Sg2 EXECUTIVE BRIEFING

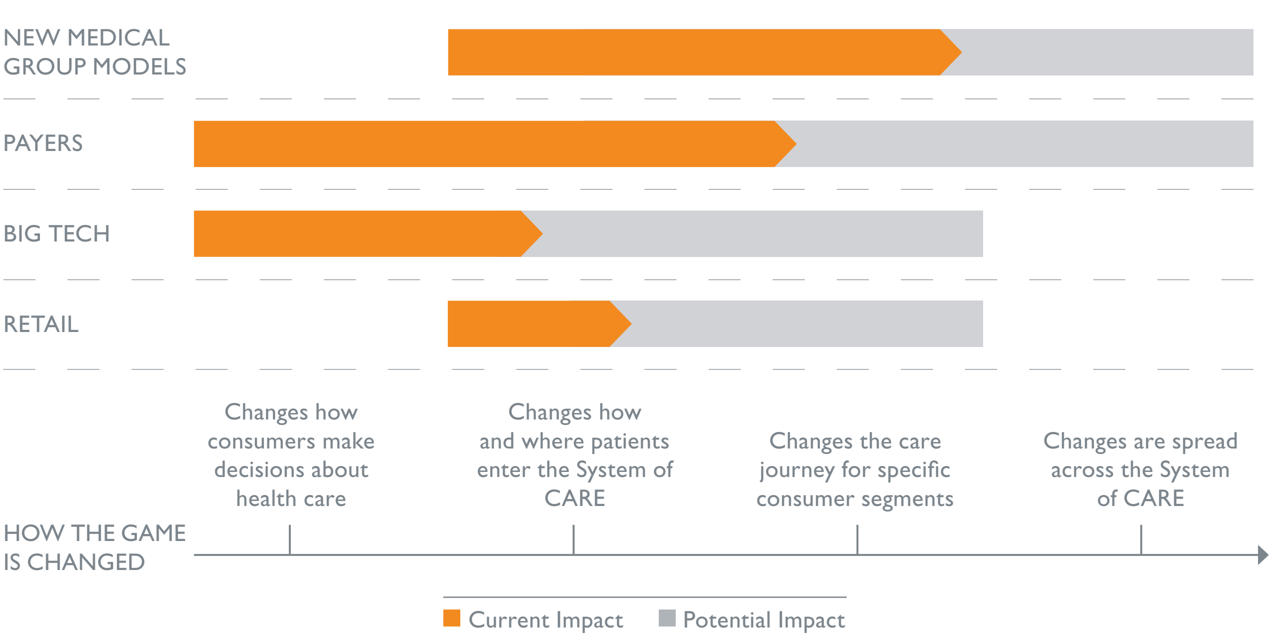
Game Changers Take Aim at the Full System of CARE

KEY TAKEAWAYS

- New entrants to the health care space have moved beyond low-acuity primary care and are creating an impact across the continuum.
- Health systems must understand the market dynamics that increase their vulnerabilities.
- The ability to be proactive will be key when going against new entrants that are infused with cash and move quickly.

There is substantial noise across the health care landscape about new competitors that all seemingly have a technology-enabled solution to make care easier and cheaper for patients. These nontraditional entrants have long concerned health systems, as even the smallest market capture could mean significant impacts to margins. Bolstering health systems' concerns is the fact new entrants have now moved past proof of concept, expanding their offerings beyond point solutions to offerings across the System of CARE. Combine this with other impactful changes across the health care landscape (eg, OP migration, heightened consumerism) and health systems can no longer afford to take a wait-and-see approach. Because of the size, margins and speed of the newcomers, health systems must take a fresh look and proactively identify areas of vulnerability or succumb to new entrants taking more sizable bites out of their business models. Yet, it is often difficult to discern which over-hyped start-ups with splashy marketing will be the new entrants that might actually change the game for the incumbents. This briefing examines four areas of high activity for nontraditional players and the degree and timing of their impact.

GAME CHANGERS' IMPACT VARIES



health care intelligence

Retail

Major retail pharmacies, grocery stores and big-box stores have long experimented with on-site, low-acuity primary care services as a way of drawing foot traffic and maximizing return per square foot. Historically these services had minimal impact on health systems and their employed medical groups, which often partnered with retailers to provide oversight of AP-run clinics and accept referrals for longitudinal primary care, imaging, diagnostics and complex care.

More recently, however, retailers recognized an opportunity to expand their offerings and revenue streams, resulting in retail clinics taking on the look and feel of comprehensive primary care offices. In addition to diagnostics, many are moving into chronic disease management, health coaching and annual wellness exams—services that often serve as relationship builders between patients and primary care providers. Their physical footprint makes them convenient for many patients but is also a limiting factor in their scale of potential impact to traditional primary care. However, their ability to convert existing retail and pharmacy customers into digital patients is a scale that would be dramatic and disruptive.

How retailers will change the game: At a time when access and convenience were never more important, retail clinic offerings may be striking the right chord with consumers seeking low-acuity and primary care, impacting how and where patients enter the System of CARE. The threat will heighten and spread upstream when retail clinics leverage their robust consumer data expertise and apply it to digital patient activation, and downstream when they use their data to build patient loyalty among increasingly chronic populations.

RECENT TRENDS WITH MAJOR PLAYERS

CVS | The pharmacy chain committed more than 1,500 of its stores to becoming "HealthHUB clinics" with more than 20% of the stores' space dedicated to health care services, including health kiosks, sleep apnea testing, nutrition counseling and blood draws. CVS has reported that the HealthHUB model also generates more traditional retail sales.

Walgreens | Its partnership with VillageMD was a major pivot away from the traditional retail clinic model and toward primary care. The company closed roughly 40% of its retail clinics but plans to open up to 700 physician-led VillageMD-branded primary care clinics attached to Walgreens stores. The move also paves the way to expand services beyond the store with virtual and home care offerings.

Walmart | The company is expanding its health care footprint both inside the store—with the goal of 4,000 comprehensive labs over the next 10 years—and outside the store with the launch of self-branded, stand-alone primary care clinics in Georgia, Arkansas and Illinois, and the expansion of virtual health offerings.

Health systems pursuing/actively engaging in risk arrangements to ensure care coordination and manage costs must pay close attention to retail players.

Strategic Responses

- ☑ Approach primary care as multiple divisions (MA, DTE, concierge, etc), with unique strategies and investments for each.
- ☑ Understand the value of the health system's brand in the market and why patients are choosing retail clinics for care. A 2020 Sg2 consumerism survey, for example, found 82% of consumers expect same-day access for minor illnesses.
- ☑ Ensure digital front door strategies are top priority and effectively executed.
- ☑ Differentiate on care coordination vs transactional interactions.

Big Tech

Tech giants have made a big splash in the health care space in recent years, most notably through strategic partnerships with health systems and major investments in digital health. In 2019, nearly 40 US hospitals entered partnerships with large tech companies to address long-held pain points, including clinical decision making and patient experience.

Apart from Amazon, current moves by big tech largely fall within the vendor space and, therefore, will not have a notable impact on health care providers from a competitive standpoint. However, systems that invest in understanding consumer digital behavior data via a big tech vendor will have a clear consumer advantage.

How big tech will change the game: Amazon's (and possibly others) entrance into actual care delivery, providing low-cost, convenient care, combined with its expertise in managing costs and utilizing comprehensive consumer data, could be a formidable threat to health systems. The threat will be particularly heightened for those with direct-to-employer offerings without a virtual component. Interruptions to this upstream channel could lead to unpredictable changes across the System of CARE.

RECENT TRENDS WITH MAJOR PLAYERS

Alphabet (Google) | The search engine behemoth wants to create a "Google for health care," which would allow health systems to easily search for and identify patient records with keywords.

Amazon | The expansion of Amazon Care, which provides in-person and virtual primary care services, beyond its own workforce to Seattle-based Precor hints it may be preparing for a wider commercial launch.

Apple | The company is partnering with payers and providers to use data collected by wearables for studying disease and best practices for patient monitoring in areas such as Parkinson disease, asthma and heart disease.

Microsoft | The tech giant's recent acquisition of Nuance (a voice-to-text translation application) underscores the company's interest in owning the cloud technology market.

Systems focused on DTE (primary care) strategies should keep a watchful eye on big tech trends. Continued efforts to partner will be important for AMCs looking to expand data assets for research and systems with innovation centers focused on commercialization.

Strategic Responses

- ☑ Increase competency in consumer online persona development (either internally or with consumer data vendors) for digital patient activation and digital initiatives that promote access and convenience (online scheduling, messaging, video visits).
- ☑ Engage local employers to gain insight into cost-savings initiatives underway and potential partnership or contracting opportunities.
- ☑ Look for "care everywhere" options to bridge in-person and virtual care (at-home diagnostics, care for remote workers).
- ☑ Leverage research/innovation projects to work collaboratively with vendors on specific solutions (AI, voice recognition, data integration, digital patient activation).

Payers

Insurance companies have engaged in a flurry of high-profile mergers and acquisitions over the last few years in the face of payer mix shifts, new regulations and a quest for scale. After regulatory challenges to horizontal integration, payers turned to vertical integration to diversify their portfolios and increase their scope of influence.

In addition to a seemingly reignited buying spree of physician practices, payers are now entering areas that have lower priorities and tough financial trade-offs (behavioral health, addiction treatment, home health, virtual, data interoperability and integration) and have in many cases become payer and provider.

How payers will change the game: As payer-owned providers, now reaching beyond primary care, become a more common stop in many patients' health care journeys, payers are expanding their direct influence on total cost of care. Recent consumer surveys that found patients are increasingly open to using payer-owned providers should serve as a warning sign to traditional providers. As payers assume more control over upstream care, cost containment pressure will intensify downstream at the hospital level. Payer-owned provider groups often do not have large market share today and, therefore, are underestimated as a threat by traditional providers. However, size and pace of payer acquisitions could quickly change the landscape.

RECENT TRENDS WITH MAJOR PLAYERS

BCBSNC | Evidence of a change in perspective for behavioral health treatment, this local BCBS plan invested in addiction treatment provider Eleanor Health and other point solutions aimed at behavioral health. It has also changed course on coverage of behavioral health by eliminating behavioral carve-outs and increasing payments for care.

Cigna | The company spun its health services product lines, including pharmacy benefit manager Express Scripts and specialty pharmacy Accredo, into a health services unit called Evernorth Health Services. It plans to market Evernorth's services to other payers, employers and government agencies and has further diversified its offerings to include virtual care through its acquisition of MDLIVE.

Optum | After shifting away from physician group acquisitions, the company has indicated a return to this strategy with its announced plans to buy Atrius Health, the largest independent physician group in Massachusetts. Optum's portfolio includes more than 50,000 physicians, 1,400 clinics and 200 surgical facilities.

Systems in high-cost, growing markets and providers focused on Medicare Advantage as a core strategy are those at most risk by payers.

Strategic Responses

- ☑ Double down on System of CARE strategy with a focus on demonstrated overall cost of care savings; payers will likely prioritize activity in high-cost markets.
- ☑ Aggressively pursue site of care shift (ASC, imaging, virtual) strategies and primary care employment; align with independent practices and facilities before payers and their affiliates do.
- ☑ Solidify essential network provider status through market influence and reputation as scale grows.
- ☑ Go upstream; aggressively pursue direct-to-employer contracts, particularly if payers indicate an unwillingness to partner in risk.
- ☑ Open conversations with local BCBS plans to explore opportunities to partner and better meet behavioral health needs (see sidebar).

New Medical Group Models

Direct primary care medical groups have experienced explosive growth over the past decade, fueled by big-name partnerships and noteworthy IPOs. Investors are betting the tech-enabled care models will translate to profitable business models for key patient segments (commercially insured adults and Medicare beneficiaries). The medical groups' consumer-centric approach has made them attractive to these valuable patient populations, while smaller panel sizes and administrative support make them attractive to a workforce in short supply. Primary care physicians looking to step into value-based care appreciate the experience and opportunities these groups offer.

The ongoing shift to lower-cost, ambulatory sites of care is now attracting the attention of private investment in specialty care. Private equity–backed platform aggregators are aggressively pursuing traditionally high-margin, procedurally anchored specialties and offering immediate payouts not constrained by fair market value. The lure of immediate and future payouts along with promises of a partner who preserves its clinical decision-making autonomy are proving enticing despite uncertainty over future ownership when private equity makes its exit, typically a three- to five-year timeline.

How new medical group models will change the game: The entry of PE into specialty care makes it exceedingly difficult for health systems to strengthen their Systems of CARE, as it creates more vulnerabilities to leakage and misalignment. Independent physicians—the most crucial component to any outpatient or ASC strategy—can more easily remain independent with an infusion of PE cash. While for-profit primary care groups create competition for Medicare Advantage lives and provider talent, they could offer an opportunity for health systems to think differently about primary care and channel strategies. Shifting highly subsidized primary care practices to a partner could improve financials and increase chances of success as alternative revenue stream models pick up speed. In attractive markets (ie, those with high Medicare cost, the right supply of providers, and recent MA growth—see map on page 6) with multiple for-profit competitors entering, a nimble partner may be particularly important.

Health systems pursuing Medicare Advantage as a key strategy (primary care) and those in markets with large numbers of independent specialists where health systems have been slow to execute ASC strategies (specialty care) are most vulnerable to new medical group models.

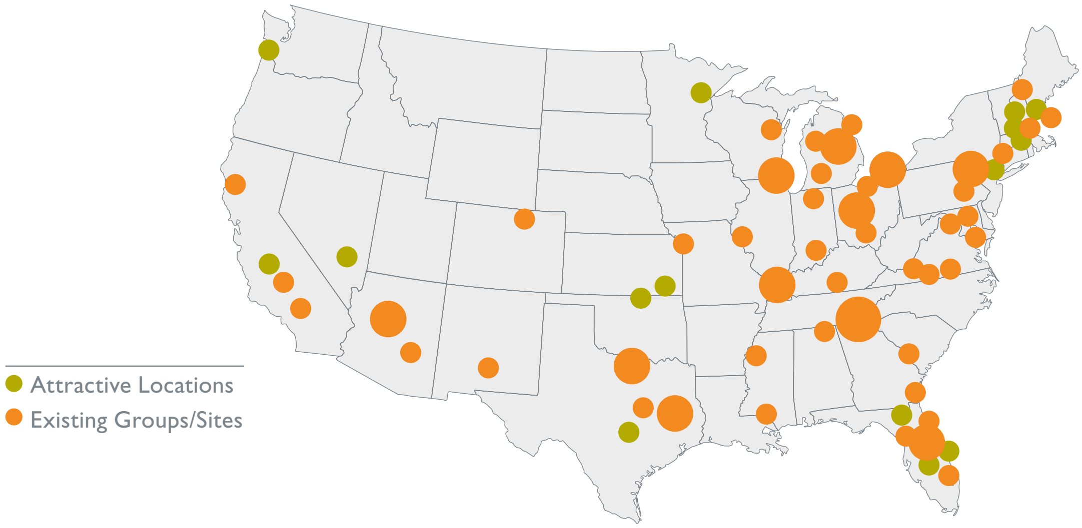
RECENT TRENDS WITH MAJOR PLAYERS

ChenMed, Oak Street Health, One Medical/Iora Health, VillageMD | Major expansion plans announced pre-pandemic appear to be moving forward. In addition, surveys have indicated a lessening desire among physician groups to remain independent.

Private Equity | Deal activity in 2020 paused in Q2 but regained momentum later in the year, especially in the specialty practice arena. PE drove roughly 70% of all specialty practice M&A deals, with particular focus in:

- Women's Health
- Orthopedics
- Gastroenterology
- Radiology
- Multispecialty

PRIMARY CARE DISRUPTERS HAVE ARRIVED...WHERE ARE THEY GOING NEXT?



Oak Street Health

60+ clinics across 9 markets

Walmart partnership

VillageMD

1,000+ locations in 9 markets

Walgreens partnership

One Medical + Iora Health

Merger has no stated operational synergy; the primary goal of the merger is diversification.

ChenMed

80+ clinics in 19 markets/ 10 states

BCBSMI partnership

Note: Large dots indicate multiple groups. BCBSMI = Blue Cross Blue Shield of Michigan. **Sources**: VillageMD, ChenMed, Iora Health and Oak Street Health websites; Coutré L. Primary-care provider ChenMed to enter five new markets. *Mod Healthc.* December 5, 2019; Goldberg S. VillageMD raises $100M. Crain's Chicago Business. September 4, 2019; Reuter E. Walgreens resets retail clinics with VillageMD partnership but faces tough competition ahead. MedCity News. July 8, 2020. All websites accessed January 2021.

Strategic Responses

- ☑ Recruit recent primary care graduates (MD, DO, AP) for high-performing medical groups, especially when the organization is focused on risk (many for-profit groups focus on established practices).
- ☑ Accelerate payer partnerships, consumer-driven benefits design and open enrollment marketing efforts to capture Medicare Advantage lives.
- ☑ Evaluate opportunities to divest underperforming primary care assets in favor of partnering and focusing on downstream specialty care and coordination.
- ☑ Differentiate pitch to physicians for employment or partnership opportunities, especially in markets attractive to primary care disrupters. The autonomy offered by PE is resonating.
- ☑ Solidify the organization's ASC strategy and gain a deep understanding of pain points that PE is capitalizing on; accelerate outreach to priority specialty physicians in the market and test their appetite for joint ventures. Be prepared for concessions needed to compete for deals.

Know When to React

As the industry emerges from a global pandemic, uncertainty and a sense of increased pace of change have prompted many systems to pursue more dynamic and nimble approaches to strategy. More stringent prioritization of initiatives means a more focused list to execute and, hopefully, an expanded list of opportunities to monitor for potential focus next cycle. Many organizations are revisiting their horizon scanning efforts and templates in support of this agile approach.

Strengthen horizon scanning competencies

- ☑ Focus the content in support of more frequent scans; some organizations report moving from annual to quarterly.
- ☑ Supplement typically static/slow-moving market information (payer mix, demographics) with updates on competitors, new entrants and public transactions.
- ☑ Prioritize ongoing consumer insight research to remain current on evolving patient preferences across consumer segments.
- ☑ Monitor leakage and referral patterns into and out of retail players, payer-owned entities and for-profit primary care.
- ☑ Summarize data from business development/physician liaison teams in the field (specialties interested in alignment, practices with physician leadership transitions within the next 12 months, financial needs and strategic goals).
- ☑ Include insights from conversations with local employers (programs of interest, pain points to solve for).
- ☑ Highlight pressure points as data are updated (Medicare beneficiary cost of care, MA penetration and growth, access metrics, average health insurance premiums and out-of-pocket costs).

New entrants have the ability to invest money and move quickly. An organization not able to predict or identify areas of vulnerability and proactively address them will need to prepare itself to cede to the competition.

AI = artificial intelligence; AMC = academic medical center; AP = advanced practitioner; ASC = ambulatory surgery center; BCBS = Blue Cross Blue Shield; BCBSNC = Blue Cross and Blue Shield of North Carolina; BIDMC = Beth Israel Deaconess Medical Center; DO = doctor of osteopathy; DTE = direct-to-employer; IPO = initial public offering; MA = Medicare Advantage; PE = private equity. **Sources:** Sg2 National Health Care Consumerism and Insurance Coverage Survey, 2020; Knutson KH and Rajkumar R. Behavioral health: A payer-based strategy for improving access and quality during COVID-19 and beyond [blog]. Health Affairs. June 24, 2020; Jercich K. Optum now offering virtual care nationwide, execs say. Healthcare IT News. April 19, 2021; Japsen B. UnitedHealth's Optum to broaden telehealth offerings in all 50 states. *Forbes.* April 19, 2021; Cigna. Cigna launches Evernorth to accelerate delivery of innovative and flexible health service solutions [press release]. September 16, 2020; Park A. 36 hospitals, health systems that partnered with big tech in 2019. Becker's Health IT. December 27, 2019; Adams K. How Amazon Care's pay-by-usage model targets big employers. Becker's Hospital Review. May 10, 2021; Balasubramanian S. Microsoft's acquisition of Nuance reaffirms its interest in dominating the $11 trillion healthcare market. *Forbes.* April 19, 2021; Maddox T. What Microsoft's $19.7 billion purchase of Nuance could mean for AI and speech tech. Tech Republic. April 12, 2021; McGrail S. BIDMC next to pilot Google's healthcare search tool. HIT Infrastructure. April 13, 2021; Gavidia M. Apple Watch effective in monitoring symptoms of Parkinson disease. *AJMC.* February 8, 2021; Farr C. Anthem to study whether Apple Watch could help people with asthma. CNBC. September 16, 2020; Japsen B. Walmart opening more healthcare 'super centers.' *Forbes.* June 17, 2020; VillageMD. Walgreens and VillageMD to open 500 to 700 full-service doctor offices within next 5 years in a major industry first [press release]. July 8, 2020; Numerof R. Walgreens closes nearly 160 walk-in clinics—what it means for retail healthcare. *Forbes.* November 22, 2019; CVS Health. CVS Health announces significant expansion of HealthHUB to deliver a differentiated, consumer health experience [press release]. June 4, 2019; Levin Associates. *The 2020 Health Care Services Acquisition Report, 26th Edition.* February 2021; One Medical website. Accessed April 2021; Gardizy A. Boston's Iora Health acquired by One Medical in $2.1 billion health tech deal. *Boston Globe.* June 2, 2021; Iora Health website. Accessed June 2021; Oak Street Health website. Accessed June 2021; Landi H. Oak Street Health projects strong growth in 2021 despite $64M loss in Q1. Fierce Healthcare. May 11, 2021.

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