

## Health On-Line – The Best Will Get Better

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**The major medical centres of the United States already have the best brands, the best performance records and the most customers. The Internet could make these institutions even more successful.**

In 1999, an estimated 17.5 million people – nearly half of all adults using the Internet in the United States – visited World Wide Web sites offering healthcare information. As Internet use becomes more prevalent, it will transform the local, low-return U.S. healthcare industry. We believe that in this transformation the players holding the best hands are the major medical centres of the United States rather than the Internet – pure plays currently dominating the landscape of e-healthcare.

Why? The recent woes of the e-healthcare players already show how hard it is to make a go with this model. Only very few of them will thrive. Nevertheless, by making the performance of second- and third-tier treatment centres visible, procedure by procedure, to anyone with a browser, those few will eventually drive less eminent institutions out of treatment areas in which they are not world-class or require them to become suppliers of routine care to first-tier institutions. As the marketplace increasingly comes to recognize the potential of long-established brands, customer bases and revenue streams for dominating e-commerce, the major medical centres of the United States will find themselves with an enormous opportunity to become the premier players on the e-healthcare scene. Will they really exploit this opportunity? That isn't clear. In an environment where success requires a formidable level of entrepreneurship, these institutions will have to find a way to trans-

form their cultures to compete against players unburdened by missions that go beyond generating maximum shareholder returns.

The U.S. healthcare industry is huge – with annual expenditures of more than a trillion dollars – but extremely fragmented: more than half of approximately 600,000 physicians engaged directly in patient care work in practices of eight physicians or fewer; the majority of the nation's 6,000 hospitals are community-based, with ownership not tied to other medical-care institutions; and employers that provide healthcare benefits collectively subscribe to approximately 600 plans serviced by medical insurers. Rationalization doesn't come easily, because communities and religious organizations fight to keep their hospitals open. And there has been insufficient force on the demand side to limit the number of healthcare providers, partly because the end-users – patients – haven't been the true customers. More often, the decision-makers on the demand side of healthcare have been employers who, perhaps justifiably, tended to focus on reducing growth in healthcare costs. The sector's long-run financial performance tells much of the story. Over the past 17 years, the total return to shareholders of all publicly traded healthcare companies has been just 7%. In 1999, their total market capitalization was only a little above that of Merck, a single pharmaceutical company.

### A FUNDAMENTAL TRANSFORMATION

Now, however, two basic features of the Internet are initiating a fundamental transformation. The first is the medium's ability to disseminate knowledge. Thanks to this, some patients already show up at their doctor knowing more

than the doctor does about their condition. More recently, players such as Healthgrades.com have begun providing comparative performance data, by diagnosis and procedure, on thousands of hospitals and medical centres all over the United States.

Consider the possibilities: a well-educated, Internet-aware person diagnosed, say with a heart ailment checks Healthgrades and finds that his or her local hospital is weak in cardiology. Such a person might either press the local institution to improve the quality of its cardiology services by gaining access to specialists and supporting technicians from hospitals in other areas, or find a way of getting to a higher-rated hospital. As this behavior develops into a pattern among more and more patients, the local hospital will have to transform its cardiology department or get out of the business, perhaps selling certain assets to a better hospital and referring its more acute cases to medical centres with stronger reputations and superior outcomes.

Ultimately, we foresee a world where the bundling of a wide range of medical services in hundreds of general hospitals gives way to a model in which these institutions pursue a narrower list of specialties directly. Economics may force many local hospitals to rely on prominent medical centres to train their physicians and staff, provide certain specialized services locally, and accept referrals at the centres' own site or sites. As the Internet makes local hospitals' relative performance on medical procedures increasingly available to patients, the number of patients willing to accept lower-quality services will decline.

A second feature of the Internet will facilitate this process: the ability to drive down interaction costs. Because the Web makes it much easier for new players like Healtheon/WebMD to identify the most skilled specialists and to coordinate services among them, on-line companies will be able to offer the bundling functions that were previously the exclusive province of hospitals and medical centres.

This ability will immediately put second- and third-tier institutions at a disadvantage because their success has hitherto been built on bundling a wide range of mostly indistinctive medical ser-

vices and spending heavily to control a substantial share of their local health market. When health is at stake, people don't like to settle for second-best. Second- and lower-tier institutions may thus find themselves having no choice but to limit their services to health problems that are not medically serious or complex and to affiliate with top-tier institutions. Health plans that merely coordinate the provision of care and payment at the local level will find themselves in similar straits.

### THE WINNERS

Who wins in this environment? Some Internet players will emerge to play the role of coordination. Many other attackers will likely succumb to the challenges attackers face everywhere – spiraling customer acquisition costs and poor retention – and to a challenge that is especially severe in the healthcare arena: privacy. Privacy matters everywhere on the Internet but nowhere more than in healthcare, for the levels of confidentiality and trust required to keep the confidence of patients are unparalleled.

The participants best placed to create successful new on-line businesses are the institutions that long ago developed reputations that inspire the trust of legions of patients: the most prominent national and regional medical centres of the United States, such as the Mayo Clinic, the Johns Hopkins Medical Institutions, the Memorial Sloan-Kettering Cancer Center, and a series of other high-performing regional centres. Many of them rank among the world's most highly regarded institutions, boasting the loyalty and expertise of first-rate physicians and scientists on staff and state-of-the-art facilities. Johns Hopkins, for example, could use the Internet to communicate the depth of its knowledge, expertise and practices to local hospitals not just in North America but around the world. Johns Hopkins also might more easily create alliances focused on its best-known specialties with well-qualified physician practice groups, surgery centres and clinics. In turn, the Web could become a new channel for referrals to Hopkins of some of the more acute cases at countless numbers of hospitals.

Along with the brand comes an established

patient base. A start-up's most expensive and urgent task is acquiring customers, and the major U.S. medical centres already have them. Many attackers have spent heavily to reach consumers through portals such as America Online. They have also advertised in a variety of communications media to build awareness. Yet in the end, the attackers have merely discovered how hard it is to sever long-standing relationships between patients and their traditional healthcare providers.

Many patients have had intensely personal, positive experiences at national and regional medical centres, which are among the few places patients trust to hold sensitive healthcare data and to offer healthcare advice. And the figures are startling: the number of current and former patients of the major centres easily runs into the hundreds of thousands and perhaps to more than a million at the largest institutions.

These medical centres have much more than customer relationships. They also have masses of patient data, which allow them to tailor their on-line offerings to a patient's specific needs and are extremely valuable to marketers looking for the most efficient ways to identify the likeliest sets of customers. If patients can be persuaded to accept the carefully managed sharing of their data (and legislatures to refrain from prohibiting it), the major medical centres will hold the key to profitability for many marketers – and will be able to charge handsomely for this data. Should patients object, the medical centres could become marketing intermediaries communicating with patients on behalf of vendors, or they could simply exploit the data to support their own on-line efforts.

Such assets provide a platform for establishing a wide array of new on-line services to physicians and patients. Services for physicians could include electronic access to medical records, interactive discussions and other kinds of communications with health experts, and administrative services such as scheduling, referrals and billing. On-line services for patients could give them access to their records, monitor their medical conditions, and keep after them to eat intelligently, to exercise and to take their medicine.

## **OVERCOMING CHALLENGES**

Thus the successful hospitals, medical centres, and research institutes of the United States have a head start. But they must overcome real challenges to exploit it. Besides continuing to excel in their established fields, they must do something that for them is quite new: attract entrepreneurial leaders who can turn their strong traditions in research and patient care into viable business models. Then these new leaders will have to develop on-line business models that deliver acceptable economic returns very quickly, since medical centres lack access to venture capital and likely will have a low tolerance for sustained losses.

One way to develop such models would be to spin out the Internet-based business, freeing it from the organizational habits and constraints of the larger institution and allowing it to offer equity to employees and investors. But spinning out a stand-alone business is not a straightforward proposition, least of all to an institution with no experience of this kind.

The exact nature of the challenge will differ in each case. The barriers are hardly simple. Medical institutions serve a number of constituencies whose goals don't always mesh neatly. And the political challenges of leading and managing a transformation of this kind in quasi-public, quasi-academic institutions are considerable. Yet the major medical centres seem certain to retain their huge advantages over dot-com start-ups in any Internet business they launch. If they can move to exploit those advantages, they will find that the reach, transparency and pure meritocracy of the Internet will be a boost rather than a threat. **e**

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