

Volume 10, Issue 3 / 2008 - Business Models

How to Create Value in the Dynamic Health Care Environment

In the changing European healthcare landscape, organisations are redefining their strategies and business models. Nine trends are common in this transition, and these should be taken into account when organizations align their business models to their new strategies on the cost-quality frontier. Privatisation can be used to fuel this evolution.

The Changing Healthcare Landscape Requires New Business Models

The issue and question of healthcare has probably never been as urgent as it is today: with economies shifting from an industrial to a more service-orientated approach, this sector is allocated a very high percentage of Gross Domestic Product (GDP). Healthcare also has a huge impact on employment, as most of its activities are still provided by local people.

The industry and its players, however, are facing a multitude of obstacles. Macroeconomic factors, such as ageing populations or insufficient public funding, are challenging both payors and providers. Anyone wishing to succeed in this new market environment must redefine and adapt their business models accordingly. Our recent study of Western European countries reveals nine common trends in the healthcare landscape that players should take into account when redefining their strategies.

Trend 1: Chose Your Position on the Cost-Quality Frontier

Whereas in the past, healthcare providers focused solely on quality, they have shifted towards balancing quality and cost in order to differentiate themselves in the increasingly competitive healthcare environment.

Companies can either increase quality and price levels, in order to fulfill already existing customer demand, or reduce cost and level of quality – and meet the demands of a different customer segment. In order to fully implement the chosen strategy and reap its benefits, organisations must take on a business model that supports the strategy.

Trend 2-5: Adapt Your Offerings to Changing Market Circumstances

From products to services – Providers of traditional healthcare products have recently begun to offer services, which address patient needs. By offering services linked to the product portfolio of a certain therapeutic area, healthcare product suppliers can reach more customers and achieve top line growth. Beyond seizing new business opportunities, service delivery implies direct and intimate contact with patients, allowing continuous observation and adaptation of their ever-changing needs.

Taking good care of yourself – In recent years, health has grown in importance across the population, regardless of age or income. Health is becoming an integral part of all aspects of our lives: probiotic yogurt, non-irritable clothing and healthcare tourism have been added to the traditional extras, such as homeopathy or voluntary preventive medical checkups. A new healthcare market is called for, a “secondary healthcare market”, as opposed to the primary market of statutory health insurance. In Germany, the secondary healthcare market already achieved an annual volume of 60 billion euros – or 2.5% of German GDP – and demonstrated continual annual growth of 6% since 2000. At present, every German adult spends approximately 900 euros a year on medical checkups, alternative medicine, wellness, sports and health food.

The rise of the specialist – With increasing scientific knowledge on health issues available, the industry is becoming more complex – and the generalist approach of the past is evolving into a more specialised one. In addition, pharmaceutical companies are focusing their research and expanding their product portfolio by acquiring licenses. One example is the Dutch ZBC, an independent treatment center. A ZBC is specialised in standard procedures, yet independent from hospitals.

Pay for Performance – Since performance indicators on quality are becoming more and more available, health insurance companies have begun to issue both targets and financial incentives to their service and product providers. In these circumstances, offering higher quality against higher costs can prove to be more profitable. Already the case management fees such as Diagnostic Related Groups (DRGs), common across Europe, promote higher quality, if they are well structured, by for example punishing providers with patients that have to be re-hospitalized again due to complications.

Trend 6-8: Bring Your Products to the Market

From institution to brand – In an effort to win over increasingly well-informed patients, healthcare players should develop a 'brand' which allows them to distinguish themselves. Despite the detailed information available to them, the majority of patients are still unable to correctly assess the perceived or expected quality of their medical treatment. In order to make branding effective, the chosen marketing mix needs to be consistent with the expectations and potentials of the target consumers.

The new virtual value chain – Due to mounting cost pressure, hospitals across Europe have already outsourced many non-core activities, such as catering, sterilisation and laboratory services, to specialist providers. This trend has recently spread to core activities.

New providers are pushing into the market, and have developed innovative forms of cooperation with traditional players. Collaboration will prove to be a business model that allows a larger product mix with lower costs.

Moving beyond boundaries – Traditionally, pharmaceutical and medtech companies have operated internationally. Recently, other stakeholders, such as patients, health care workers, hospitals and centers, have followed their example – and moved beyond local and national boundaries.

Trend 9: Privatisate to Meet Your Goals

As business models change to fit market demands, the cost of innovation is growing fast. In these days of public deficit containment and rising costs, the funding of healthcare is becoming more challenging. This has prompted a trend towards privatisation among both payors and providers. As long as a sound business plan underlines the business rationale of the necessary investment, additional funding is accessible to private entities. Furthermore, private entities generally perform better in turnover growth, profitability, quality of positioning and services. European countries differ greatly in pace toward privatisation, but the general trend is unmistakable.

Healthcare Organisations Need to Step up to the Challenge

Although the healthcare market is facing some challenging times, there are companies who have already adapted to the new drivers. Providers such as Charité, the largest European university hospital, or Fresenius Medical Care, the global dialysis leader, have established themselves as a brand, or have completed the transition from offering products to offering services.

Payors, such as Axa Santé or Santéclair (France) on the other hand, have taken some measures to contain cost, while at the same time guaranteeing the quality of their service. Last but not least, Philips & Achmea (The Netherlands) are a prime example for an innovative form of cooperation between a provider and a payor.

Conclusion

Changes in the healthcare sector are forcing hospital management towards increasingly commercial operations. As the free-market principles of regulated competition begin to take effect, hospitals will have to adjust their approaches even more. It is time to step up to this challenge.

Authors:

Robin Alma, Eric Baart,

Patrick Biecheler, Oliver Rong,

Aleksandar Ruzicic,

Roland Berger Strategy Consultants, Amsterdam, the Netherlands

E-mail: robin_alma@nl.rolandberger.com

<http://www.rolandberger.com>

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