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Some reassembly required

The more health care converges, the less it stays the same

Contents

Introduction

"Convergence" seems to be the latest buzzword across many industries. In its simplest terms, convergence indicates a blurring of historically standard industry definitions with bidirectional shifts in how and where consumer preferences are met by industry players.

But the concept isn't new in health care and life sciences; in fact, it's been building for years, sometimes slowly and unambiguously, and other times rapidly and imperceptibly. While foundations might crumble, institutions should adapt with the times or risk falling behind—or potentially worse.

Either way, one thing remains true: Change is constant and systemic in health care and will likely continue to alter the landscape. And stakeholders should change with the times. Incumbents, in particular, should take this chance to reimagine and then consider retooling how they conduct business as the broader system evolves.

Beyond all the hype, the seismic events that seem to be shaping the industry can bring new solutions to previously unmet needs but can also create some unease—and opportunities—for existing players. At the center of this change is the rise of an empowered consumer, balancing increasing insights driven by greater access to data with a historical preference to best-of-breed service providers and the lowest-cost alternatives.[1]

In the end, incumbents should follow the directions that new health care consumers are providing, which could provide a clear road map to industry convergence.

Deloitte defines convergence as the disruption of traditional ecosystem players and the reassembly of a new ecosystem that represents new opportunities to pursue.

Convergence occurs between industries (*inter*-industry) and within industries (*intra*-industry).

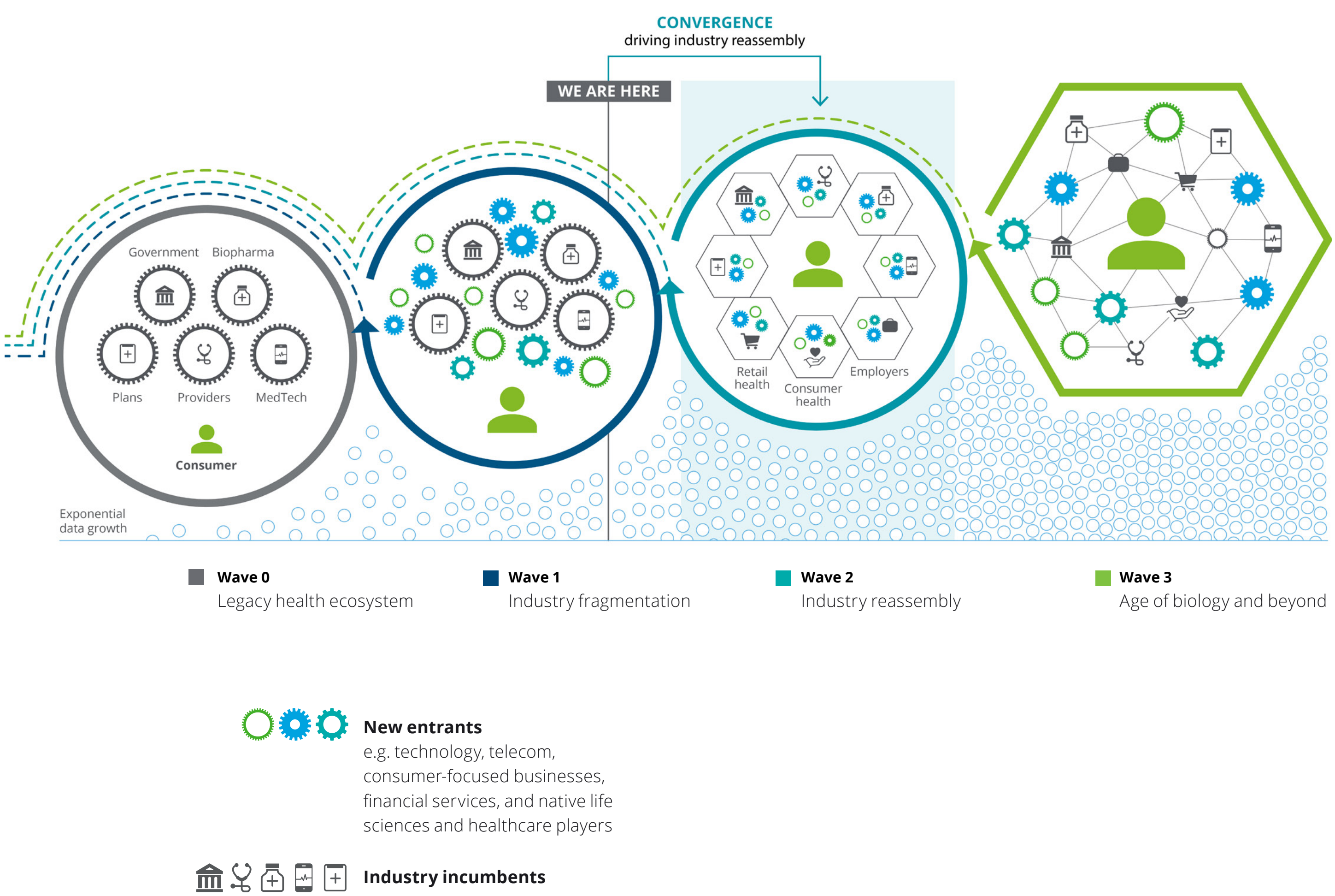
- **Intra-convergence**: Happens internally, from health plan to provider to MedTech to pharma, and sits within the health ecosystem.
- **Inter-convergence**: Happens across verticals, from health to consumer/retail or health to high tech or media or telecom.

Going with the flow

In health care, change is coming in distinct waves that the industry shouldn't ignore. Identifying, observing, and, more importantly, learning from what these waves represent will help shape the future winners of the industry. So, it's best to start at the beginning to understand how this constant movement impacts the industry and what industry players should do about it.

Today's empowered health consumers demand the same high-quality customer service they require from other organizations.

Figure 1: Future of health: Waves of innovation



Wave 0: Legacy health care players (e.g., payers, providers, MedTech, and biopharma) tend to operate in tandem but are generally siloed and focus inward on their own missions and profit pools. While patients are the beneficiaries of this system as we know it, they tend to be the outsiders in the process.

Wave 1: Today, in what we are calling a "mass fragmentation moment," new ideas and solutions are disrupting business, even broadening the very definition of health to encompass wellness, disease avoidance, and food-as-medicine, among many others. As such, health care is currently in the throes of creative destruction, which is driving industry fragmentation. Shifts in value pools create imbalances in supply and demand but also generate opportunities both inside and outside life sciences and health care.

Newly empowered patients are evolving into true health care consumers who drive fragmentation in the health care industry (balancing quality, cost, and customer service). New opportunities open for players from outside industries to enter, compete with industry incumbents, and ultimately challenge incumbents to examine long-standing portfolio constructs.

These new players—from telecom to consumer/retail to financial services—enter and often shake the foundations of the industry. The hyperproliferation of new ideas and offerings drives faster systemic change from sick to well care, advancing new definitions of markets, capabilities, and value equations (e.g., home care replacing doctor visits, wearables and nearables providing real-time data alerts, and food-as-medicine integrating into plan coverage). Importantly, these new entrants, unencumbered by the historical hits and misses of the industry, are naturally focused on meeting consumer needs that could drive more equitable treatment of patients and provide new data that could propel higher quality throughout the system.

Wave 2: New health care ecosystems form, buoyed by shifts in consumer sentiment but also driven by financial pressures that make the status quo unsustainable. Industry reassembly in Wave 2 will be required to not only fix what's currently "broken" but also help shape a more profitable industry outlook.

To adapt to hypercompetition in this wave, classic sector players can absorb new disrupters, which permanently alters the center of gravity (e.g., providers buy virtual care providers to evolve the provider system from one that is late-stage, provider-centric, inconvenient, and expensive to one that is real-time, consumer-centered, and data-informed).

This new consumer orientation can create enough demand and value for retail health and consumer health to expand the health care sectors. For incumbents and new entrants, the opportunity to shape the future is now.

Wave 3: In the age of biology and beyond, another exponential shift in data volume, dimensionality, and availability enables the deciphering of human biology with never-before-seen precision. Aggregation and integration of genetic, multiomic, social determinants of health, and electronic health records provide a comprehensive picture of health and wellness. True N of 1 accuracy enables precision medicine and helps detect disease before symptoms emerge, altering the perspective of disease and aging.

This new level of detail further catalyzes traditional industry sector convergence to realize the vision of predictive, preventive, personalized, and participatory health and well-being.

Industry reassembly in action

The mass fragmentation in Wave 1 is followed by rising tides of reassembly in Wave 2. Incumbents learn to cooperate or (in some cases) merge with or acquire industry disrupters and adapt to the new environment. Otherwise, they risk getting swept away in the currents of this new era. This could be a pivotal moment for the industry in which old standards are replaced with new models for how health care is delivered.

A critical component to making reassembly a reality is the emerging and growing wellness spend as an anchor value pool in the ecosystem. By 2040, Deloitte predicts that US health spending will increase to $8.3 trillion.[2] The $3.5 trillion projected increase between the Deloitte model and the Centers for Medicare & Medicaid Services' projection is what we term a *well-being dividend*. This expected actual return on investment for tools, systems, and protocols should help consumers take an active role in their health and well-being. Consumers can better spread their share of health care wallet spend with entities more effectively positioned to satisfy their specific needs. This will create opportunities to lower traditional spend categories, including premiums to health plans and direct spending with health providers.

Health care industry incumbents (e.g., existing health systems, clinicians, health plans, and life sciences companies) command approximately 85% of the revenue in the industry today.

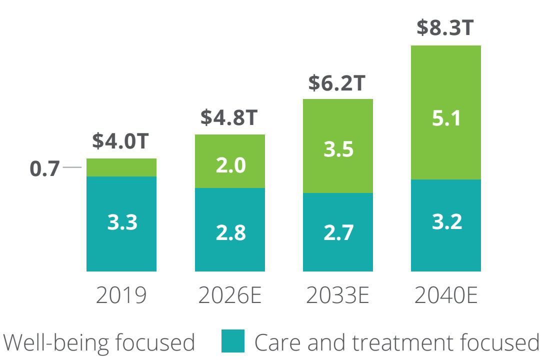
However, Deloitte's model shows that both a deceleration in health spending—driven by well-being and prevention instead of treatment and care—and an emergence of new care sites and modes of consumer engagement could significantly disrupt how these organizations conduct business in the future.

For example, take a relatively benign procedure, such as a pediatric tonsillectomy. Our research shows that it can take more than a year from start to finish and cost approximately $2,600 with a revenue split of 60% to ambulatory surgical centers (ASCs) and 40% to traditional physician offices. In a reimagined future state where convergence potential is realized, new entrants could deliver more efficient and cost-effective components of the journey, and the process could be reduced to as little as one month and cost approximately $2,000.[3] Traditional physicians' offices are likely to lose some revenue while tech, telecom, and retail could pick up the excess. At the individual tonsillectomy level, the gains or losses to new entrants aren't likely to be particularly substantial.

However, in aggregate, they could be significant. Our analysis of the reimagined future state in which convergence potential is realized suggests that for the 500,000 annual tonsillectomies[4] in the United States, tech could gain as much as $125 million;[5] retail $75 million;[6] and telecom $12 million.[7]

Figure 2: Health care spending based on future of health trends

By 2040, two-thirds of health care spending will likely be on well-being and early detection of diseases



Source: Kulleni Gebreyes et al., The future of health care spending," Deloitte, Feb. 9, 2021

It is worth noting that the expertise needed to drive great outcomes likely won't diminish; in fact, it may be dispersed to other non-clinical groups. This would make consumers part owners of this process. To be clear, we do not only envision a simple shift in spending but also an increase in outcomes and quality of care. By enabling a broader ecosystem approach to managing patient needs, we see the possibility of federated ownership of care that can be driven by connected data. This ultimately allows health experts to more fully integrate insights in ways that were previously unavailable in more closed-loop systems.

In the end, it comes down to more effective spending and a better understanding of health customers. The share-of-wallet shifts we envision have direct impacts on today's players. The ability to serve patients more effectively (where and how they want, and at pricing that is more intuitive) will affect how incumbents interact with their stakeholders and how they make money. These shifts occur today with primary care but can also represent potentially major shifts in broader value pools, across the industry, down the road.

Figure 3: Journey map

Value comparison

Convergence can benefit consumers by creating more value for less money; traditional health care players should prepare for the accompanying revenue shift and segmentation by partnering with outside industries

Potential revenue from tonsillectomy diagnosis and treatment within a single consumer journey

Without convergence

Total spend ~$2,650
- Payer covers $550-$1,350
- Consumer covers $1,300-$2,100

$1,600 to ASC

$1,050 to traditional physician office

With convergence

Total spend ~$2,025
- Payer covers $525-$1,425
- Consumer covers $600-$1,500

$1,600 to ASC

0 to traditional physician office

$250 to big tech

$25 to telecom

$150 to retail

Potential impact across the 500,000 annual tonsillectomies in the US[1]

- Traditional physician offices (and hospitals) **loss** of $525M
- Big tech **gain** of $125M
- Retail **gain** of $75M
- Telecom **gain** of $12M

Total spend for payers and consumers could be reduced by $310M

These illustrative values are for a specific, acute condition—**values exponentially multiply when considering the total set of treatment, prevention, and wellness opportunities**

Potential impact over time

- Improved medical outcomes via expanded access and data applications
- Increased consumer spend on wellness and prevention due to reduced consumer sickness and treatment cost
- Traditional players that depend on acute and episodic conditions will see their revenue opportunities decline over time—consistent and easy consumer engagement will likely win the day

Note: Convergence and pediatric revenue only includes consumer payment, not reimbursement from insurance. See Tonsil removal cost.
1 Cleveland Clinic, "Tonsillectomy," last reviewed October 17, 2022.

With these shifts in mind, with an ever-increasing focus on consumer preferences and service, industry players, both new and old, should consider their options in—and motivations for—this future:

- **Incumbents** should decide how to effectively position themselves in the reassembly moment. This could resemble the reshaping of whole slices of portfolios to better align to profit pools, leveraging data and "real" ecosystem partners that may be more effectively positioned to satisfy consumer demands.

- **Startups** should recognize that while this fragmentation moment can be chaotic, it could also be their opportunity to establish themselves, influence emerging industry standards, and potentially accelerate their growth in new ways.

- **Non-native players** in health should continue to test the waters, in particular identifying adjacent growth opportunities that tie to core competencies. But the opportunity to commit more fully to immersing themselves in the industry could appear sooner than they expect, and they should prepare for greater commitment to the space. We envision a strong opportunity for these players to help shape the health platforms of the future.

Incumbents and new ecosystem players should focus on where they have competitive advantage and plan to reassemble ecosystems that let consumers navigate on their own and create personalized health journeys.

More broadly, convergence can help pivot the industry toward the consumer. While the patient is the ultimate intended beneficiary of today's health system, the system as we know it is not organized with the consumer in mind. Placing the consumer at the center can improve the potential for greater value creation and rightsizing supply with demand.

Today's more empowered health consumer demands greater influence across the health care landscape. Individuals are becoming activated to exert their preferences and seek solutions in the market based on their own needs instead of simply going with the usual flow.

Of course, not all companies are well suited to enter health, though marketplace opportunities certainly can be enticing. Health care remains extremely complex. In particular, operational pressures can be challenging, making it difficult for new entrants to stay afloat, let alone innovate their way to profitability in the highly regulated health care industry.

Patients expect to be treated like customers:
- 90% want digital engagement and navigation options
- 88% favor price transparency
- 81% prefer to attempt self-service before calling

Source: Deloitte 2022 Consumer & Physician Survey

Health care reaches a point of inflection

Organizational lines continue to blur. The amount of money spent on health care generally continues to increase, which can be a persistent pain point for consumers. This may be especially true since there hasn't necessarily been a corresponding increase in health outcomes, such as quality of life or life span (i.e., the average life span in the United States has fallen in recent years, according to the Centers for Disease Control and Prevention).[8]

At the same time, the pain points for health players also seem to be coming to a head. As noted earlier, what is needed is an overdue shift to "best-of-breed" thinking in health care with the consumer at the center. This empowers consumers to direct their spending more effectively. It also can allow stakeholders across the ecosystem to align their strategic portfolio choices to focus on what they do best. This holistic, integrated shift in thinking could directly impact the shift to well care and promote increases in life span and life quality.[9]

Indeed, it remains uncertain which organizations will capture value in the future, especially as health care providers today generally cut costs to try to stay afloat in the current economy. We are in—or may be rapidly approaching—an inflection point, where the way value is distributed across the health value chain is up for grabs. Opportunities abound for current and future industry players as they learn to effectively navigate the complex economics, regulations, and value within the health care system.

The industry as it currently exists doesn't seem to work well for the consumer or for the businesses in it. Health systems face margin pressures, community hospital closures, workforce challenges, and data security issues, so convergence flips this script.

Incumbents seem to have faced challenges in innovating and expanding. While they may acquire smaller organizations that could help innovate within their existing business models, this may not be enough. And while traditional partnerships can lead to stagnation, incumbents may be tempted to double down and explore more transformational partnerships that transcend business as usual and could potentially accelerate truly groundbreaking business models and offerings.

Convergence comes to life

The reassembly moment will be disproportionately driven by convergence. Industry silos are breaking down as new entrants and disrupters move in to deliver solutions for unmet needs in the health journey. The organizations bring innovation, creativity, solutioning, convenience, and technology oriented around the consumer in ways not happening today in health care. Those creating value for consumers will outpace classic industry players to earn a greater share of wallet.

Gas and service station

Challenge: A growing elderly population, the closure of rural hospitals, and consumers seeking more convenience fuel a need for greater access to health care in their geographic regions.

Solution: Without prior experience in health care, this organization used its core capabilities in convenience and customer service to fulfill a growing need in the community by positioning health services where people conduct their daily activities.

Outcome: The company saves time and money for its core customer base by providing routine and specialty care while integrating with daily activities. Consistent health services on demand also builds customer loyalty in a convenient retail environment.

Consumer technology products company

Challenge: Facing a growing and urgent need for comprehensive home health services and digital health tools requires a shift in thinking around at-home deployment services. The range for in-person care includes services for youth wellness and seniors aging in place.

Solution: Bridging the gap between access to care and new technologies and payment systems (B2C and insurance), a national electronics retailer steps into the health arena. Leveraging a trusted consumer brand, an established loyalty platform, robust logistics and distribution networks, a call center, and capabilities from a fleet of technicians, the company made "care at home" a convenient suite of services. Future collaborations with health care incumbents could help solve labor and supply chain issues, technology adoption, and workflow integrations, as well as potentially create more fluid health data capture and transfer.

Outcome: The partnership offers new flexibility for home-care delivery. The consumer technology products company can help providers deploy its tech "service" fleet to offer in-home primary care and connect patients to health technologies and user support.

Wearables and nearables

Challenge: With personal health now front and center in our daily lives, people feel more empowered with regular access to and ownership of their health data. Consumers demand greater integration of their data, as the interconnectivity of wearable devices and traditional medical resources falls short of expectations.

Solution: By leveraging health data from wearables and nearables, consumers can focus on their health and wellness journey outside normal health systems traditionally focused on sick care. Armed with real-time health care access, consumers can drive and direct their own care. They can make choices supplemented by traditional provider input and, at times, guided by generative artificial intelligence (AI) and other technologies.

Outcome: The data and insights from wearables and nearables remain high with the proven ability to positively change health behaviors. Data interoperability, increasing dimensions of data tracked, and the use of AI and predictive analytics can help drive early detection and prevention of disease. Consumers are purchasing them out of pocket, and they're delivering real-time health data as never before.

The payoff from convergence

Doing the same jobs differently

Non-native health care organizations sometimes possess the capabilities to do existing health care jobs and, at times, may do them better, cheaper, and faster. For example, a retail or grocery store that offers primary care services on premises can be a simpler alternative for customers. Getting a vaccine on a trip to pick up groceries or everyday supplies can streamline customer errands, offering a new level of convenience that busy consumers could only dream about in the past.

Expanding the life sciences and health care ecosystem

Organizations can capture new or lost value to expand the ecosystem. Meal delivery services exist to serve consumers at various points of their lives; however, these services are not directly incorporated into the health care system. Expanding coverage and incorporating grocery and meal delivery services as part of post-op care plans can create new revenue sources for providers and new levels of convenience for health consumers.

Amplifying the power of data

The volume of data is rapidly expanding, but today's data is deeply granular and can offer new insights about what's happening with an individual. Health care today lacks an interoperability of this data and an ability to dig deeper to obtain a real-time systemic read that no individuals, devices, or organizations can provide on their own. The integration between datasets (e.g., customer retail purchasing choices + smart watch wearable data + EMR data) can help create meaningful large language models (LLMs). It is also important to leverage AI to help predict and nudge consumers toward healthier behaviors and preventive medicine to help reduce total expenditures on health care.

The creation of fresh sources of value can increase profitability for new strategic entrants and incumbents alike. It can also improve the customer experience and reduce the time required and the complexity of engaging with the health system—all while potentially improving patient outcomes. New and old industry players must bring something unique to the health market. Those who execute well could be rewarded for it.

While the potential positive outcomes are appealing, convergence doesn't always yield upside and profitability. As with any business venture, players should aim for the best-case scenarios but still plan for the worst. Understanding and preparing for these new challenges can mean the difference between success and failure in the reassembly process, particularly when it comes to new players entering the arena. Convergence introduces a new roster of competitors that may not even be on current industry players' radar.

Conclusion

Health care may be perceived as a powerhouse industry. But behind the scenes it tends to be more of a cottage industry, challenged by some aspects common in smaller industries: inefficiencies, inconsistencies, lack of connectivity, high costs, and unreliable players, among others. These challenges can weigh heavily on incumbents and have underscored the need for change. The good news is that health care industry transformation is already well underway.

Consumers are primed and ready for change—and actually are demanding it.[10] This presents an important opportunity for incumbents to evolve their own models. Meanwhile, new entrants and adjacent industry players can build for consumers who eagerly seek new solutions and products that can only be created through the forces of reassembly. The convergence of legacy health-oriented solutions and legacy consumer-oriented solutions is likely the optimal place for significant innovation and value creation when it's needed the most. The moment is now for transformation and embracing new ways of working, engaging consumers, and delivering health.

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