



Q NYONE LOOKING INTO BUSINESS OPPORTUNITIES BROADLY RELATED TO HEALTHCARE THESE DAYS CAN EXPECT TO DEVELOP AN ACUTE CASE OF BLURRY VISION.

That's because the traditional healthcare industry is in the throes of historical change, thanks to regulatory reform, technological breakthroughs and changing consumer expectations. This change is simultaneously distorting industry lines and expanding the traditional health industry. A steady procession of "healthy" offerings are emerging from the healthcare, technology, consumer packaged goods (CPG) and services industries. This quickly expanding set of products and services includes analytics-fueled population health initiatives, wearable healthcare technology (e.g., fitness trackers and diabetes applications), valuable new dietary trends (e.g., organic, gluten-free and paleo), fast-growing fitness movements (CrossFit and Tough Mudder), bio-sensing T-shirts and other healthy apparel, mobile medicine, social media health-tracking and much more.



THE RAPIDLY CHANGING, HIGHLY DISRUPTIVE BUSINESS OF BEING HEALTHY

Checking up on the opportunities and challenges emerging in the expanding health and wellness sector

| BY ERIC KRELL

THIS MAJOR DISRUPTION POSES NEW CHALLENGES, OPPORTUNITIES AND THREATS IN WHAT MIGHT NOW BE CALLED THE "HEALTHY BUSINESS" SECTOR.

Knowledge serves as the best treatment for blurry vision. Business leaders and professionals who

bone up on the forces reshaping the 21st century healthy business industry will gain valuable clarity on the individual and organizational capabilities necessary to mitigate risks while maximizing the robust and expanding set of healthcare and wellness opportunities on the horizon.

A FAST-GROWING AND HIGHLY COMPLEX OPPORTUNITY

TWO FIGURES CAPTURE THE RAPID, COMPLICATED NATURE OF THE HEALTHY BUSINESS EVOLUTION: 12 MILLION AND 3,400 PERCENT.

THE 1ST FIGURE is a recent U.S. Congressional Budget Office projection of how many previously uninsured Americans could become insured by year's end under the **AFFORDABLE CARE ACT (ACA)**, which was signed into law in March 2010 and upheld by the U.S. Supreme Court in June 2012. These new potential customers represent lucrative revenue opportunities for insurers, but they also pose new marketing challenges (e.g., connecting with and selling to prospects with lower incomes than many traditional customers; or, in several states, marketing to prospects whose first language is not English). The influx of newly insured, experts agree, will also pose capacity challenges to the U.S. healthcare system, raising questions such as: *Will there be enough physicians to handle the growing supply of patients? Can telehealth/remote-care solutions help ease this burden? How can population health and related data-analytics breakthroughs help strengthen preventative care capabilities? How can/should healthcare apps be regulated from a safety standpoint?*

These and similarly big questions are changing traditional healthcare in fundamental ways. "The healthcare industry... [is] facing some challenges I don't think we've ever faced before," reports Jim Costanzo, Ernst & Young LLP's global healthcare practice leader. "This is a fundamental shift in the way healthcare is delivered in this country, and frankly,

around the world." A recent industry analysis conducted by healthcare investment banking firm TripleTree echoes Costanza's observation: "Despite its size and growth trajectory, the healthcare industry is plagued with large scale problems and inefficiencies that are prompting a massive transformation in how care is accessed, delivered and reimbursed," the assessment reads. "The fundamental challenges confronting healthcare have created opportunities for companies with innovative technology and services that address the most costly problems."

THE 2ND FIGURE, published by the Organic Trade Association, measures the growth in U.S. organic food spending from 1990 (\$1 billion) to 2014 (a projected \$35 billion). Similarly jaw-dropping growth is evident in several other "healthy business" offerings and trends, including gluten-free (GF). Food research firm Mintel forecasts the GF food and beverage market will grow 48 percent from 2013 to 2016, when it will amount to a whopping \$15.6 billion. The number of affiliates of CrossFit, a stripped-down strength and conditioning business, soared from 0 to roughly 9,000 between 2005 and 2013. Tough Mudder, an endurance-race event series that launched in 2010, has attracted more than 1.3 million participants to date.

HOW IS ORGANIC FOOD DIFFERENT?

All Organic Farms must conform to strict regulations and guidelines. No pesticides, chemicals or GMOs (Genetically Modified Organism) can be used.



ORGANIC



CONVENTIONAL

Conventional farms often use chemical fertilizers and pesticides to make the product appear larger, more colorful and last longer.

Source: TIME Magazine

U.S. ORGANIC FOOD SPENDING
1990 (\$1 BILLION)
2014 (PROJECTED \$35 BILLION)



organic

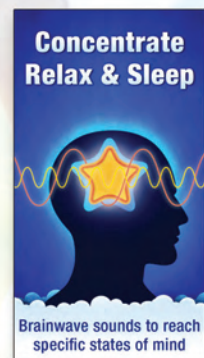


fitness

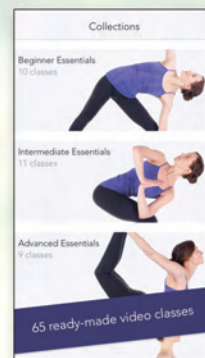
THREE OF APPLE APP STORE'S TOP HEALTH & FITNESS APPS



TIME OUT FREE
BY DEJAL SYSTEMS, LLC



RELAX MELODIES
BY ILBSOFT



YOGA STUDIO
BY MODERN LOTUS

BY 2020,
HEALTHCARE
SPENDING
IS EXPECTED
TO SURPASS
\$4.5 TRILLION

DRIVERS OF SUSTAINABLE CHANGE

FITNESS AND HEALTH trends have flourished, typically in a boom-and-bust way, since our country's founding. Health enthusiasts have at least briefly glommed on to Jane Fonda workout videos, step class, in-home weight machines, and several crazes related to vitamins, jogging and a dizzying array of diets.

Consumer's current health awareness and interest – evident across a wide range of current dietary, fitness, care and medicine domains – as well as related business opportunities seem much more sustainable and less likely to wane due to several drivers, including:

REGULATORY TURMOIL: While the impact of the ACA on the traditional healthcare industry qualifies as historic, it is far from the only regulation transforming healthcare and bringing about new challenges as well as new opportunities. For example, thanks to the growing use of the number of products described as "natural" – a label with essentially no rules governing its application – the courts are bulging with lawsuits concerning "natural" products that may contain genetically modified organisms (GMOs) or other synthetic materials. As the U.S. Federal Trade Commission (FTC) cracks down, most recently, on questionable claims by makers of dietary supplements, it opens doors for businesses that produce other offerings with similar appeal. (Part of the organic segment's impressive growth surely relates to the label's oversight by the U.S. Department of Agriculture (USDA). Although the ACA was designed with the intent of improving the efficiency and effectiveness of U.S. healthcare, major problems still loom – and likely will generate future regulatory upheaval and, along with it, new opportunities. Cumberland Consulting Group founding partner Dave Vreeland says the country confronts an "inevitable macroeconomic problem," in that an outsized portion of federal discretionary money goes to Medicare and Medicaid, which provide the largest portion of healthcare providers' reimbursements. This federal budget problem may pose a larger long-term challenge than the funding of the Social Security program.

TECHNOLOGY TRANSFORMATION: As in all realms of life and business, the growing availability of data combined with shrewd analytical tools and hefty processing power is upending traditional modes of decision-making. Consider Propeller Health, a mobile platform that combines sensors, mobile apps and services in the service of respiratory health management to help reduce the cost of care and improve the quality of life for individuals with asthma and related forms of chronic respiratory disease. Propeller represents just one of dozens of companies that have shared

new ideas and approaches at Health Datapalooza, a national conference now in its fourth year, focused on "liberating health data, and bringing together the companies, startups, academics, government agencies and individuals with the newest and most innovative and effective uses of health data to improve patient outcomes." This data liberation also is fueling smart phone apps and telehealth technology that can greatly increase chronic care for a wide range of diseases, including diabetes.

CONSUMER POWER: What happens when mainstream social media usage (already increasing at mind-boggling rates) evolves beyond "what I'm doing" updates to peer-to-peer and relative-to-relative sharing of medical histories, genetic tendencies and preventative regimens? That evolution already is in high-gear, judging from venture capital investment and conference content. One of the panels at this year's Datapalooza IV, "Connecting the Quantified Self with the Healthcare System," examined how personal self-tracking with wearable sensors and computing can be integrated with professional healthcare offerings. Population health refers to the segmentation of patients into different categories for the purpose of providing more effective care, or "outcomes," in a more efficient way. By adding millions to the insured population, the ACA greatly expanded the scope of population health. Just as retail and consumer packaged goods (CPG) companies routinely segment customers into groups for marketing and service purposes, so, too, will healthcare providers, insurers and pharmacies segment patients into different categories to provide more effective and cost-efficient care. The predictive analyses required to make so-called population health improvements represent a major business opportunity. "We have more healthcare data than we've ever had in the history of the world, and that's not hyperbole," notes North Highland Vice President Fletcher Lance. "But how do we use that data to lower costs and improve outcomes?" Companies that can answer that question will thrive in the decade ahead.



ONGOING INVESTMENT: The amount of money available to healthcare and healthy business companies is already high and expected to increase. "Healthcare is the largest, fastest growing, and most complex industry in the world," the TripleTree report states. The U.S. healthcare system accounts for more than \$2.5 trillion in annual expenditures, or roughly 20 percent of the country's gross domestic product (GDP). By 2020, healthcare

spending is expected to surpass \$4.5 trillion, according to the Office of the Actuary at the Centers for Medicare and Medicaid Services (CMS). According to *The Wall Street Journal*, venture capital investment in medical software and information services has more than doubled from 2008 to 2013, soaring from \$461 million to \$998 million; the number of investments also more than doubled during that period, from 67 to 139.

SUPER HEALTHY SKILL SETS

Will **CROSS FIT AND TOUGH MUDDER** go the way of **Tae Bo** and the **Jazzercise**? Perhaps, but it won't matter.

The technology, money and innovation flowing into healthy businesses is unlikely to abate any time soon, which makes the following skills and capabilities increasingly valuable to an expanding number of organizations:

DATA ANALYTICS AND TECHNICAL SAVVY: Despite its historic transformation, blurring boundaries and extreme challenges and opportunities, the healthy-business sector is no different from any other industry in that it has a great and growing need for leading edge data analytics skills. One of the most promising areas of healthcare – mobile or remote care – also qualifies as one of the greatest mysteries: Why haven't we been able to email our general practitioners for routine diagnoses and prescriptions in the past 15 years? The question will soon fade from our collective minds. Consumers already can pay \$1,500 per year to join MDVIP, a personalized healthcare program that provides immediate access to primary care doctors who provide remote care via the Internet and email and who also develop personalized wellness programs.

CREATIVE COLLABORATING: More frequent and more innovative forms of partnerships and collaboration will be needed to make healthy-business companies successful. For example, consider the extremely long and expensive journey the creation of an expensive blockbuster drug requires in the rigorous U.S. regulatory process. Now, imagine creating a new blockbuster drug that does not require years of expensive regulatory hurdles to be cleared and does not drain patients' savings accounts. Bill Matassoni, a retired McKinsey and BCG partner and the founder and chief executive officer of The Glass House Group, began picturing this approach a few years ago. The keys to doing so, he reports, are a more win-win approach and a bigger room. "Right now the room is very small," he says, meaning that collaboration innovation is relatively minimal, as it has been for decades.

Pharmaceutical companies, for example, tend to work with Food and Drug Administration (FDA) regulators *after* they have a new drug ready for trial. What if regulators and research and development executives met before the drug development process kicked into gear to identify a wide range of expenses and time-consuming steps that might be pruned from the process to produce more affordable medicines much more quickly? Similarly, how can medical providers, insurers and patients collaborate in a more proactive and preventative fashion without foisting the patient into the role of medical bill mediator?

ETHICAL LEADERSHIP: Harnessing many health innovations raises safety and ethical questions, including this one: *Should downloadable mobile health apps be regulated – and if so, by what body?* "Anybody can download an application that promises improvements in health," notes Pivot Point Consulting Partner Jon Melling. "If your application hasn't been approved from both a calibration perspective and an efficacy perspective, the end users don't know what they don't know."

MAINSTREAM MARKETING: A recent Russell Reynolds Associates survey finds that 70 percent of pharmaceutical company executives expect their sales and marketing organizations to evolve further in the coming years. The same holds for other types of healthy business. Makers of unregulated healthy and natural products will need to market based on their reputations as trustworthy companies. Healthcare providers will compete for doctors and patients. And insurers already are launching new ways – e.g., Spanish-language spots in many markets – to reach millions of new prospects.

Some organizations and individuals will see healthy business opportunities and the related skills' needs more clearly than others. **Baylor University's Hankamer School of Business**, for example, has offered an **MBA in Healthcare Administration** (full-time and executive programs in multiple locations) for several years – along with a joint JD/MBA in Healthcare program. Graduates of these programs and their colleagues probably are less susceptible to blurry vision when focusing on the most important risks to manage and the healthiest and most valuable opportunities to exploit.



For more information about the MBA healthcare programs available at Baylor, visit baylor.edu/business/healthpolicy.

pharmaceutical



IMAGINE CREATING A NEW BLOCKBUSTER DRUG THAT DOES NOT REQUIRE YEARS OF EXPENSIVE REGULATORY HURDLES TO BE CLEARED AND DOES NOT DRAIN PATIENTS' SAVINGS ACCOUNTS.

