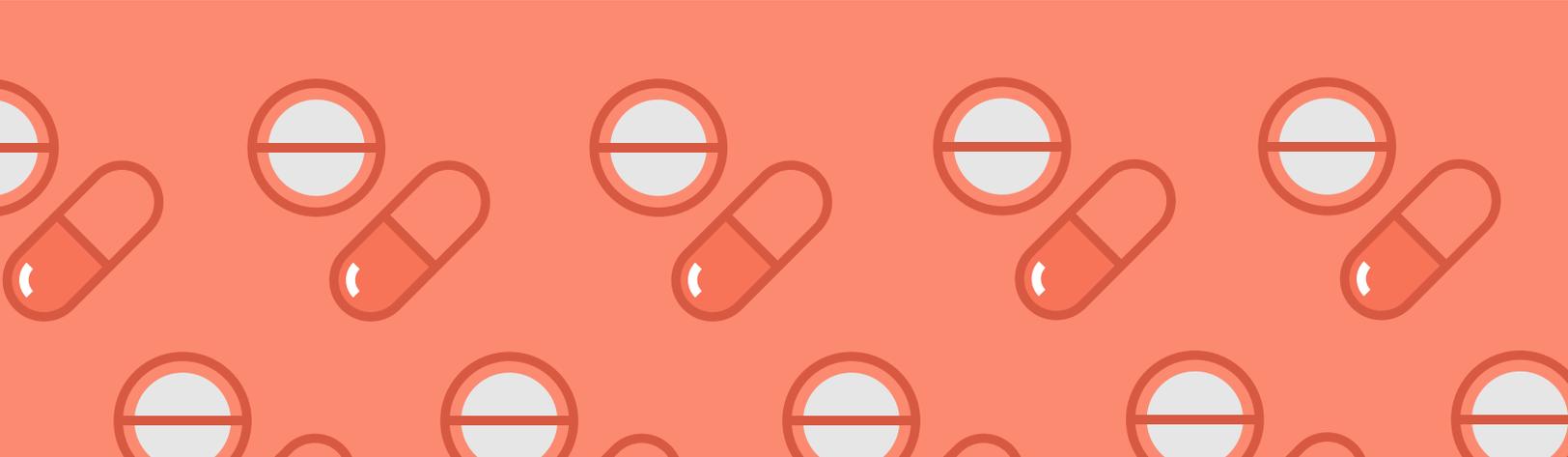


Privcap / Report



The Consumerization of Healthcare

Private equity opportunities in a rapidly changing market



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The Experts



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U.S. Health Leader,
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Key Takeaways

1. Our healthcare system is taking a page from retail
2. Achieving operational efficiencies is hard, but PE has a role to play
3. The evolution of healthcare is opening new opportunities
4. Marketing to patients is more about modifying behavior than selling services
5. Expensive controllable diseases like diabetes are a huge opportunity for tech intervention

1. Our healthcare system is taking a page from retail

The U.S. healthcare system is undergoing consumerization—a fundamental move toward a value-based market in which providers are more responsive to their patients. In this evolving market, healthcare “products” are delivered directly to patients, and patients are evolving from care recipients to participants who play an active role in managing their own health.

“There’s a major shift to put the patient in the center of care,” said Jacques Mulder, U.S. health leader at Ernst & Young LLP. “The patient is becoming much more of a consumer. Healthcare no longer means getting in your car and driving to a hospital where a bunch of people are gathered and hopefully you get the help you want.” Instead, healthcare now means using tools like mobile devices to keep patients constantly connected to their physicians or caregivers.

One driver of this trend is cost. Patients are shouldering more of it, and that’s compelling them to get more involved. “Americans who have employer-based coverage are now in these high-deductible plans,” noted Brad Coppens, managing

director at One Equity Partners. “People have more at stake in value-based purchasing simply because of plan design.”

Meanwhile, on the supply side, providers are more responsive to consumers. For example, Blue Wolf Capital is involved in a joint venture with a New York-based health center to expand community-based healthcare.

“We’ve made it a point to get very close to the communities we’re in,” said Adam Blumenthal, founder and managing partner of Blue Wolf Capital Partners. “We show up at school events, Little League games, community festivals. Our doctors do educational sessions at local church groups. We have a distinctive logo, a distinctive T-shirt. We hire to match the ethnic diversity of the communities in which we do business.”

The centers even do immediate follow-up—a call or text to patients as soon as they leave the office asking how the experience was and, if it was not good, scheduling another follow-up to find out why. “We want to make it right,” Blumenthal said. “That kind of engagement with each patient, that’s what builds trust and builds repeat visits.”

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The Cost Benefits of Home Health

Brad Coppens

One Equity Partners

Given the choice, most patients would rather recover in the comfort of their own home. The good news is that home health is an affordable alternative to facility or hospital care. According to the National Association of Home Care, the average cost of care from a skilled nursing facility is \$544 per day, while the average cost of home healthcare per visit is \$132.

"We invested in a homecare business largely serving Medicaid patients who want to be in the home and do not suffer from an acute condition," said Coppens. "These people either have a disability or are simply old and need assistance to handle activities of day-to-day living. They consume care in the home much in the same way that they would consume care in an institution. They're just able to do so because the services have evolved."

As the home health revolution gains strength, it's having an enormous impact on cost reductions. "By simply identifying when a patient has a change of condition and bringing in the appropriate intermediary to assess what's going on, you can avoid a hospital admission," Coppens said. "All of a sudden, you've changed an enormous amount of the cost surrounding those services."

2. Achieving operational efficiencies is hard, but PE has a role to play

It's one thing for a PE firm to buy a widget factory and bring operational efficiencies. It's a different thing altogether to do this in healthcare. People's lives are at stake.

"If you say, 'How do we provide care that's rational and relative to the needs of the individual?' that's a medical question, not a private equity question," Blumenthal said. "But what the private equity firm can do is say, 'How do we build the infrastructure to make care accessible and allow it to access funding and live within a business structure that makes it sustainable?'"

For example, Blue Wolf has a home healthcare business in Massachusetts that combines three different business lines from three different companies: activities of daily living, skilled nursing, and hospice.

"We've merged them into one seamless set of services able to provide support to individuals," Blumenthal said. "There's enormous value in doing that. And that's our insight as a private equity investor: The fact that these things grew up separately doesn't mean that they aren't better together."

3. The evolution of healthcare is opening new opportunities

Consumerization will drive growth in new areas of healthcare. Surveying the market broadly, Coppens thinks there is room for improvement in any area where consumers or physicians can be incentivized to act on their own behalf to lower cost and improve outcomes.

For instance, consumers with high-deductible plans will be increasingly motivated to seek out information that will help improve care at a lower cost. On the provider side, physicians who operate in a "capitated"

environment (as opposed to the traditional fee-for-service payment model) will be compelled to seek out new tools that help them manage patient populations more efficiently.

"Those types of fundamental drivers are going to be really powerful in the health-care space," Coppens said.

More specifically, Blumenthal thinks the combined trends of an aging population and cost control at the care level will drive growth in the post-acute-care sector. "You've got an aging, increasingly vulnerable population, and you've got a traditional venue of care—the hospital—kicking people out earlier, to put it bluntly," he said. "That creates a problem. We think those two major forces mean that post-acute care has to be a lot better coordinated and a lot more consolidated, so we're looking at that sector quite closely."

4. Marketing to patients is more about modifying behavior than selling services

Marketing in healthcare is different from marketing in other consumer businesses. It's more about messaging—conveying information to patients that will modify their behavior and bring a better outcome, for them and the provider.

Let's take a patient with a Medicare Advantage plan that also has a vision benefit. And let's say that patient contracts adult-onset diabetes. "Well, glaucoma is an early indicator of diabetes, so it's going to pay you, the provider, to remind your participants that they have a vision benefit," Blumenthal said. "Because whatever you spend on the glasses or the contact lenses, their health is going to improve because they chose to get the vision test."

The message modifies a behavior, and that results in a better outcome. The patient chooses to engage with the healthcare

The Need for Clinical Quality

Jacques Mulder
Ernst & Young LLP

Most healthcare institutions believe the level of care they provide is excellent, but they have no way of proving it. Why? Because they don't do a good job of measuring and tracking the quality of the healthcare services they provide.

"I believe clinical-quality measures are as important as financial statements," Mulder said. "But healthcare providers don't always exercise the same level of rigor in how they enforce and manage that set of data."

Consumers are demanding objective data from healthcare providers that clearly demonstrates their ability to offer quality care. They want to find the best care, which means there needs to be an objective methodology to compare hospital to hospital, or specialty to specialty, and see which providers are delivering better outcomes.

"I'm on a very hard push to measure and compare clinical quality among institutions, so we can start answering the question of who does better care," said Mulder.

However, creating the right set of definitions is absolutely essential in measuring clinical quality. For instance, Mulder knows of one hospital that, at least on paper, had a bad track record when it came to patient outcomes. However, the way it defined and measured patient outcomes was significantly different, compared with other hospitals. "So they looked like they were performing poorer, when in fact they were performing better," said Mulder. "That's why there's a whole taxonomy that has to be developed."

The Big-Data Advantage

Adam Blumenthal
Blue Wolf Capital Partners

Smartphones have the ability to put an infinite amount of health data in the hands of both physicians and patients. This is an advantage that was never possible before. "Every time we touch a patient, we know something about them," said Blumenthal. "But historically, much of that information has never been captured."

So now that we have the means to easily collect all sorts of health data, how do we start to manage it all? The trick, Blumenthal said, is narrowing the focus. "It's a matter of figuring out which five simple questions I'm going to ask every day and keeping track of that information so I'm able to act on it," he said.

Going forward, having huge amounts of data, including proprietary data, is going to provide competitive advantage for some healthcare providers. But we're still a long way from that point. "The truth is that we're so uncoordinated when it comes to organizing and managing the data we already have," said Blumenthal. "So just doing a good job with the information we currently have creates a competitive advantage today."

system (the vision test), this delivers a desired outcome (the diabetes detection), costs are reduced (diabetes can be dealt with early), and the patient enjoys better quality of life.

That's healthcare marketing's holy grail: to influence patient behavior. "If you can get to that place, you're tapping into a piece of the risk equation that no pharmaceutical company and no clinician has ever been able to get into," Mulder said. "Finding ways to get patients to behave differently, more consciously about their health, that is going to be where the real magic happens."

5. Expensive controllable diseases like diabetes are a huge opportunity for tech intervention

Billions of people now suffer from behavior-related diseases like diabetes, congestive heart failure, COPD, and lung cancer. These illnesses are very expensive to treat when they become acute. But they also allow for early monitoring and intervention, which opens the opportunity for significant cost savings.

Typical diabetes patients visit the doctor's office once a year, and the rest of the time no one is checking them. That's why technologies that monitor existing diseases and warn patients and their caregivers when behaviors are off course present significant value.

"You can know what patients are doing," Mulder said. "Their activity level, how much they walked, when they took their medication. Put this all together and you wind up in a place where you can treat the diabetic for \$400 a year, just because you have the connectivity. We're moving to a point where payment is fixed and the better your ability to deliver quality care underneath that payment ceiling, the higher your profit." ■

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Unlocking the value of
people and their ideas

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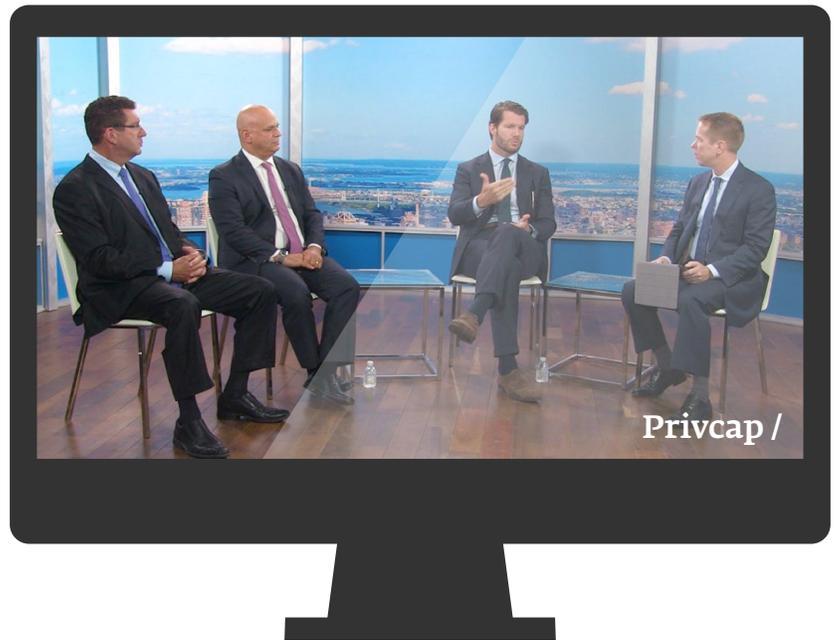
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The Consumerization of Healthcare



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