

Embracing the consumer health opportunity

How new market entrants are changing the sector

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Healthcare is no longer solely a business sector for companies in traditional life science core industries such as pharmaceuticals, med tech and diagnostics. It is rapidly becoming an interdisciplinary arena that is of interest to businesses from many other industries, such as R&D-driven food and beverage companies, consumer electronics, telecom, housing/real estate, and retail.

This is because of the increasing sophistication of consumers, combined with the drive towards healthier lifestyles, which is leading to the creation of new, cross-industry business opportunities. Innovative technologies that enable increased access to information and greater possibilities for knowledge sharing have led to health consciousness moving from a niche to a mainstream market.

In addition, aging populations and strong pressure to reduce national healthcare expenditure are driving new business development and exciting consumer health R&D activities in developed countries. Responding to the demands of consumers can potentially be a partial remedy for cost-pressured public and insurance-based healthcare systems, while also providing new business opportunities.

This article provides a background to the underlying changes in consumer behavior and examines three case studies of new business models that have been implemented to successfully capture the consumer health opportunity.

The number of companies entering the healthcare market has vastly increased, making it an interdisciplinary arena for many sectors with many companies from other industries seeing new opportunities in the sector and trying to enter it. At the same time consumer behavior is changing as people become more sophisticated in their use of technology and expect greater access to self-help healthcare solutions. In this article the authors provide the background to this underlying change in consumer behavior and examine three cases of new business models implemented to successfully capture the consumer health opportunity.

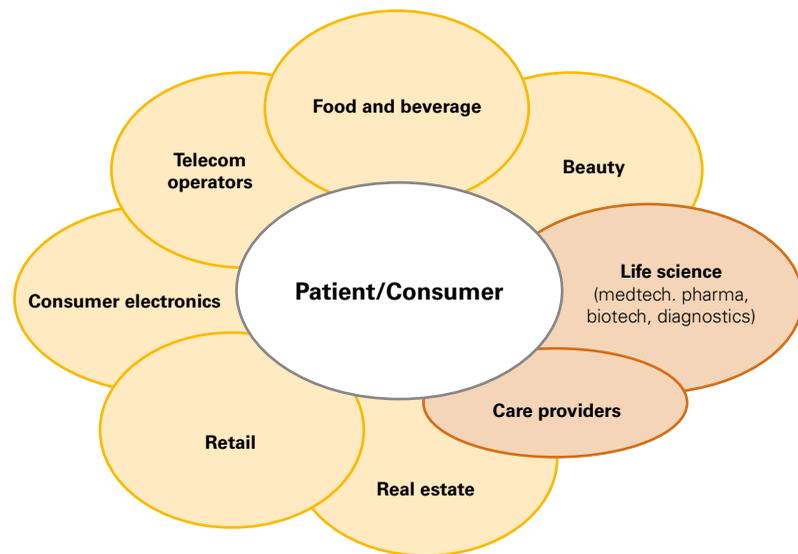


Table 1 **The patient in the center of focus in various industries**

Source: Arthur D. Little analysis

Technological development and changing purchase and consumption patterns

Today's technological landscape is completely different from the recent past. New generations of consumers use mobile technology as a natural extension of themselves. Consumers are adopting broadband: 34% of the global population now has access to it. Europe is embracing mobile devices: 38% of European consumers own a smartphone or a tablet. Online retail is annually growing by double digit percentages. Looking further ahead, the Internet of Things (IoT) is extending connectivity to cars, houses and medical equipment, for example.

New technology is also leading to changes in consumption patterns – in the retail world the role of the traditional store is changing as online and mobile shopping becomes more prevalent and different consumption modes overlap. Today's consumers want the ability to buy when and where they want. This means that retailers and consumer goods suppliers must adopt a multichannel or omnichannel approach centered around online stores.

These technology and consumption trends also apply to the healthcare world. As retail consumption patterns change, the same trends spill over into the consumption and provision of healthcare.

The future development of consumer healthcare

Consumer health is a broad definition, covering everything from a gym-goer aiming to stay healthy to a patient looking to manage a chronic disease. Consequently, it is composed of a number of business areas, ranging from the large and mature, such as over-the-counter (OTC) pharmaceutical sales, to expected fast-growth markets, such as wearables and mobile apps. The common denominator is that they are all centered on the patient/consumer. Within the consumer health space it is the individual who is paying the costs and making the decisions.

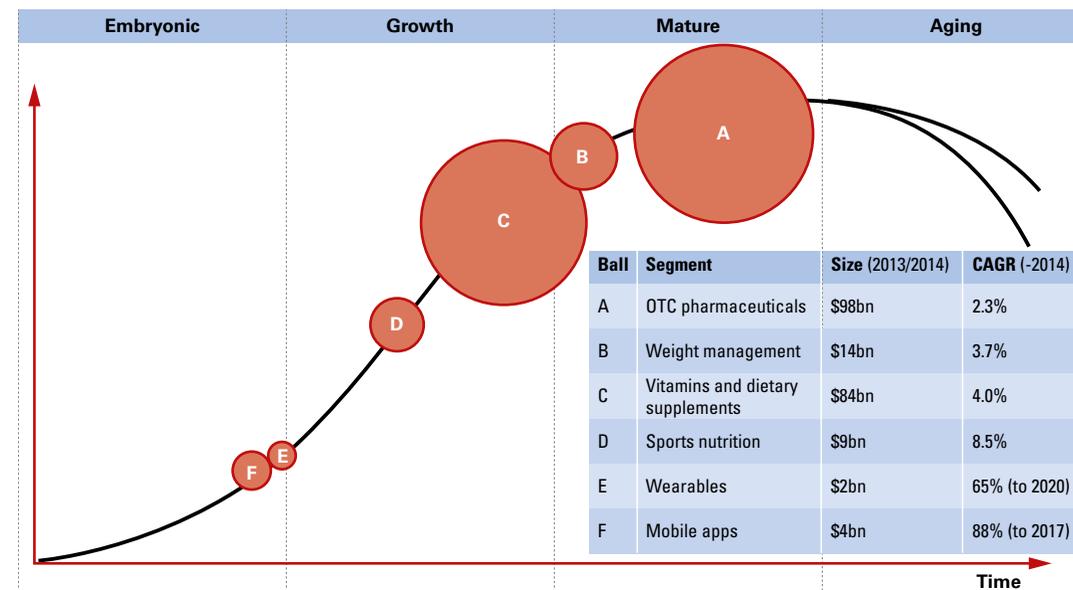


Table 2 **Selected consumer health segments by size and maturity**

Source: Euromonitor International, Reseach2guidance, Soreon Research, Arthur D. Little analysis

As a consequence of technological development, both consumers and patients are better informed, have a wider choice, and demand increased personalization. Today, patients have plenty of options on where to go for information, and once they reach the doctor's office they already have their own hypotheses on potential diseases and disease management. Patients are also increasingly open to non-state funded solutions and are looking towards solutions outside of cost-pressured healthcare systems.

On top of this, pressure on the public financing of classical health-care provision is pushing patients towards more self-care. The increased prevalence of “diseases of affluence” and an aging population means health systems must move from acute towards preventative care and chronic disease management. As this happens, healthcare and consumer health increasingly converge. Players within traditional healthcare systems will therefore need to adapt to consumer needs and requirements as new entrants step into the market from the consumer side.

Opportunities offered

The actions required to reap the benefits of this development depend on existing capabilities, but it is clear that new business opportunities are available both to established healthcare players and to new entrants. The qualities required to succeed are likely to be a combination of those possessed by the two. In order to capture consumers’ interests, players already in the market need new perspectives, whereas new entrants need to ensure health knowledge and credibility.

The consumer health space is naturally more oriented towards screening and prevention, and towards capturing consumers before they become patients. The successful business models of the future will be associated with giving a large population access to awareness and “prevention” solutions. Innovation will clearly be a driving force here, both in terms of technology and in the development of “consumer-friendly” business models.

New entrants

New players can leverage existing expertise from their original markets and use them for healthcare products and applications. Telecom operators, who are facing margin pressure in their core business, are looking towards connected devices, for example, for remote patient monitoring, to be a strong revenue driver going forward.

Retailers are also rapidly moving into the health related services market. One development here is the introduction of health centers where retailers incorporate professional medical services into their offerings. This repositioning of stores is an efficient way of attracting health conscious customers looking for a one-stop-shop where all their needs are met. A real-life example of this is the health station concept introduced by LAWSON, an Asian chain of convenience stores.

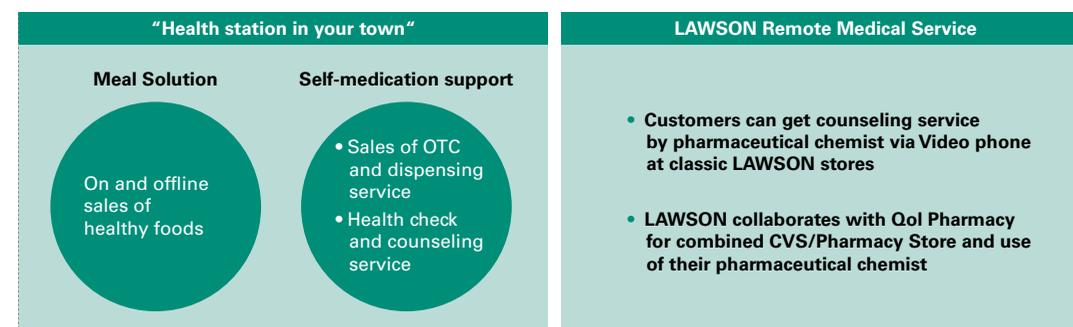


Table 3 LAWSON's new store concept “Health station in your town”

Source: Arthur D. Little analysis

A similar concept is also used by Walmart in the US, which provides low-cost primary care doctor sessions in-store. Real estate owners and operators also see these “health centers” as sources of profitable growth at a time when demand for retail space is reducing.

There are also completely new businesses emerging. Companies such as LifeQ, which uses computational systems biology to provide consumers with actionable health information, are trying to fill gaps in existing solutions and thus enable a shift towards a patient-centric model.

While new players might lack the credibility offered by a strong healthcare brand, those from the B2C space are strongly consumer centric and have a deep understanding of their target groups, as well as products and technology that can potentially be leveraged for consumer health applications.

Case Study 1: LifeQ

In order for consumers to take a more prominent and central role in healthcare decisions, they will need access to information – not just data but actionable information.

One company intent on providing consumers with personal life and health information as well as corresponding insights is LifeQ. It traces its origins back to 2010 when its technology – built around computational systems biology – was initially developed. The goal of computational systems biology is to apply large-scale numerical methods to the study of molecular, cellular and structural biology. According to Dr. Riaan Conradie, its Executive Founder, LifeQ was founded to address the needs of large segments of the population – groups that lie between those suffering from chronic diseases that are being monitored by a health provider at one end to exercise enthusiasts tracking their fitness at the other. By trading a few key physiological data points, LifeQ believes it can produce many outputs through its advanced scientific models and transform them into actionable insights for consumers, based upon its computational systems biology engine.

LifeQ has positioned itself as a B2B company with what it believes are four (4) distinct components to its business model:

- a data acquisition license fee to incorporate its technology into partners' / manufacturers' devices
- a revenue sharing model with 3rd party application providers
- licensing fees to access the company's anonymized population level data sets
- a contextual advertising model whereby the company would receive advertising revenues to promote product and services to consumers tailored to one's unique physiology.

Originally founded in South Africa and headquartered today in Atlanta with 45 full-time employees, LifeQ has grand ambitions not only to establish itself as a global consumer health company, but also to change the face of healthcare and, most importantly, address some of the inequities inherent in the system by empowering consumers. In fact, CEO Laurie Olivier firmly believes that "it is unavoidable that consumers will play a larger role in healthcare and healthcare decisions."

Adjacent industries

For industries that border healthcare, such as food and beauty, consumer health represents a growth market as well as a way to create a positive brand image. Willingness to spend money on diet options perceived to be healthy is increasing enormously and traditional food giants such as Nestlé are developing "health brands." After recent food scandals it has become vital for the giants to prove that their food is indeed healthy. One way of doing so is by clearly linking the brand to a healthcare value proposition.

Other companies have gone even further and have extended their value proposition to diagnosis and active lifestyles improvements, as exemplified in the diagnosis and nutrition solution case study.

Case Study 2: Diagnosis and nutrition solution

In Japan, the private and public sector alike are aggressively trying to make the healthcare ecosystem sustainable.

One interesting business example is the diagnosis and nutrition solution offering by a Kao & Ajinomoto joint-venture, aimed at health insurance groups and doctors. Kao Corporation (a leading cosmetics company) has been pursuing initiatives to prevent lifestyle diseases and improve their care by offering a prevention program called "QUPiO" (Kup-pee-oh) to health insurance providers. On the other hand, leading food company Ajinomoto has launched health check/diagnostic support services using an "Amino Index®" to analyze the amino acid balance in the bloodstream and then report on the degree of risk for developing certain lifestyle diseases. Ajinomoto has also marketed ingredients and supplements that aid health.

The newly-established JV is trying to build a new business model to generate health solutions that target individuals through insurance providers. This uses personal health data and know-how from the prevention program built by Kao and metabolic screening information from Ajinomoto's "Amino Index Technology," to provide more comprehensive and personalized lifestyle improvement counseling (covering which foods and exercises are to be taken, for example.) This is personalized for each individual, based on their health.

Existing healthcare players

The development of consumer health offers a potential for healthcare players to make money outside of their traditional business models and customer groups. Health service providers (such as Mayo Clinic) are using their health related brand strength to expand into all types of health related services and products aimed at both consumers and professionals. Just as it is possible for retail players to add healthcare capabilities to become health centers, it is possible for professional health service providers to dedicate space and time to consumer driven business and achieve theme-oriented retail concepts. In Japan, “anti-aging clinics” are an attractive segment for younger doctors looking to broaden their medical offering outside of public coverage.

The increased amount of information available to patients is not only positive. It also provides a huge challenge for healthcare as hypotheses are often developed from various sources and without clinical education. This tends to drive cost for healthcare as patients demand expensive examinations and tests even if they are not relevant. Healthcare providers who can provide their patients with information in a consumer-friendly manner could gain control by providing constructive information that aligns patient expectations with the medical reality. Hospitals can further respond by transforming themselves into client-centered organizations that are always connected with their patients, both before they enter hospital and after they leave. A best practice example is the Mayo Clinic, which proactively manages knowledge sharing and interaction with patients through online channels and social media.

Traditional healthcare players should consider broadening their offering to gain additional revenue and customer reach. There is also a potential to partner with retail or consumer goods players who have to ensure they are delivering solutions that appeal to consumers.

Case Study 3: The Mayo Clinic

The Mayo Clinic is one of the world’s largest non-profit medical organizations, which has established a powerful brand reputation and strong brand loyalty among consumers worldwide.

Its success can be explained by the fact that Mayo is at the heart of a new healthcare ecosystem, providing an extended range of medical products and services to consumers and healthcare professionals. In addition to medical treatments, these include the organization of multiple health programs, laboratory services for healthcare organizations and the provision of educational materials for patients and professionals. On its website, for instance, patients can find information on over 100 diseases, together with symptoms, possible causes, risk factors, and complications. It also tells the patient how to prepare for an appointment (to-do lists, questions to ask, what to expect from your doctor, etc.), the tests available, information regarding treatment and drugs, as well as how to cope with the disease and advice for support.

Even more importantly, Mayo has cultivated a spirit of service excellence, which is deeply embedded in the organization, emphasizing a patient-centric culture. Social media and mobile technology is an enabler of this culture, with the organization offering various apps. For example, with the ‘Mayo Clinic Patient App’, patients are offered access to the latest news, publications and health information from Mayo Clinic. It also includes personal medical records and appointment schedules. Recent features include the availability of the patient’s radiology images and immediate access to lab results.

In 2010, Mayo Clinic created the ‘Mayo Clinic Center for Social Media’ to regroup and coordinate its various social media initiatives and programs. It believes individuals have the right and responsibility to control their own health, and that it has a responsibility to help patients use social media tools to get the best information, to connect with providers and each other, as well as to inspire healthy choices.

Social media is at the forefront of the Clinic’s values and the leadership is actively involved. CEO John Noseworthy supports the Clinic’s online presence and even highlighted the critical role of it in the future of healthcare. Social media will become a part of routine healthcare operations and consumers’ day-to-day lives and thus increasingly influence the choice of healthcare provider. A key element is patient engagement through social media: patients sharing outcomes and supporting each other, doctors discussing treatments, and hospitals acquiring new patients through Facebook. The Clinic is also creative in discovering new applications for social media and is regularly introducing innovative ways of interacting and introducing patients to the professional they will be receiving their care from. As an example, YouTube is used to show videos of a surgeon performing surgery.



Picture by bloomua / 123RF

Insights for the executive – Capturing the opportunity

Over the course of the last decade the consumer health industry has risen as an important force that is reshaping the future of healthcare, enabling an individual-centric model whereby consumers play a more central and informed role, alongside providers, in healthcare prevention, maintenance and ultimately, treatment. One thing is clear – there is enormous market potential in this cross-dimensional opportunity space. All players need to improve weak capabilities and leverage strengths:

- Existing players such as care providers and life sciences companies need to build consumer insight and sales capability, leveraging their healthcare knowledge.
- Adjacent players such as food & beverage and beauty companies need to focus on credibility and validation of health claims to satisfy increasingly aware regulators.
- New entrants such as telecom operators, consumer electronics companies, retailers and facilities/housing companies will need to build adequate understanding of how to succeed in the highly regulated healthcare space, whilst leveraging their consumer insight and digital technology strengths.

In the center, of course, is the consumer. Future users of the consumer health offering need to be carefully segmented and understood. Today there are many means to shadow customer groups to identify their interests, needs, preferences and buying patterns. Big data generated through mobile internet applications enables companies to gain a much better understanding of the target groups. Consumer understanding then needs to be combined with insight into medical and health developments to find technologies and products that match consumer demand.

Players targeting the consumer health opportunity space need to anticipate what the world will look like several years in the future and what kind of solutions will be offered to consumers. Examining what type of markets, channels and technologies that can or should be targeted is key.

Based on the expected outcome companies need to decide where to be present and build the capabilities required. Cross-industry collaboration can also be expected to increase as a result of industry convergence.

Companies that have shown the ability to capitalize on the development so far have a number of traits in common:

- They master new technologies.
- They are knowledgeable of, and take into account, consumer behavior as well as healthcare development.
- They are not afraid to make changes to their existing business models or test completely new business models to capture a new target customer group.

For those that succeed, the rewards are likely to be substantial.

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