Part II

Digital Business 2020: Getting there from here!

Healthcare Rx
The Rise of the Empowered Consumer
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Market and digital forces have combined to enable the healthcare industry to treat much of what ails it – or be supplanted by newcomers who can more quickly seize the digital high ground.

Welcome to the world of the engaged, aware and empowered healthcare consumer. Transformative market forces, coupled with rapid advances in digital technologies, are placing consumers at the center of an increasingly virtualized, personalized and delocalized healthcare system.

Responding to this transformation is an existential challenge for traditional healthcare organizations – one they must master if they hope to thrive in the new digital economy. Successfully engaging the accountable healthcare consumer will require broad new capabilities, from business models based on quality of outcomes, to digitized processes that address consumer demands for product customization and more control over their care decisions.

As these objectives are accomplished, the industry can more effectively reduce waste and costs and improve efficiencies – thus solving many of its own enduring challenges while meeting the needs of a new generation of health consumers.

The Forces Reshaping Healthcare

A wide array of market forces is reshaping the healthcare industry as we know it. While many factors are in play, two will have particularly transformative impacts on traditional health insurance and care delivery models:

- **Consumerism and the expansion of direct-to-consumer retail insurance markets.** Historically, healthcare payers have relied on employer-sponsored group insurance as the dominant channel for insurance revenue. However, by 2020, industry gurus predict the majority of health insurance purchases will shift to direct-to-consumer online marketplaces. This change is being driven by two concurrent trends:
  - The Accountable Care Act’s (ACA) individual mandate and the creation of state and federal public exchanges for direct-to-consumer health insurance purchases.
  - The increasing prevalence of defined contribution strategies in which large employers channel individuals to direct-to-consumer private exchanges.¹

- **Value-based care and the shifting of risk and accountability away from payers and toward providers and members.** The ACA and the Centers for Medicare and Medicaid Services (CMS) are aggressively promoting new
value-based care reimbursement models. Value-based care rewards providers when they deliver improved quality of care and achieve enhanced population health outcomes, compared with traditional fee-for-service claims-based models that reward volume of services delivered with little regard to quality.

And while the healthcare industry has grappled with these transformative market forces, a parallel set of digital and societal forces has been brewing:

- **Rapidly evolving technology.** SMAC technologies (social networks, mobility solutions, big data analytics and cloud computing), along with artificial intelligence and the Internet of Things (IoT), are poised to become tablestakes capabilities in the healthcare industry.

- **New virtualized ways of accessing healthcare.** Advances in telemedicine and telehealth, as well as the proliferation of mobile health apps and remote patient monitoring technologies, are resulting in new business models capable of delivering an increasing range of healthcare services virtually – resulting in new “unwired” and delocalized care delivery models. Search the iTunes app store for health apps, and more than 22,000 results appear, ready to track all aspects of our lives – health statistics, emotional states, behavior and social environment.

- **Democratization of healthcare data.** The healthcare industry was slower than most to digitize its data sets, and historically, most data was siloed and proprietary. Data and information was “gated” and inaccessible. However, investments in electronic medical records (EMR), electronic health records (EHR) and health information exchanges (HIE) over the past decade, along with advancements in data standards and interoperability, are finally paying off. As a result, the digitized healthcare data universe is reaching a tipping point and is on the cusp of an era in which high-quality health information will be readily available anytime, anywhere.

- **Demographic shifts.** The millennial generation has grown up with the Internet and has different expectations regarding information and services access. They represent an ever-increasing proportion of healthcare consumers and are demanding the same level of digital consumer experience and self-service in healthcare as they routinely find in the retail and entertainment sectors. And it’s not just millennials; boomers also show increasing acceptance for using technology to research health information and interact with service providers.²

This super-convergence of the market and technology forces is now under way, setting up a “perfect storm” of disruption that will change healthcare more quickly – and in very different ways – from what one might expect. This storm is moving at “Silicon Valley
“speed” and will dramatically disrupt traditional business models across the healthcare ecosystem, threatening existing players and enabling new entrants.

**Disruptive Cost Transformation**

We have seen this play out before: Numerous mature industry value chains have been dramatically disrupted by digital and technology forces, permanently changing their value and cost equations. Travel, financial services, music and entertainment industry supply chains have been permanently disintermediated in remarkably short order. As the world becomes more digitally intensive, these industries’ traditionally complex value chains – consisting of content creators, aggregators, producers, marketers, distributors and brick-and-mortar retailers – have transformed into “creator-to-consumer” models. The result for consumers has been a dramatic reduction in the cost of goods and services. For example, the digital disintermediation of traditional publishing supply chains has resulted in many electronic books being available for less than half the cost of their hardcover counterparts. Similarly impressive savings can be cited across numerous industries.

**Next Up: Healthcare**

Market, regulatory, technology and digital forces are poised to quickly accelerate across the healthcare industry, and portions of the healthcare value chain will be disintermediated, virtualized or delocalized along the way. As we have seen in other industries, the end result will be a radically transformed consumer-centric model – with accountability residing not with insurers, and not with providers, but squarely on the backs of empowered consumers.

As a result of all this anticipated disruption, an unprecedented number of new entrants and venture capital-backed solution providers are now focusing on healthcare, competing to serve the emerging accountable healthcare consumer. In fact, healthcare startups raised almost $4 billion in venture capital in just the first quarter of this year. Additionally, threats to incumbents have originated outside the healthcare industry. New entrants from mature direct-to-consumer industries (e.g., Target, Walmart, Walgreens, AT&T, Verizon) are all looking to seize the moment and leverage their ubiquity, strong brands and proven direct-to-consumer digital strategies and investments into the new consumer-centric healthcare market.

Meanwhile, the combined effects of consumerism, value-based quality-driven care and digital technologies – from apps, to wearables, to diagnostic advances in custom medicine – are forcing incumbent healthcare stakeholders to rethink their business models. This has resulted in:

- **Continuing consolidation and M&A activity across all segments of the industry to generate economies of scale and mitigate margin pressure.** Consolidation in the health plan sector has accelerated, with major acquisitions this year. Further, there’s been an uptick in M&A activity related to executing on vertical integration strategies. Payer organizations are absorbing providers and health systems outright, or acquiring software companies that serve the provider market, in order to ensure relevance as the traditional health plan value proposition shifts in the new consumer-centric healthcare economy.

- **Diversification strategies focused on higher margin, non-insurance lines of business.** Health plans, in particular, are looking to productize their insurance administration, analytics and medical management capabilities by selling them “as a service” into the emerging risk-bearing provider market. Payers are doing this in large part as a way to place their bets on the future and ensure a role for themselves as industry value chains disintermediate. And, not surprisingly, providers are increasingly interested in leasing the productized risk management and administrative services these health plans are providing.

- **Provider and health systems consolidating and reorganizing the care delivery system so they can scale to be sustainable risk-bearing organizations (RBOs) as accountability shifts and new value-based reimbursement models mature.**
As providers adopt value-based contracts, they must bear the financial risks associated with receiving payments based on achieving high-quality health outcomes. Many are going beyond just being RBOs or ACOs, and are making the leap into becoming health plans and selling health insurance products directly to consumers in new online marketplaces – further blurring the lines between payers and providers.

This is spurring investment in digital capabilities to support population health management and patient engagement, as well as in the administrative and information management infrastructure, tools and platforms that are needed to deliver better care at lower costs.

The Future: An Industry Aligned with the Accountable Consumer

All this activity will increasingly place the consumer firmly at the center of healthcare industry business models. While it is impossible to predict exactly how the industry will evolve, it is clear that successful industry players will need to cultivate the following qualities:

- **Patient-centered thinking.** This focus is fundamentally different from episode-based care and disease management. It requires new ways of designing benefits, giving more power to consumers and reimagining how care is delivered from the consumer’s perspective.
- **Agility.** Healthcare organizations will need flexibility in all aspects of their operations – from IT infrastructure and front-end interfaces to management structures – to respond swiftly to threats posed by new entrants and changing consumer demands.
- **M&A and integration competencies.** Industry stakeholders must be proficient at absorbing and launching new lines of business.
- **Change management skills.** These will be necessary to effectively implement new operating models, processes and workflows.
- **Collaboration and partnership capabilities.** Organizations will need to think innovatively about how to look beyond traditional industry boundaries to form new alliances and offer services aligned with the accountable consumer.

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**Healthcare’s Digital Transformation Framework**

- **Establish Future-First**
  - Identify target digital capabilities that are critical to a health plan's success in the digital ecosystem.

- **Establish a Prioritization Model**
  - Prioritize target capabilities into market-validated categories: on-par, market-leading and best-in-class.

- **Develop a Digital Capability Maturity Model**
  - Inventory digital capabilities and categorize as on-par, market-leading and best-in-class.

- **Assess the Competition**
  - Validate digital capabilities based on industry trends and competitor analysis through extensive secondary research.

- **Reimagine the Experience**
  - Emphasize the stakeholder experience and journey as a key strategic theme of the entire initiative.

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*Figure 1*
Health information technology adoption. Healthcare organizations must accelerate their adoption of digital solutions. Digital agility and power will be necessary to compete with new entrants and to streamline operations to generate savings.

Setting Digital Priorities
Balancing these demands requires setting some clear digital priorities. The following steps can help clarify where to make initial investments:

1. **Review the market.** Consider your place in the overall market; the strategies and investments that market segments are making; and local competitors’ apparent strategies, capabilities and investments.

2. **Minimize gaps.** Understand today’s “industry standard” alongside the future “new normal.” While entities should eventually close the gaps between those poles, they also need to be aware of shifting consumer expectations and technology advances vs. doggedly checking off potentially obsolete boxes.

3. **Define your meaning of digital.** Develop a digital strategy that identifies where you will differentiate yourself from competitors and understand the key capabilities that enable the differentiation.

4. **Prioritize your investment.** Take a step back and look at the sum of your capability investment goals. Be realistic and remove the low priorities to have a better chance at achieving the more important goals.

5. **Weigh your options strategically.** Examine the range of your investments among standard, leading and pioneering capabilities. Aim to achieve a balance between initiatives aimed at closing gaps and creating differentiation, as well as a small number of pioneering investments to implement as pilot programs.

Driving Digital Innovation at Scale
These unique market dynamics are creating a dual mandate whereby healthcare stakeholders need to continue to focus intently on operational efficiency while at the same time driving digital transformation and innovation at scale.

Industry-leading organizations are recalibrating their spending accordingly, moving dollars from “lights-on” maintenance and operations projects to invest in new digital initiatives. Digital is more than just technology; it combines technology, data science, devices and design to reinvent a customer experience or business process. Successful digital enterprises will achieve enhanced efficiencies and productivity while simultaneously reimagining business processes and driving digital transformation at scale (see Figure 1, opposite page).

Given the pace of technology change, businesses need more than single-point digital solutions; they need to incorporate innovation into the organization’s DNA. As digital technologies become mainstream, organizations will need to continuously innovate to maintain market differentiation based on business and clinical performance.

Develop a digital strategy that identifies where you will differentiate yourself from competitors and understand the key capabilities that enable the differentiation.
Digital Steps to Consumer Centricity

A U.S. nonprofit health plan with almost four million members faces strong digital competition from well-established players and venture capital-backed startups. Top-tier digital capabilities in this market are a clear competitive necessity. Economic constraints are also a reality, making it equally vital to develop a business outcomes-driven digital strategy.

The guiding principle of this health plan is to establish a high-quality member-centric experience at every touchpoint as a core business asset. To achieve that goal, we created an ROI-driven enterprise roadmap using our Digital Transformation Framework. The framework pinpoints immediate high-value initiatives, as well as the building blocks of a longer-term digital journey. These building blocks include the following actions:

1. **Establish “future-first”:** We identified the digital capabilities, such as mobile access, defined as critical by the health plan provider’s various lines of business stakeholders, including members.

2. **Conduct a competitive assessment:** We compared the digital “wish list,” such as mobility options and digital communication alternatives for stakeholders, with competitors’ current capabilities and industry trends to validate perceptions and clarify priorities.
Reimagine the customer experience: We envisioned new processes supported by the targeted digital capabilities, such as delivering self-service-based, always-available digital channels that members requested.

After identifying more than 150 high-priority digital business capabilities, the health plan will implement our new digital healthcare platform, Cognizant Health TranZform™. TranZform offers a best-of-breed partner ecosystem, combining vetted, third-party digital “point solutions” and in-house developed apps into a common digital consumer engagement layer. TranZform will enable quick launch of “tablestakes” features and functions, and its engagement layer will ensure a consistent experience across all stakeholder touchpoints. The platform will also support foundational digital capabilities, such as powerful predictive analytics, aligned with long-term business goals.

Based on internal computations and our extensive industry experience, we expect well-planned consumer-centric digital strategies like these to reduce operations costs by 20% to 30% through automating internal processes, integrating data silos, reducing high-cost channel use, increasing speed-to-market and sales, and creating stronger engagement with members.
To enable comprehensive digital innovation at an enterprise scale, healthcare companies will need to scale up their digital initiatives by re-architecting legacy environments, connecting new solutions to existing systems, and creating the supporting capabilities necessary to bring digital ideas to enterprise scale. (See Quick Take, page 73, on how we helped one health plan begin this journey.)

Engage the Empowered Healthcare Consumer…. or Else

The empowered healthcare consumer is already emerging. The trend will continue as market, regulatory and digital forces play out across the healthcare ecosystem. That said, the accountable consumer still faces numerous barriers that will persist for some time.

The industry remains burdened with legacy technologies that impede interoperability, as well as overly complex insurance products and provider contracts that defy automation and inhibit innovation. Industry participants need to address these issues by adopting standard, transparent pricing for evidence-based procedures; otherwise, disruptive new entrants, unburdened by the complex legacy of traditional players, may prevail.

Empowered, accountable consumers will not be willing to subsidize the industry’s traditional inefficiencies. Instead, they will increasingly channel their healthcare spending to the health plans and providers that have invested in industry-leading, digitally optimized systems of consumer and patient engagement.

Footnotes

4 Major deals year-to-date include Centene’s agreement to acquire Health Net; Aetna’s agreement to acquire Humana; and Anthem’s agreement to acquire Cigna.
5 Noteworthy examples include Highmark Blue Cross Blue Shield’s acquisition of West Penn Allegheny Health Systems and Anthem’s acquisition of Caremore, a Medicare Advantage plan and operator of dozens of clinics across three states. For additional M&A activity, see: http://www.healthcarefinancenews.com/slideshow/healthcare-mergers-and-acquisitions-2015-running-list?p=1.

Authors

Patricia (Trish) Birch is a Cognizant Vice-President and leads the company’s Healthcare Consulting Practice and Life Sciences Practice within Cognizant Business Consulting. She has 25 years of experience in healthcare operations and management consulting. Trish is also a published author and speaker on issues facing the healthcare industry. Trish can be reached at Patricia.Birch@cognizant.com.

William “Bill” Shea is an Assistant Vice-President within Cognizant Business Consulting’s Healthcare Practice. He has over 20 years of experience in management consulting, practice development and project management in the health industry across the payer, purchaser and provider markets. Bill has significant experience in health plan strategy and operations in the areas of medical management, claims management, provider and network management and product development. He can be reached at William.Shea@cognizant.com.
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To learn more about Cognizant, please visit: www.cognizant.com.

U.S. Headquarters:
211 Quality Circle
College Station, TX 77845
Tel: +1 979 691 7700
Fax: +1 979 691 7750
Toll Free: +1 855 789 4268
Email: inquiry@cognizant.com

India Operations Headquarters:
#5/535, Old Mahabalipuram Road
Okkiyam Pettai, Thoraipakkam
Chennai 600 096 India
Phone: +91 (0) 44 4209 6000
Fax: +91 (0) 44 4209 6060
Email: inquiryindia@cognizant.com

China Operations Headquarters:
Cognizant Technology Solutions (Shanghai) Co.
Zhangjiang Hi-tech Park
Building No. 5, No.
3000 Longdong Avenue
Shanghai, Pudong China 201 203
Phone: +86 21 6100 6466
Fax: +86 21 6100 6457
Email: inquirychina@cognizant.com

World Headquarters:
500 Frank W. Burr Blvd.
Teaneck, NJ 07666 USA
Phone: +1 201 801 0233
Fax: +1 201 801 0243
Toll free: +1 888 937 3277
Email: inquiry@cognizant.com

Europe:
1 Kingdom Street
Paddington Central
London W2 6BD
Phone: +44 (0) 20 7297 7600
Fax: +44 (0) 20 7121 0102
Email: infouk@cognizant.com

Philippines Headquarters:
Cognizant Technology Solutions Philippines, Inc.
5th & 6th Floor,
8/10 Upper McKinley Road Building
10 Upper McKinley Rd.
McKinley Hill, Fort Bonifacio
Taguig City 1634 Metro Manila
Philippines
Phone: + 63-2-976-2270
Email: inquiry@cognizant.com

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