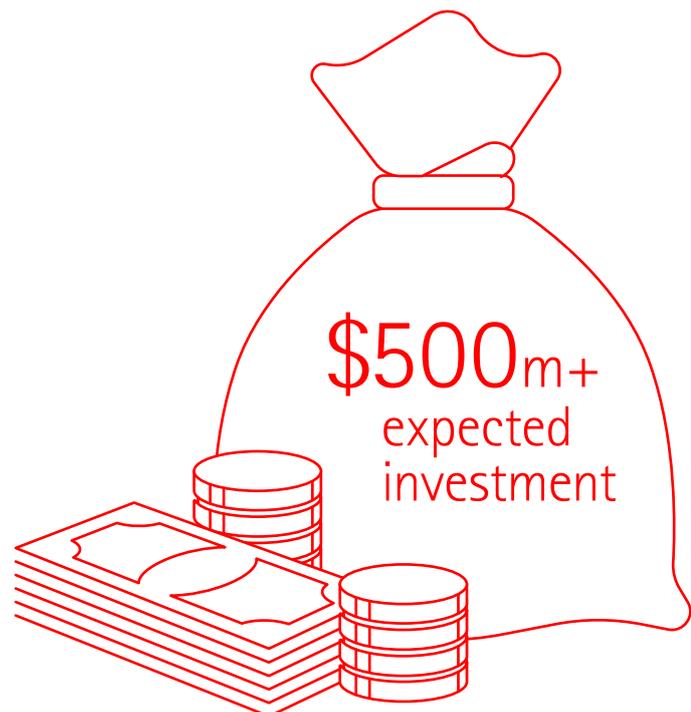
Overcome misguided investments

Major technology companies are expected to invest \$100 million or more in technology-enabled health business models over the next three years with venture capitalists anticipating a jaw-dropping \$500 million.⁷ Unfortunately, a lot of it might go to waste.

Millions of dollars may have already been squandered by technology companies trying to address healthcare challenges they are unfit to solve, and millions more are likely to be spent before the dust has settled. Of those interviewed, 69 percent of technology companies and 80 percent of venture capitalists are focused on the area of health quality and safety.⁸ Accenture Strategy analysis shows this is better suited to healthcare incumbents, such as biotech companies, due to the clinical nature of the field.

Simply put, not all health challenges are up for grabs. What is more, the standard high-tech approach of investing early and often is not likely to play out as expected in the healthcare ecosystem. In addition to the clinical and regulatory factors, the stakes are higher in healthcare. There is little margin for error when people's lives are on the line.

At this point, technology and telecommunications companies are taking different approaches—partnering with healthcare providers, building cloud-based healthcare data transmission platforms or working on remote monitoring solutions. Other companies have dabbled in the market and pulled back. Some are simply watching and waiting. However, only a select few are taking an end-to-end approach or making larger, more focused bets.



⁷ Accenture Strategy High Tech in Healthcare Survey, July 2015

⁸ Ibid.

Refocus on the right healthcare challenges

Accenture Strategy believes seven health challenges are likely to be best addressed by technology company capabilities:

- 1 Access to healthcare**
Improve timely and convenient access to care across all settings (from home to hospital) including insurance coverage.
- 2 Cost control and transparency**
Decrease the cost of care through managing input costs (e.g. equipment) and price comparisons for services.
- 3 Disease management**
Provide targeted care plans for sustained patient-centered management of chronic and complex diseases.
- 4 Health labor shortage**
Increase productivity of existing clinical and non-clinical resources, or augment capabilities through automation.
- 5 Hospital administration and back office**
Manage and optimize labor and non-labor resources to drive operational efficiency and effectiveness.
- 6 Population health**
Manage populations of patients through risk stratification and interventions to decrease costs and improve outcomes.
- 7 Wellness**
Drive sustained lifestyle and behavior change in "worried-well" (aka health conscious) patients, including for payers of large employers.

These challenges are split across the four main stakeholders in the healthcare system—patients, providers (hospitals, clinics), payers (insurers) and product suppliers (including pharmaceutical). To succeed in healthcare, it is critical to understand up front who will pay and who will benefit before making investments. Here are some of the many possible opportunities that could develop for technology companies:



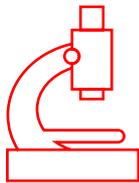
Patients

Leverage strengths in consumer engagement and trust, along with superior abilities in social components and online channels, to improve access and adherence to healthcare.



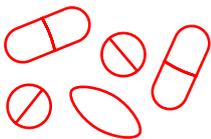
Providers

Connect disparate legacy technology and infrastructure across primary care physicians, specialists, labs and other providers to increase efficiency and effectiveness of hospital operations.



Payers

Use analytics to identify high risk populations for conditions such as diabetes and heart disease, provide risk scores to better segment insurance pricing, and guide caregiver interventions to decrease payer costs and improve health outcomes.



Product suppliers

Leverage systems connectivity and multi-portal data streaming to provide continuity across care settings, leading to better outcomes and increased brand loyalty with the potential for enabling value-based selling.

In contrast, the three challenges where Accenture Strategy believes technology companies will be sidelined are:

- 1 Health quality and safety, because it requires strong clinical knowledge.
- 2 Clinical effectiveness research that involves interfacing with government agencies and coordinating complex studies.
- 3 Care coordination, which would relegate technology companies to a more passive role with less value capture due to the prevailing reimbursement models in the healthcare system.

Redirect investments based on capabilities

A better investment approach for technology companies is to evaluate their strengths in hardware, software, infrastructure and development, and then target healthcare challenges they are best suited to address.

In other words, techcare companies need to understand their unique technology and business model DNA and refocus investments accordingly.

Core competencies in robotics and automation, for example, could be used to overcome health labor shortages. Advancements in mobility could be applied to cost control and transparency. Deep experience in product development with accelerated cycle times could be useful in hospital administration and back-office efforts.

Figure 1: Health challenges mapped to technology core competencies

Seven Health Challenges Addressable by Technology Companies	 HARDWARE		 SOFTWARE			 INFRASTRUCTURE		 DEVELOPMENT
	Industrial Design	Robotics and Automation	Consumer Engagement	Mobility	Advanced Analytics	Data Management	Cloud Computing	Rapid Product Cycle Time
1 Access to Healthcare		○	○	○			○	○
2 Cost Control and Transparency				○	○	○	○	
3 Disease Management	○		○	○	○	○	○	○
4 Health Labor Shortage		○			○	○	○	
5 Hospital Admin/ Back Office					○	○	○	○
6 Population Health			○		○	○	○	○
7 Wellness	○		○	○	○	○	○	○

In the category of **software** competencies (consumer engagement, mobility, advanced analytics), Accenture Strategy analysis shows 90 percent of venture capitalists surveyed believe analytics is their most relevant health capability.⁹ Ironically, 62 percent are tackling the challenge of access to healthcare—the one area that analytics does not adequately address.¹⁰ Redirecting these efforts to population health, disease management and other areas could be more effective.

Investment decisions in **infrastructure** competencies (e.g. data management and cloud computing) look more promising. More than half (58 percent) of technology companies surveyed are focused on applying their cloud capabilities, which has broad relevance across the top health challenges.¹¹ Exactly half (50 percent) are putting this cloud expertise to good use against the opportunity of cost control and transparency.¹² Another 50 percent of technology companies cite their strengths in data management as the most applicable to healthcare, and our analysis echoes that this capability can be used to pursue a number of opportunities.¹³

Noticeable gaps appear in the categories of **hardware** and **development**. Respondents surprisingly did not indicate strong capabilities in either of these areas, which may represent a market opportunity for techcare companies.



Restart for bigger gains

Healthcare disruption is inevitable. Investment losses and market failures do not have to be. In order to be real and respected players in the healthcare industry, techcare companies must:



Focus and act now

Pinpoint the healthcare challenge to take on and invest bigger dollars in a meaningful way to drive economic value for a key stakeholder—patients, providers, payers or product suppliers.



Close key gaps

Leverage cash and brand-name cachet to address clinical or regulatory gaps by partnering with healthcare providers or acquiring MD, PhD and FDA expertise.



Leverage company strengths

Tackle areas that make optimal use of differentiated technology competencies such as industrial design, mobility or rapid product development cycle times.

⁹ Accenture Strategy High Tech in Healthcare Survey, July 2015

¹⁰ Ibid.

¹¹ Ibid.

¹² Ibid.

¹³ Ibid.

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