

BAIN & COMPANY

e-Health:
Strategic
Implications
of the Internet
for Health
Care Businesses

Health Care Viewpoint

Number 13

Bain health care

expertise

The health care industry remains turbulent. Customer requirements and competitive dynamics continue to evolve. The industry is seeing more deals, more alliances, more investment, and more experiments than ever before. It's not always clear whether a new approach is a fad or a real basis for leadership in the marketplace. Health care organizations are rethinking every element of their strategies, structures, and business practices to find the path to sustainable results.

Bain & Company helps health care companies navigate a course to outstanding results. We work closely with motivated management teams to create a clear map, a goal and direction for achieving not incremental improvements, but full potential returns.

Bain's global health care practice combines expertise, an industry network, and years of experience accumulated across all parts of the health care industry. Bain helps health care companies, including product suppliers, distributors, providers, and payers worldwide, select a strategic course and create a practical migration path to the goal.

the Internet: both hype and a fundamental change

Most health care executives are still debating how e-Commerce should be prioritized and addressed against already challenging business agendas. To date, e-Commerce has been more about valuation than about value creation: dot.coms had a staggering \$700B of market capitalization as of third quarter 1999, despite aggregate losses. But e-Commerce is a very real force of change. Traffic is growing at exponential rates, and the fundamental improvements in business processes, as well as new business models, that the Internet enables could bring earth-shattering change to an array of industries. So, what does the Internet really mean for today's health care players?

Likely Areas of Health Care Impact: Four elements

We believe that over the next five years the Internet will impact health care and have implications for participants' in four areas:

1 Redefining business processes

On average, health care businesses have made far less progress improving business processes (such as supply chain, customer acquisition and product development) than companies in other industries. But the Internet will force that to change. While historically cutting costs often posed an unacceptable risk to innovation and customer focus, companies will find that the Internet allows them to reduce costs without sacrificing innovation and customer focus, or that the cost savings are so great as to make the trade-off worthwhile. Players who aggressively leverage the web enablement to improve their business processes will create value; those who don't will be quickly left behind.

2 Consumer empowerment

Managed care and its non-US equivalents have created a fundamental tension between two primary camps: clinicians (who are focused on quality of care) and payors (who are primarily focused on cost). The Internet will further facilitate the addition of a powerful third party into the equation: the consumer. The full impact of the informed, connected, and activist consumer is to be seen. But early indications are that consumer empowerment will create the opportunity for companies to dramatically alter the way they deal with their customers adding the internet to both their marketing mix and sales channels.

3 Quality of care improvements

Most industries made dramatic improvements in quality during the 1980's and 1990's while simultaneously reducing costs. Outside supplier driven improvements, the health care industry didn't, and in fact still tends to equate improved patient care with increased cost. The Internet could not only lower costs, but could lead to dramatic quality improvements.

It could do so by facilitating data collection and sharing around best practices and outcomes, and by aligning incentives between payors, providers, and patients which would lead to more efficient processes and decisions, online information also could eliminate inefficiencies that have insulated high-cost, low-quality players from market forces, and could allow institutions to leapfrog the cumbersome connectivity issues of their legacy systems.

4 Shift in the power balance and "profit pools"

Profits in today's healthcare industry are concentrated in the high tech medical device and pharmaceutical companies, while the majority of businesses that touch patients are constrained to marginal returns. The Internet, however, holds the potential to aggregate profits and power via online volume aggregators and purchasing networks, draining profits from suppliers to these new intermediaries and their customers by commoditizing decision-making. A freer information flow could eliminate price/value inefficiencies in the market (such as between branded and generic drugs) and dissolve the long-accepted practice of cross-subsidizations across insurance populations. Industry participants should either capitalize on or neutralize these potential new "intermediary" roles that might disrupt their profit flows.

What does it mean for me?

The stock market has highlighted the enormous opportunities that the Internet creates for start-up dot.coms. But the Internet also creates opportunities for the established leaders of industry—including those in health care—who have the brand equity, experience, and resources to outmaneuver the dot.coms at their own game. Existing players can leverage the Internet to improve existing business processes and redefine how they relate to customers. More importantly, traditional players need strategies that take into account the key differences an e-commerce model presents versus the "old world." Sound partnering strategies, savvy management of the capital markets, and a new approach to hiring and retaining the best web-smart people will be crucial if the established industry players are to maintain their leadership positions and extract the same value from the Internet as other industries have.

Bain & Company is one of the world's leading global strategy consulting firms, serving clients across five continents. Bain has worked with over 1500 major multinational and other corporations from every economic sector, in every region of the world, to improve and help sustain bottom-line results.

Quantum leaps in performance are a frequent outcome of the customized, creative and often breakthrough strategies Bain develops for its clients.

BAIN & COMPANY

BAIN & COMPANY, INC.

Two Copley Place
Boston, Massachusetts 02116
Tel: (617) 572 2000
Fax: (617) 572 2427

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