DIVING INTO PROFIT IN THE NEW HEALTH ERA

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Capital allocation solely on the basis of "smart money" or potential market segment size is sub-optimal. Instead, profit pool analysis presents a wiser and more comprehensive view.

Profit pool analysis adds depth of understanding by revealing the location and size of profit concentration—the most critical driver of future success—within an industry.
Traditional and non-traditional stakeholders are investing heavily. Accenture’s research suggests that digital health funding will hit $6.5B by 2017, and that corporate America made $3B in healthcare-related corporate venture capital investments in 2015.

However, companies are struggling to properly assess the market opportunity—and act on it. Complicating factors like digital technologies, legacy mindsets, and ancient approaches are creating disgruntled ripples in the boardroom.

Continued failures in digital health will occur, with fits and starts before true disruption happens. In fact, more than half (51 percent) of digital health start-ups are at constant risk of failure. Leading executives acknowledge that the tides are turning, and that a broader shift from products to as-a-service is under way.
FINDING VALUE THROUGH NEW STROKES

According to five years of Accenture Strategy analysis, a new value chain is emerging, revealing a contemporary, four lane formula for leaders to succeed in the future of health (see Figure 1).

The value chain shows that digital health companies are orienting around four data-driven competencies that include:

SENSE—Sensors and connected devices that acquire diverse data sets.
AGGREGATE—Near-continuous collection and curation of data to enable insight.
ANALYZE—Retrospective and prescriptive insight that allows for informed action.
SERVE—Protocol-driven action that realizes known outcomes.

In today’s environment, value is concentrated in Sense and Aggregate, developed markets which comprise approximately 70 percent of the digital health profit pool. In the future, Sense and Aggregate companies will struggle to realize sustainable growth in profits as the profit pools migrate towards more well-rounded service offerings. Further, as their capabilities become table stakes (and data acquisition costs bottom out), these companies are likely to struggle to compete with newer, nimbler competitors more experienced in the Analyze and Serve segments.
The Serve lane of the value chain is quickly developing, however the profit pool remains small today. Nonetheless, as new entrants enter and as offerings mature, service companies will aim to dive into a larger percentage of the profit pool. By 2020, Accenture predicts that profit pool value will dramatically shift toward service-oriented and experience-led companies. Serve and Analyze will grow 10x and 3x more than the rest of the value chain, respectively, as these businesses mature.

Those looking for the deep end of profits will intensely focus their Board directives to directly invest in initiatives that prioritize service and experiences styles.

FIGURE 2 | Analysis shows a shift to service (and experience)
ADVANCING FROM EPISODIC POINT SOLUTIONS TO HOLISTIC, CROSS-VALUE CHAIN OFFERINGS

Winning the future of healthcare will be about more than just getting a good jump off the starting block. Companies must orchestrate the consumer journey, pairing services and experiences. Consolidated cross-value chain offerings are poised to lap the competition.

Perhaps the most recognizable example of value migration and the quest for pools of value is Fitbit. The digital-first wearables company began as a seller of pedometer-like devices. Over time, the organization added new features, such as heart rate monitoring, to enable more advanced insights and more valuable recommendations. Seeking to bolster its position along the value chain, Fitbit developed a mobile app interface to affect user behavior through more engaging and timely insight. Completing the transition from a product focus to service focus, Fitbit now offers corporate wellness programs that improved outcomes including less sick time, lower costs and increased productivity. Are these moves enough? Despite aggressive moves in late 2016 to weather the shift from product focus to service focus, Fitbit continues to face headwinds as customers retool their platforms to accommodate self-insured.
Another example of an organization capturing profit pools by migrating across the value chain is Livongo, a device-turned-service organization focused on the diabetes market. The organization entered the space by acquiring an FDA-approved glucometer that transmits information via a connected infrastructure. Livongo then added Aggregate capabilities by capturing and curating patient data through a cloud-based platform, and Analyze capabilities through algorithms and advanced analytics that mine patient data for actionable, near-real-time insight. Finally, the company invested in care delivery (Serve) by building out a 24/7 monitoring center that provides personal, non-clinical coaching and advisory services to better tackle the daily journeys of those with diabetes. To round out its offering, Livongo crafted a novel business model, taking a different approach than competitors that includes monthly subscriptions and risk-based arrangements. Livongo is now a leading Digital Therapeutics service organization.

Companies like Fitbit and Livongo accentuate the profit pool migration being witnessed, while also showcasing novel approaches to offer experiential services across the digital value chain.
Amidst competing programs, future resource investment in digital health must be focused on the following priorities:

**DEFINE THE DIMENSIONS**
Be self-aware and understand your current place along the value chain. Assess opportunities to move laterally across the digital value chain.

**TEST THE WATERS**
Prepare for value migration by rapidly piloting and prototyping new solutions in high-potential Serve segments.

**WIDEN YOUR REACH**
Build, buy or partner to create an end-to-end digital value chain offering. Become a destination camp for collaboration.
NOTES

1. Accenture; “Following The Money In Digital Disruption”


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