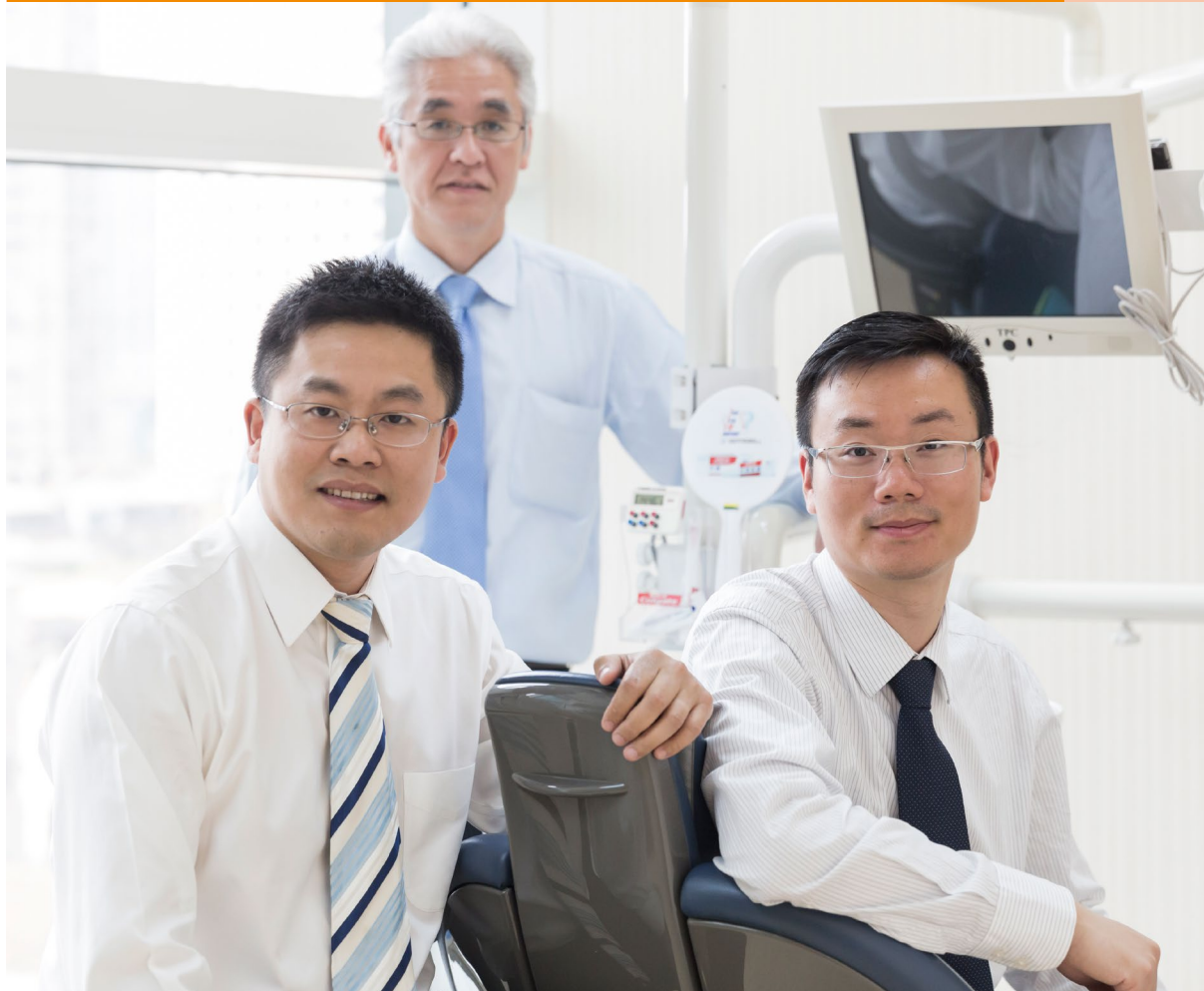


# *Global health's new entrants: Meeting the world's consumer*

*New Health entrants*

March 2015







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## Executive summary

New entrants are resetting the axis of global healthcare. World-class medical protocols are available in remote regions across the vast continents of Africa, Asia, the Americas and Australia and—as this occurs—a new kind of consumer has spiraled into existence. The US\$9.59 trillion global healthcare market is receptive to innovations that can supplement or replace traditional person-to-person clinical interaction that accommodates the consumer with care anywhere.

In both developed and developing nations, new entrants have pioneered pathways into virtual healthcare, more affordable and convenient care options, clinics that replace inflexible public health, fitness and wellness and much more.

Surveys by PwC and the Economist Intelligence Unit illustrate that consumers are willing to choose new healthcare options if the price is right, quality is on par with traditional healthcare services and time can be saved. For example:

- In Germany, 43% of those surveyed were willing to accept services and products from non-traditional healthcare providers as long as the quality and results were the same.<sup>1</sup>
- In Canada, 52% of patients surveyed predict that mobile health (mHealth) will improve the convenience and access of healthcare.<sup>2</sup>
- In the United States (US), 64% of respondents were open to trying new, non-traditional ways of seeking medical attention and treatment if the price was right.<sup>3</sup>

- In emerging markets surveyed (Brazil, China, India, South Africa, Turkey), 54% of respondents expect that mHealth applications/services will improve the quality of healthcare they receive in the next three years.<sup>4</sup>

New entrants can cross national borders and forge symbiotic partnerships with traditional players. Opportunities exist for savvy firms of all sizes and dimensions to bring consumer acumen and fresh ideas to healthcare, where in many nations costs are rising faster than the gross domestic product.

However, tremendous challenges loom as new entrants seek to serve global needs. Businesses from retail, technology, telecommunications, and consumer products looking for common marketing threads amidst so many cultures may find that what resonates among one population will not even hit a chord with another. Different countries have different medical and legal regulations, and concerns about privacy, cultural norms and geographic obstacles to traverse.

But many companies have crossed these divides in their traditional businesses and found receptive global audiences. Healthcare has been improved notably by the ability of new entrants to reach more people with more efficient care. Digitalisation has helped the democratisation of care; there is no going back.

PwC also found:

- The world healthcare market is estimated to be around US\$9.59 trillion, with US\$8.1 trillion generated from government and private providers and US\$1.49 trillion emerging from the wellness and fitness industry (see Figure 1).<sup>5</sup>
- As the world pivots ever closer to the “virtualisation of care”—the bundling of mobile, digital, and wireless—amazing breakthroughs occur that erase healthcare boundaries and enable care anywhere.
- Innovations can spring more rapidly from emerging economies than from developed countries. Where urgent needs prevail in a less regulated environment, health solutions offered by new disruptive forces can root more quickly.
- Consumers today want a healthcare experience that mirrors the convenience and transparency of their banking, retail, transportation and other purchasing experiences. Filling gaps between consumer expectations and the current medical infrastructure provides many opportunities for new entrants to move into global healthcare with fresh ideas and skills.
- New entrants can collaborate with healthcare’s incumbents and governments to build trust among consumers, ensure continuity in the delivery of services and build on existing knowledge to offer more efficient care.

## What is a new entrant?

A new entrant is a disruptive, recent arrival to a market or industry. These may include companies whose core businesses reside entirely outside of the new industry, or businesses expanding into new roles.

- The growing wellness and fitness market offers a more flexible entry for businesses considering ways to shake up healthcare without rubbing against government or traditional providers and the complex regulatory regimes that govern healthcare. PwC estimates that this market may reach US\$1.49 trillion.

### What this means for your business

#### New entrants

- **Build digital trust.** New entrants need to understand how to engage with the traditional healthcare network and the emerging digital care environment to store, transmit and share healthcare data in accordance to legal, regulatory and societal obligations.
- **Find the right partners.** By working closely with knowledgeable healthcare providers who believe access to care is key to societal progress, new entrants can use technology to triage care where physicians, hospitals and clinics may be in short supply.
- **Understand local dynamics and try to have a local footprint.** International vendors must understand the historical challenges, local customs and specific problems of each country they target.
- **Test markets carefully.** When possible, new entrants should follow a fast, frugal innovation model. Use simulation tools to define an offering before a pilot.

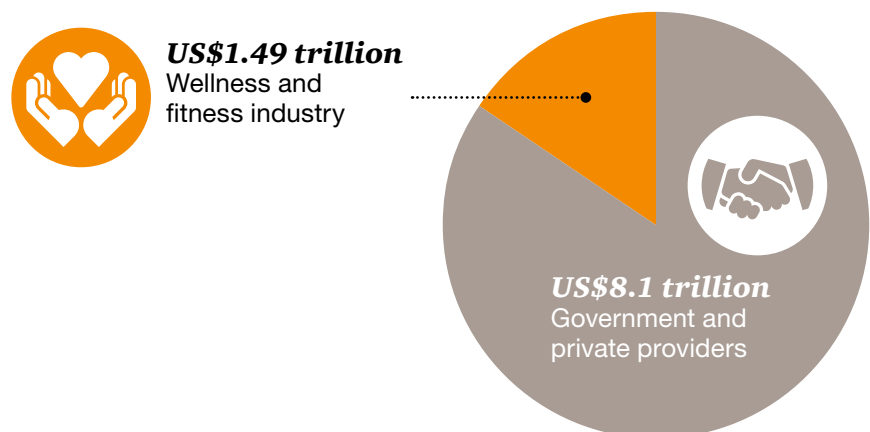
#### Traditional and government providers

- **Choose partners wisely.** Doing business with reputable new entrants provides an opportunity to build sustainable solutions that meet policy and business goals.
- **Be open to innovation.** New entrants can challenge the status quo and may run counter to long-time practices. Examine their business plans and make sound decisions based on evidence rather than fear of breaking with tradition.
- **Develop consumer analytics.** Closely track work with new entrants to gauge consumer response. Bringing in a new player or product should be considered the start of a process that can be fine-tuned, discontinued or renewed.

#### Life sciences/biopharma and medtech industry

- **Move beyond the treatment.** In most markets, payers are migrating to outcomes-based reimbursement models, which will force biopharma and medtech players to move beyond the episode of care and understand where and how they play in the continuum of care.
- **Develop partnerships.** Biopharma and medtech will need to partner with new entrants to create new business models that support care anywhere.
- **Understand the value of data.** Consumers expect solutions that integrate with their preferred mobile devices, apps, peripherals and wearables. Solutions and data should ensure that all parties are apportioned economic value relative to their contribution to the consumer's health.

Figure 1: New entrants are expected to disrupt the traditional global healthcare market and draw billions from systems in developed and emerging countries



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## The landscape

### *Healthcare will change dramatically as new entrants carve out their niche in the delivery and access of care.*

Healthcare challenges that include affordability, quality and access persist across the world. Developed markets face ageing populations and increasing incidence of chronic diseases; developing countries face twin challenges of managing greater incidence of chronic diseases and the lack of infrastructure. Too many hospital beds in some developed countries and a lack of basics—hospitals, clinics, and healthcare workers—in the developing world exacerbate the situation.

Relief is coming in the form of new players on the healthcare field that can cut through inefficiencies and offer a higher standard of care by leveraging consumer, business and technology savvy. PwC's Health Research Institute recently examined how such *new entrant* companies—disruptive recent arrivals—are upending the US\$2.8 trillion US healthcare industry. These include companies whose core businesses reside entirely outside of healthcare, and healthcare businesses expanding into new roles.<sup>6</sup>

This report delves into how, on a global scale, new entrants, with their entrepreneurial spirit, are poised to disrupt healthcare systems throughout developed and developing countries.

At stake is an estimated US\$9.59 trillion market, with US\$8.1 trillion generated from government and private providers and US\$1.49 trillion emerging from the wellness and fitness industry.<sup>7</sup>

From retail, technology, telecommunications and consumer products, new entrants can engage consumers, innovate at a faster pace than traditional healthcare companies, lower costs and—in collaboration with traditional healthcare companies and governments—improve outcomes. Symbiotic relationships are emerging where the healthcare, regulatory and payment expertise of traditional players complement the innovations of new entrants.

While trends driving demand for affordable and accessible care are common across the globe, country-specific dynamics add a level of complexity. For example, the regulatory environment in Japan is hard to penetrate because providers and payers are reluctant to change the status quo. Mexico, a growing economy, still has remote populations that can best be reached through high volume and/or low price pharmaceuticals and care. Diversity among European healthcare systems requires multiple business models to enter the 29 individual markets.

But companies as disparate as Virgin Care (health and social care services) in Britain, Nintendo Co., Ltd. (health products and services) in Japan, and FEMSA Comercio (pharmacies) in Mexico are pushing forward despite the obstacles. These pioneering firms stand to gain a considerable financial stake in the global healthcare economy, and to become critical actors in reaching underserved populations by introducing higher standards of care.

Global healthcare will change dramatically as new entrants carve out their niches in the delivery and access of care. More invasive procedures will be replaced by less invasive ones as the reach of new mobile applications, devices and services expands and deepens. Far-flung populations can be linked to world-class diagnosis and treatment. Partnerships will be forged. Competition will intensify. And, as changing dynamics join newcomers together, the opportunities for merged healthcare-oriented entities to cross borders will increase.





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## Virtual democratisation of care

The lack of healthcare access in many parts of the world continues to undermine the basic principles of human dignity, equality and equity that brought world leaders together at the United Nations to establish the Millennium Development Goals of 2015.<sup>8</sup> Remarkable gains have been made in all health indicators since 2000.<sup>9</sup> But much more needs to be done to accelerate progress. In 2012, according to the *Millennium Development Goals Report 2014*, 40 million births in developing regions were not attended by skilled health personnel.<sup>10</sup>

In contrast to clinicians, mobile access is rapidly spreading worldwide. Globally, mobile-broadband penetration will reach 32% by the end of 2014, almost double the rate from 2011, and there will be almost 3 billion Internet users, two-thirds of them coming from the developing world, according to the UN Specialised Agency for Information and Communication Technologies (ICT).<sup>11</sup>

As the world pivots ever closer to the “virtualisation of care”—the bundling of mobile, digital, and wireless—amazing breakthroughs occur that erase healthcare boundaries and enable care anywhere. For example, a pregnant woman in India can receive pertinent health messages on her mobile device that offer instructions for prenatal care and alerts on what symptoms might require attention.<sup>12</sup> Using a single system, Australia’s rural broadband digital mammography project, BreastScreen Victoria, books the appointment, sends information electronically and securely to and

from the screening centre, and informs the patient of her result.<sup>13</sup>

Virtual care is replacing traditional notions that a medical diagnosis can only be produced in a person-to-person visit. Young to old consumers are showing a willingness to receive care via mobile devices, which opens a new world of business opportunities and possible partnerships. Products developed on one side of the globe can detect life-threatening conditions on the other side. Already, AliveCor, the American maker of the US FDA-approved smartphone device to detect atrial fibrillation, is partnering with Apollo Hospitals to provide the monitors to patients throughout India.<sup>14</sup>

Healthcare systems globally—to remain sustainable—are moving away from a volume-based, fee-for-service approach to one that rewards quality and outcomes. As a result, some incumbent organisations, particularly medical device and pharmaceutical companies, are leveraging technology to focus on the entire patient interaction suite: preventative health and wellness, therapies, post-treatment processes, and even patient support and education. This comprehensive approach puts consumers at the centre of healthcare. Such an approach, however, requires new business models that depend on collaboration; no organisation has the requisite competencies needed to support the continuum of care. New entrant partners can provide the necessary behavioural, diagnostic and therapeutic solutions.

Taking this trend into consideration, the vast global virtual arena is ripe for collaborations between incumbents and new entrants, especially in telecommunications. For instance, pharmaceutical firm Sanofi launched its diabetes division in 2010 with the goal of becoming the world’s leading diabetes care company, delivering integrated solutions to patients.<sup>15</sup> Its Canadian affiliate, Sanofi Canada, partnered with Telus Health, a division of telecommunications company Telus, to launch a private web-based platform that offers patients self-management and monitoring tools.<sup>16</sup>

Endorsements by major healthcare providers can also mitigate anxiety or reluctance on the part of consumers to adopting mHealth. For example, SK Telecom, a South Korean wireless telecommunications operator, established a joint venture medical centre in 2013 with VISTA, the business partner experienced with management of specialised clinics in Chinese metropolitan areas.<sup>17</sup> Spanish operator group Telefónica acquired a controlling share in the Brazilian chronic care management provider AxisMed.<sup>18</sup>

Antonio Carlos Valente, CEO of the Telefónica Group in Brazil, summed it up to *telecoms.com*: “With our connection solutions and the Vivo 3G network, which is unparalleled in Brazil, monitoring chronic patients could reach significant numbers of people in over 3,000 cities nationwide.”





## ***Canada's push for virtual consumer care***

Canadians are listening to what consumers want. More than half of respondents to a 2013 PwC Canada survey said they believe that mobile apps will make healthcare more convenient in the next three years. Nearly two-thirds said they would consider using vHealth options for their own care or for someone they care for.<sup>29</sup> The magnitude of this shift has been compared to the movement from inpatient to ambulatory care in the 1990s.<sup>30</sup>

Canadian policies support this transition toward providing faster, more convenient access to care in the way that consumers want it. For instance, the country's 9,000 community pharmacies might soon be "9,000 points of care," according to five strategies recently laid out by Canada's broader pharmacy community to expand the role of pharmacists.<sup>31</sup> By focusing on better electronic infrastructure and resources, a connected network of pharmacists could prevent as many as 300,000 emergency room visits and up to 86,000 hospitalisations resulting from adverse drug reactions a year. Expanding pharmacists' scope of practice to include treating minor ailments and administering vaccines could free up to 2.4 million physician hours a year to focus on more critical care.<sup>32</sup>

The future of virtual care is a brave new field that can truly give consumers what they want: the opportunity to be knowledgeable consumers of healthcare products and services in a manner and location that is convenient to them. The modern healthcare system evolved over many years. Now the convergence of technology, consumer demand, financial constraint and societal pressure is forcing the work to be done in a matter of years. Virtualisation of the patient-provider interaction creates many new opportunities, as well as challenges for policy makers and clinical leaders.

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## *The leapfrog effect: Why developing countries innovate faster*

Innovations can spring more rapidly from emerging economies than from developed countries, where healthcare systems are more entrenched and regulated. Where urgent needs prevail in a less regulated environment, health solutions offered by new disruptive forces can root more quickly.

Technology is becoming less of a barrier. A developing region leads the world in expanding mobile-broadband subscriptions: penetration in Africa reaches close to 20% in 2014, up from 2% in 2010. This 40% growth rate is twice as high as the global average.<sup>19</sup>

The continent also has, by far, the lowest physician density in the world. Through the Mobile Doctors Network (MDNet), nonprofit Africa Aid has harnessed the power of mobile to create a health infrastructure breakthrough in Africa. MDNet Ghana launched in 2008 in partnership with telecommunications provider Ghana Onetouch, creating the world's first country-wide mobile doctors network.<sup>20</sup> Similarly, Medic Mobile—a nonprofit organisation that advances healthcare in developing countries—is working with St. Gabriel's Hospital in rural Malawi to respond to requests for remote patient care, especially on maternal health and HIV management.<sup>21</sup>

In some developed countries, the major roadblock to innovation is government regulations on where and how medical activities can be performed. New entrants can test their products and services in more receptive markets before launching proven business ventures in more regulated nations.

Adopting innovation first in developing markets, and then bringing it to more mature, developed markets, can be a real boon for organisations looking to reassess business or operational processes as they streamline, adapt and scale solutions for worldwide use. Companies can, in essence, “leapfrog” in emerging countries by skipping a generation of development or create an entirely new method or technology. Another possibility for businesses is to enter the market by providing services to physicians and building local professional trust before jumping fully into the consumer arena.

In Japan, for instance, broad use of remote healthcare is limited to rural areas and the islands where there is poor access to medical institutions. Although this regulation has been relaxed in recent years, providers and payers see little economic rewards for aggressively adopting the practice. Reimbursement in Japan offers little incentive to providers to reduce costs through innovation. As a consequence, emerging markets are becoming an attractive investment hub. For instance, some consumer electronic companies are looking to the southeast Asian market to test mobile diagnostic devices and Japanese trading houses are investing into healthcare providers, which operate hospitals in countries such as Turkey, Vietnam, Brunei and China, to drive operational efficiencies.

Another hurdle to overcome in most developed countries is the issue of privacy. For example, many European countries lag the US in mHealth and virtual health (vHealth), the modern

colloquy for mHealth, because of the sensitivities of transmitting patient data. Digital health products stand a better chance of success in Europe if they can connect many consumers to one supplier rather than to multiple stakeholders, limiting the privacy and security risks.

Another pathway into tighter markets is to demonstrate the value created by the new business model. Cost savings can entice European consumers, since many are reluctant to pay for basic health services not covered by public health. The US-based Proteus Digital Health formed a partnership in 2014 with various health organisations within the United Kingdom (UK) to assess the value of digital medicines—a tiny sensor within the pharmaceutical that can communicate vital information about an individual's drug regimen—in supporting medication adherence and daily activity while realising significant cost savings.<sup>22</sup>

Strong evidence of value may—or may not—sway consumers in public health systems reluctant to pay for services. In Germany, 43% of a survey group expressed a willingness to use new health services provided by non-traditional healthcare players as long as the quality is right.<sup>23</sup> The 2014 PwC survey of 1,000 German citizens found that only about half are willing to pay for these new services out-of-pocket. Even the most popular option for purchase—an app that books doctor's appointments as a solution for shorter waiting times—drew only a 15% nod.<sup>24</sup>

New entrants may find a more receptive audience in some emerging markets, where governments are actively working to reform their health systems. There, governments may be more amenable to innovation and can act as a catalyst for new market opportunities. In Saudi Arabia, for instance, the Ministry of Health has commenced a series of initiatives that are intended to modernise the country's health system. Ultimately, the aim is to develop a "value-based" health system achieved in part by empowering patients with health knowledge and skills, investing in population health, and helping to develop an efficient market that seeks maximum patient-oriented value. Technology will play a significant role to enable citizens to take greater ownership of their health and better engage with the health system and providers. Consequently, the Kingdom of Saudi Arabia is poised for a major growth in telehealth to increase the accessibility of care for its citizens, particularly those in rural areas, and to lower healthcare costs.<sup>25</sup>

Indonesia is another nation going through health reform, shifting to become a single-payer health insurance system that will provide universal healthcare for its citizens by 2019.<sup>26</sup> Information technology will be part of the solution to keep costs down and expand care.<sup>27</sup> The reform also eases foreign investment in many sectors, including pharmaceuticals, to speed up the flagging economy and provide opportunities for outside companies to own and start their own operations.<sup>28</sup>





## Filling gaps in a global consumer health system

Rising healthcare costs drain both developed and emerging economies. Exacerbating this, the growth of elderly populations strains health systems in ways that will only intensify (see Figure 2). Many consumers complain that wait times have become too long, and want the choice to pay more for efficiency. Public and private partnerships can streamline delivery systems, but consumers today want their medical services to mirror the ease of banking, retail, transportation and more. Filling gaps between consumer expectations and the current medical infrastructure provides an opportunity for new players to move forward into health-care with fresh ideas and skills.

Innovations may find more fertile ground in the developing world, where access and quality of care is a prevalent concern. New entrants to the health delivery system have proven they can make inroads in countries with vast terrain, such as Mexico, where government services cannot always reach effectively throughout the rural areas.

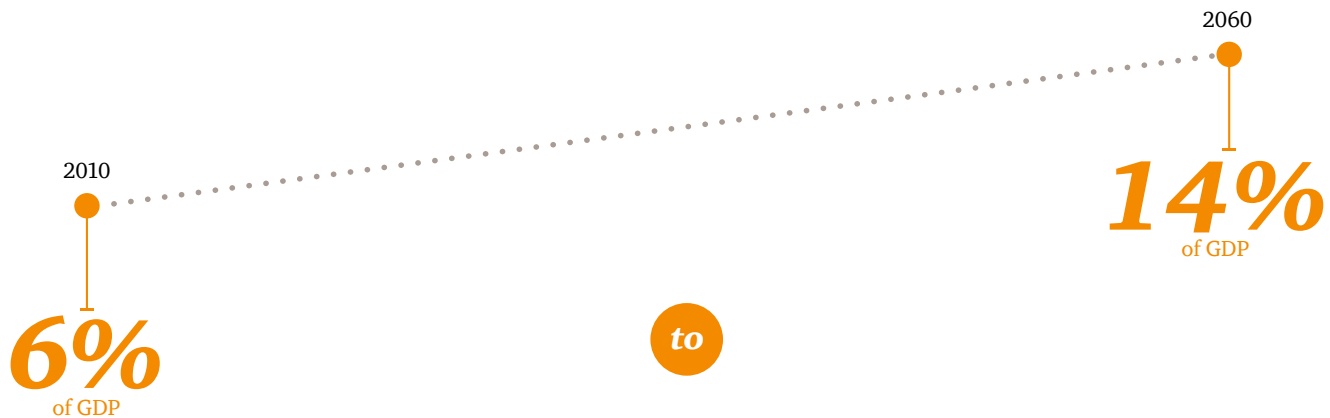
The Carlos Slim Health Institute, created in 2007 at the initiative of the Mexican philanthropist, has collaborated with Qualcomm Inc., to develop a kit used by health professionals and community healthcare workers to monitor high-risk pregnancies in an effort

to meet the UN Development Millennium Goals. “The current maternal mortality rate demands innovative models of care that use a systematic approach,” said Roberto Tapia-Conyer, president of the Carlos Slim Health Institute.<sup>34</sup>

FEMSA Comercio reaches into every small town in Mexico with its ubiquitous product. Now FEMSA Comercio is using its name, reputation and trust to acquire and operate pharmacies that sell products at competitive prices (see case study).

Figure 2: Rising healthcare costs continue to be a growing concern around the world<sup>33</sup>

Projected public health and long-term care cost expenditures for OECD and BRIICS countries



Source: Organisation for Economic Cooperation and Development. BRIICS include Brazil, Russia, India, Indonesia, China and South Africa. Projections are based in a cost pressure scenario, which assumes no stepped-up policy action spending.

## **FEMSA Comercio enters healthcare through pharmacy acquisitions**

FEMSA—the name most associated with the largest publicly-traded Coca-Cola bottling company—saw a big opportunity to enter the retail pharmacy space. FEMSA Comercio already owns OXXO, Mexico’s leading convenience store chain. Now it is acquiring independent pharmacy chains and running them with an efficiency that means competitive prices and strategic placement.

With 13,000 OXXO stores throughout Mexico and Latin America, FEMSA has created an indelible convenience store concept. Their expansion into pharmaceuticals is more fluid. Since May 2013, FEMSA has acquired 550 pharmacies with banners such as Farmacias YZA and Farmacias FM Moderna.

Although FEMSA intends to develop one uniform operating model for its pharmacies, a company executive told PwC, “We’re still growing inorganically through more acquisitions.”

FEMSA prides itself on being nimble: being able to buy and reopen stores quickly in strategic locations. They are still in the process of defining their optimal operating model, however, the FEMSA executive says the firm is more interested right now in fast growth and economies of scale.

The competition varies, from offering generic brands at a large savings to baking bread and selling beer amidst the pharmaceutical assortment.

Competition also includes Alliance Boots, the European retailer and wholesaler owned in part by Walgreen Co., which agreed in May 2014 to acquire some 1,400 drugstores in Mexico and Chile. The acquisition would give the combined Walgreen-Boots enterprise a foothold in Latin America.<sup>35</sup>

According to FEMSA it is number five in Mexico’s pharmaceutical field. The executive is confident that the corporate strategy to continue to acquire a larger share of the market will prove successful. Wielding the powerful OXXO retail name gives them muscle.

However, FEMSA has encountered strong differences between running pharmacies and convenience stores, especially in level of service and attention required for each customer. At OXXO, people pay and leave; at the pharmacy, more dialogue occurs as customers compare remedies for pain or other ailments. There is also considerable government control over drug sales, such as required permits, licenses to sell different pharmaceuticals, and restrictions on displaying controlled substances.

“We have needed to change our mindset,” the executive explained of the firm’s expansion into pharmacies. “We have a different consumer with different needs to be resolved.”

Mexico’s entire drug store culture has recently undergone change. Consumers used to be able to freely purchase antibiotics and other non-narcotic drugs with no prescriptions (although it was mandatory by regulatory standards). In 2010, the Mexican government tightened control by demanding (and more closely auditing) pharmacies to keep the prescriptions from their patients. In addition, after sales of generics started to grow and patented products went down, many of the larger pharmacies established physician offices right next to the drug store. The retail-based medical clinic concept was born there by necessity: for a free or low-cost consultation, consumers get the prescription and drug sales have resumed pre-2010 levels.

A few of the larger FEMSA-acquired pharmacies have attached “clinics.” The FEMSA executive describes the services offered as basic primary care. There is nothing as complicated as an X-ray, but the doctor can prescribe on the spot.

FEMSA also recognises the importance in building customer loyalties to their brand, especially when their customers become regular purchasers through chronic diseases. Being consumer-centric is something the firm learned through OXXO.

FEMSA’s future plans do not involve a further dive into healthcare by partnering with providers or other players. At least, the executive adds, “not right now.”



Inefficient care in remote regions has health officials there seeking to work more closely with private partners. For example, the Kingdom of Saudi Arabia, under its proposed healthcare reform, would cease to be a provider, retaining only a regulatory role. Local business is actively courting expert foreign players to help with this transition. Founded in January 2014, Johns Hopkins Aramco Healthcare LLC is a first-of-its-kind healthcare joint venture between Saudi Aramco, an energy conglomerate, and Johns Hopkins Medicine.<sup>36</sup> Similarly, Cleveland Clinic is collaborating with the Healthcare Development Holding Co. in Saudi Arabia to provide medical education and training.<sup>37</sup>

Shrinking healthcare budgets in major markets also open up possibilities for private collaboration. In the UK, for example, the tax-based National Health Service (NHS) is outsourcing more and more in an effort to seek great efficiencies from proven private

players. Virgin Care, with its notable brand, has been extremely successful in winning work, but still faces challenges in delivery (see case study).

Building much-needed health infrastructure is a major challenge in many rapidly growing nations. Governments in places such as India, Turkey, Vietnam, and Brazil used to be primarily concerned with having enough hospital beds. Now the public health sector is also burdened with new problems such as how to prevent cardiac and other chronic disease.

Fewer opportunities to build health facilities exist in countries such as Japan and the US where governments and private providers are closing hospitals or converting them to chronic care facilities. The trend over the past 15 years has been to move services out of the hospital to outpatient care; now, the shift of services is to wherever the patient

is. There is a strong technology slant to this unbundling and many companies are showing an interest in countries such as India. Already, the Paris-headquartered pharma multinational Sanofi plans to partner with Apollo Hospitals—India’s largest corporate hospital chain—to offer diabetes management services through a chain of “sugar clinics”.<sup>41</sup>

This movement from expensive venues of care—the hospital—to lower cost settings—the home—is a consistent trend in developed markets, such as the US and Japan, and emerging markets such as India, both reflecting the need for new entrants that can connect hardware, software, networks, diagnostics and biopharmaceuticals into integrated solutions of care.



## **Virgin Care at the front lines**

Since 2006, Sir Richard Branson's Virgin Care has provided health and social care services across the UK, treating more than four million people with, according to their mantra, "care good enough for our families."<sup>38</sup> As one of the early private corporations to win work under the broad marketisation of the NHS, Virgin Care now runs 230 services throughout the country. These services span primary care, intermediate care, and community services.<sup>39</sup>

Branson told PwC's 180 Health Forum in 2013 that there's plenty of room for healthcare innovators to disrupt the industry by offering products and services that are "palpably better" and by delivering superior customer experiences.<sup>40</sup>

"But because of shifting politics and the nature of healthcare, we have to stay nimble," said Jim Kane, Virgin Care's head of business development, in a recent interview with PwC.

Virgin Care is working hard to provide better value healthcare than the NHS. The public system has to spend money year to year. Virgin Care does the opposite: saving to build capital reserves. Even with reasonably short-term NHS contracts (two to five years), Kane said that the firm has been able to get rid of some perverse payment incentives. Under NHS' payment structure, even non-acute patients gravitate to hospitals rather than receive less costly care at clinics or at home. Virgin Care tries to put a more personal touch to care: treating people where they can receive the most efficient care at the best cost, Kane said.

Virgin Care is particularly proud of its Devon Integrated Children's Service, which is a jointly commissioned

health and social care service that incorporates specialist care for children with more mainstream services such as school nursing. Devon has been able to make a real difference in the care provided to children with complex health or mental health needs, and to their families, by breaking down the traditional barriers that have existed in the UK between what is classed as "health" and "social care" services. The former is funded through central government and the latter has devolved to local government.

Virgin Care successfully competes for NHS contracts, partly because of the well-respected Virgin brand, but primarily because other competitors work in tight geographic areas. Virgin Care offers a range of healthcare services over a much broader area.

One of the challenges has been staffing. Kane explained that taking over public healthcare services includes subsuming the existing staff. Since the more skilled staff get drawn to the larger urban hubs, some rural outposts have had a hard time recruiting and retaining good people.

Virgin Care believes it is still in an early stage of development as the UK market continues to evolve. The organisation attributes some of its successes to its long-term commitment to delivering healthcare in the UK, a mindset that has helped to assuage the concerns of some NHS commissioners. Their persistence offers a solid model for other new entrants considering the plunge into public healthcare: most important, to take a very long-term view.

## Path of least resistance: Wellness and fitness

The growing global wellness and fitness market—the money people spend on non-medical products and services to get and stay healthy—offers perhaps the most flexible entry for businesses considering ways to shake up the industry without rubbing against government or traditional providers. Few regulations exist on helping consumers take care of themselves. New entrants are successfully offering services and products such as fitness, reducing weight, etc. to become better situated to enter the key healthcare market of health providers and payers. PwC estimates, using various industry and market research reports, show that this market will reach US\$1.49 trillion (see Figure 3).

The growth in chronic diseases as nations become more affluent—75% of healthcare costs globally—is also compelling governments to invest in preventative medicine.<sup>42</sup> New entrants can enter this market with innovative strategies and products to meet national goals, but it is important to observe what consumers are willing to pay for to remain healthy.

Healthy eating is a good place for many consumers to start taking control of their own health. The global nutrition market is now at US\$391 billion, according to the *Nutrition Business Journal*. The US\$595 billion global weight loss industry and the US\$236.5 billion sporting goods and apparel market also emphasise consumer interest in staying healthy. In business, Nestlé Health Science has made acquisitions

in several companies specialising in gastrointestinal conditions, clinical nutritional products and cancer diagnostics to strategically reinforce its position in the growing segment of specialised nutrition.<sup>43</sup>

Countries such as India are also witnessing a paradigm shift. With the eradication of polio and better control over other infectious diseases, the country is growing its fitness and wellness market. The market size approached 700 billion INR (US\$11.4 billion) in 2012—a growth of more than 18% over the previous year—and is poised to reach its trillion rupee potential by 2015. Products comprise the majority share at nearly 60%. New players are educating and improving consumer awareness of the benefits of wellness products and services.<sup>44</sup>

The growing awareness of healthy workers as a corporate responsibility is a strong trend in the developed world. In Japan, employees belong to the corporate health insurance funds that cover their medical costs. With the incentive to manage expenses, the larger and more forward-looking health funds have initiated health programmes. Experienced health fitness businesses are entering this market, as are new players.

Japanese consumer electronics company Nintendo Co. Ltd., just outlined its plan to expand into health.<sup>45</sup> Founded 125 years ago as a seller of traditional Japanese playing cards, Nintendo launched its first video game console in

1983. But with its gaming console as its last big success in 2006, and lagging profits ever since, the company needed a new direction.<sup>46</sup>

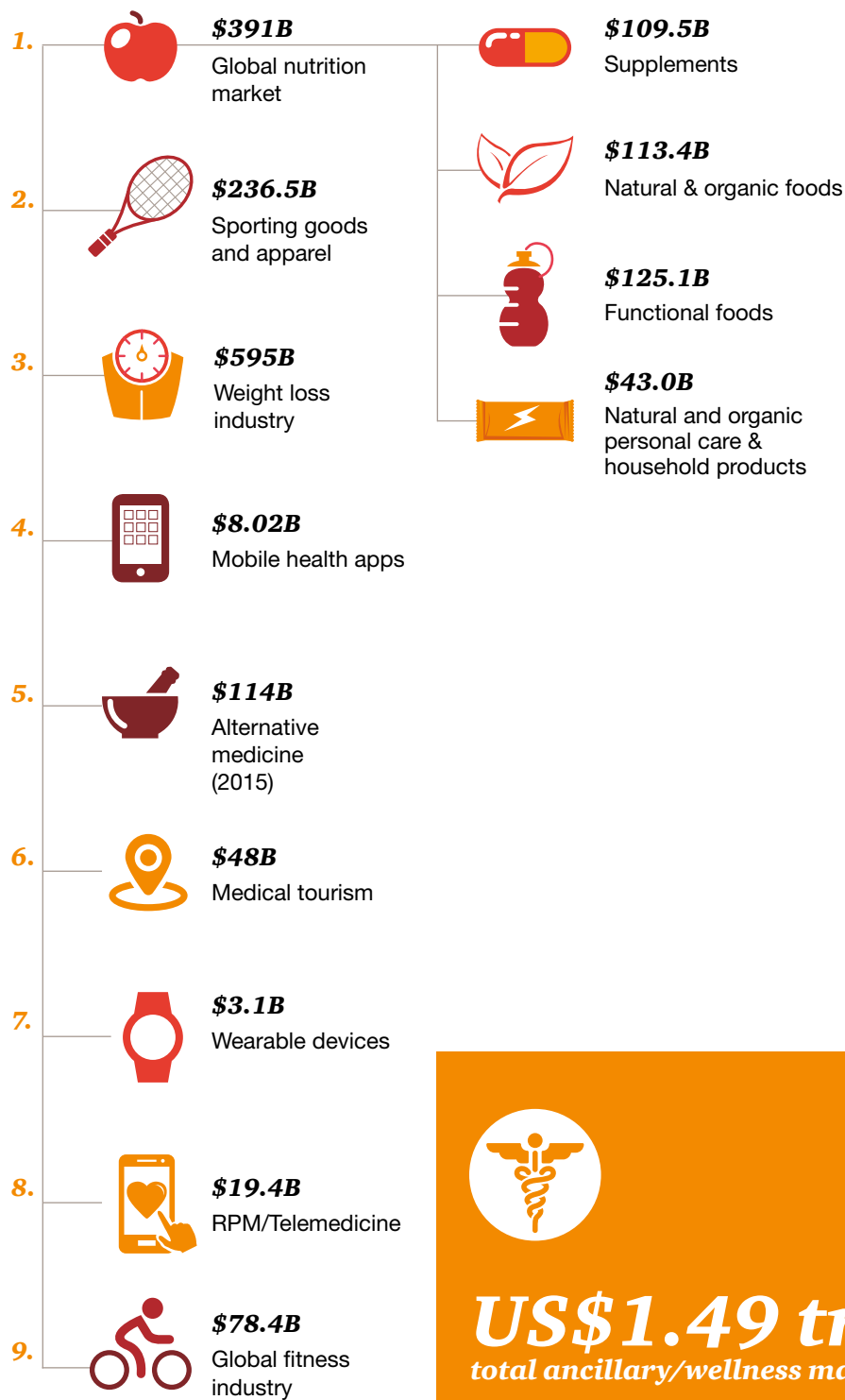
Nintendo chief executive Satoru Iwata said that, with its new health products and services geared toward improving quality of life, Nintendo wants to “create an environment in which more people are conscious about their health and in turn expand Nintendo’s overall user base.”<sup>47</sup>

Innovative new products that can encourage consumers into making healthier choices offer value that cuts across both healthcare and lifestyle. Most important, they reach younger consumers. Encouraging youth to eat better and exercise more will reduce chronic conditions in later years.

Many new entrants are finding that the wellness and fitness market is a good place to experiment but a challenging area for a sustainable business model. Successful entrants are diversifying into different products to improve profit margins; in some cases, premium products and services. For traditional healthcare companies, the challenge will be integrating the data into the patient’s entire care continuum (wellness, prevention, diagnosis, treatment, monitoring) to elicit the appropriate behaviours and outcomes. This industry gives people an opportunity to avoid more costly healthcare in the future, but for new players to succeed here, the price must be right.

**Figure 3: Global wellness and fitness market**

*New entrants have the potential to impact the US\$1.49 trillion marketplace.*





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## What does this mean for your business

### New entrants

- *Build digital trust.* New entrants need strategies to engage with the traditional healthcare network and the emerging digital care environment, adapting operating models and data standards to store, transmit and share data in accordance to legal, regulatory and societal obligations. Data strategies need to be developed with the consumer at the forefront, but informed by the nuances of healthcare. The monetisation strategies of social media will not apply in healthcare. For example, conveying digital information securely across the globe—or just within a country—requires appropriate handling of personal healthcare data.
- *Find the right partner.* By working closely with knowledgeable healthcare providers and policy makers who believe access to care is key to societal progress, new entrants can expand access, using technology to triage care where physicians, hospitals and clinics may be in short supply. Consumers, policy makers and new entrants share a long-term goal of growing access to care, improving the quality of care and lowering the cost of care. However, managing these partnerships requires a commitment by all parties to stay current on advances in treatment and technology and evolving consumer preferences.
- *Seize the moment.* Policy makers are actively soliciting ideas and support in developing healthcare

assets to serve growing populations of informed consumers. Entering huge and fertile markets, such as in the Kingdom of Saudi Arabia, must be done while the government is actively soliciting ideas and eventually business plans. By engaging early in policy discussions, policy makers benefit from the best ideas, consumers benefit from the best solutions, and new entrants win by sharpening their competitive differentiation and capturing markets.

- *Ensure that global medicine becomes a shared science.* New entrants to healthcare can facilitate connections to proven medical protocols. Historically, medicine was dependent on the training and memory of the practitioner seeing the patient. Now, the ubiquity of mobile and the Internet allows the patient and physician to be equally informed about a diagnosis and treatment options. Licensing of protocols ensures that physicians follow world-class standards for care administration. New technology products can also ensure that patients adhere to the best care. New entrants can facilitate the collaborative medicine between physician and consumer, providing real time insights when needed and trending data to ensure long term wellness.
- *Deliver volume and low prices.* For consumers who pay for care primarily out-of-pocket, such as in Mexico and India, the market expects high volume/low price healthcare services and treatment

options. As governments struggle to contain rising healthcare costs, consumers will continue to pay for services in some markets and be expected to pay in others. In all instances, convenience, transparency and demonstrable outcomes will be important buying criteria for consumers.

- *Understand local dynamics and try to have a local footprint.* Each country has specific regulatory, reimbursement, delivery and distribution requirements that require business models to adhere to market specific requirements. International vendors must understand the historical challenges, local customs and specific problems of each country they target. New entrants should also look at the entire continuum of care (wellness, prevention, diagnosis, treatment, monitoring) to understand their field of play. To remain aligned with the interest of all stakeholders, new entrants should map the entire healthcare ecosystem: payers, providers, patients, employers, governments, and regulators.
- *Test markets carefully.* When possible, new entrants should follow a fast, frugal innovation model. Use simulation tools to define an offering before a pilot. Clearly define and structure a pilot with partners so that insights can be captured and failures contained. Iterate pilots quickly to commercial scale in receptive markets, building a reputation of success.

### Traditional and government providers

- *Choose partners wisely.* Consumers will expect convenient, quality services at an affordable price. Policy and societal objectives should be clearly defined to achieve and engage new entrants in creating and piloting solutions. Doing business with reputable new entrants provides an opportunity to build sustainable solutions that meet policy and business goals. World-class medical institutions and other multinational companies are eager to showcase their knowledge and experience, reflecting shared long-term interests in healthcare.
- *Be open to innovation.* New entrants bring innovative ways of doing business to the healthcare table. Their ideas can challenge the status quo and may run counter to long-time practices. Consider how this new affiliation or product might supplement the business before dismissing. Examine their business plans and make sound decisions based on evidence rather than fear of breaking with tradition.
- *Develop consumer analytics.* Closely track all work with new entrants to gauge consumer response. Bringing in a new player or product should be considered the start of a process that can be fine-tuned, discontinued or renewed. How customers respond to the changes should help determine your future decisions. A defined process of innovation management benefits all stakeholders in creating the optimal solution for the market.

### Life sciences/biopharma and medtech industry

- *Move beyond the treatment.* In most markets, payers are migrating to outcomes-based reimbursement models, which will force biopharma and medtech players to move beyond the episode of care and understand where and how they play in the continuum of care. This change greatly complicates how the industry has captured value through pricing and formulary access.
- *Develop partnerships.* Capturing value beyond the episode of care requires data gained outside the hospital or office. Consumers are adopting hardware and software solutions that facilitate care management. Biopharma and medtech should consider partnering with new entrants to create new business models that support care anywhere.
- *Understand the value of data.* In health or in illness, basic vital signs are important to understand a consumer's current condition and treatment progression. Consumers will not adopt solutions from manufacturers that attempt to replicate certain functions of more ubiquitous new entrant tools or solutions that are closed or proprietary. Consumers will expect solutions that integrate the flow of data with their preferred mobile devices, apps, devices and wearables.

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## About this research

PwC estimated total global healthcare spending using total health expenditure (% of GDP) and the GDP (current US\$) from World Bank Data in 2012. The base year of 2012 has been chosen as data for subsequent years (2013/14) is incomplete or is yet to be recorded. Total health expenditure is defined as the sum of public and private health expenditure according to World Bank. It covers the provision of health services (preventive and curative), family planning activities, nutrition activities, and emergency aid designated for health but does not include provision of water and sanitation.

The total healthcare expenditure is estimated to be US\$7.3 trillion which was extrapolated to US\$8.1 trillion in 2014 using 5.3% annual spending increase on health expected globally over the next five years, according to The Economist Intelligence Unit's *Global outlook: Healthcare (March–2014)*. The global healthcare expenditure data was validated by shortlisting all nations which contributed 1% or greater to the global healthcare market and corroborating their market sizes with secondary research, such that the US\$7.3 trillion figure could be representative of the global healthcare market.

The global fitness and wellness market was calculated by segmenting into 9 areas: Sporting Goods/Apparel, Nutrition, Alternative Medicine, Weight Loss, Fitness, mHealth apps, Telemedicine, Wearables and Medical Tourism and is estimated to be around US\$1.49 trillion in 2014, using various industry and market research reports. The global nutrition market estimated to be around US\$391 billion is further sub-divided into Supplements, Natural and Organic Foods, Functional Foods and Natural and Organic Personal Care and Household products which was further validated using secondary research.

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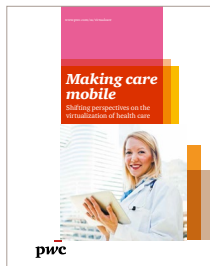
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