Healthcare's Defining Paradox:

Irresistible Consumerism Confronts an Unmovable Status Quo

Market Corner Commentary
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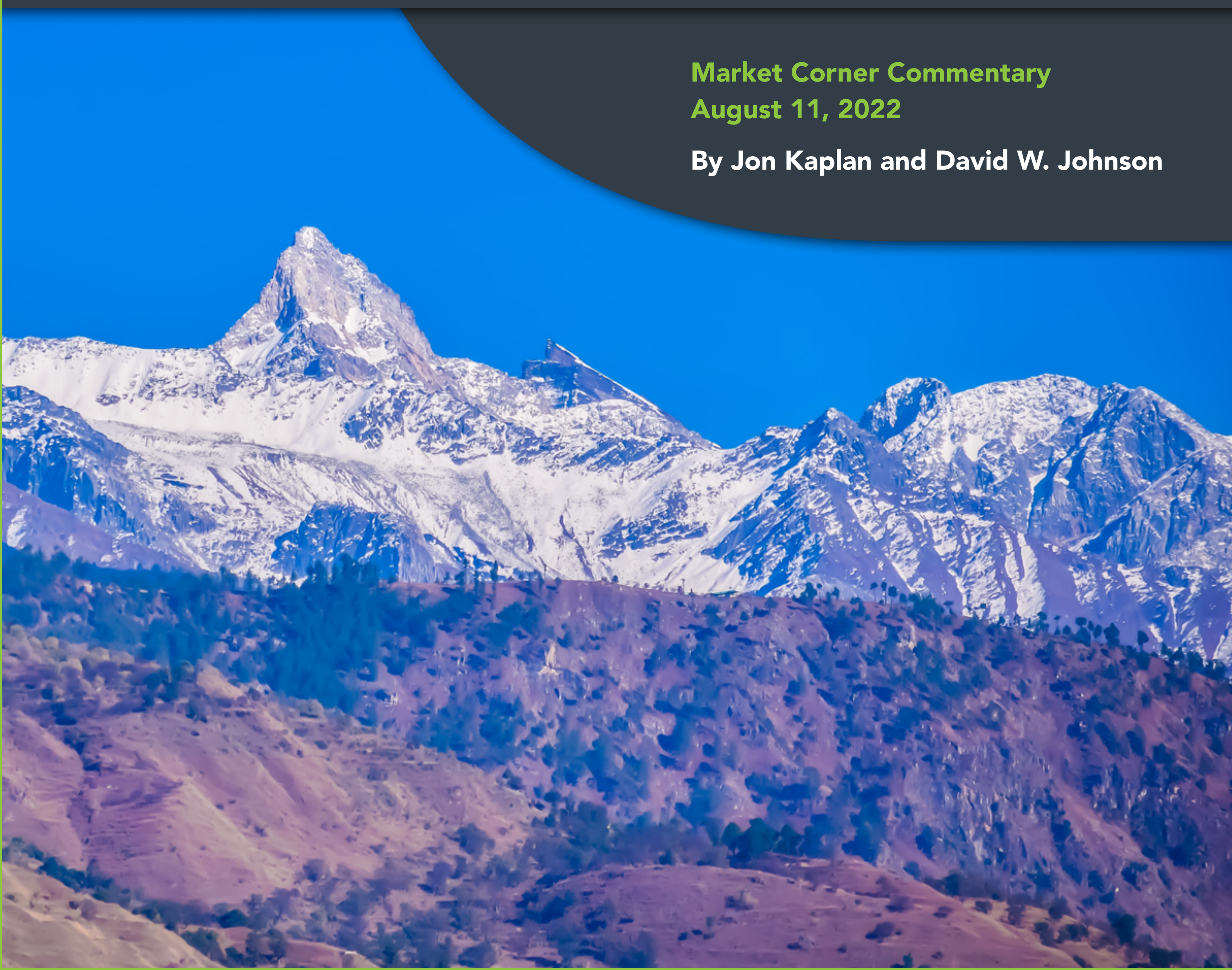

The 1971 Nebraska vs. Oklahoma college football game featured the defending champion, top-ranked, number-one-defense Nebraska Cornhuskers against the second-ranked, number-one-offense Oklahoma Sooners. A Sports Illustrated cover billed the game as "Irresistible Oklahoma meets Immovable Nebraska"

The outcome? Immovable defense beat irresistible offense in a high-scoring affair.

The pre-game hype played up the inherent contradiction known to philosophers as the "paradox of the unstoppable force." This paradox originated in ancient China. A merchant proclaims he has a spear that can pierce any shield as well as a shield that can repel any spear. When a skeptical buyer asked what would happen when the irresistible spear struck the impenetrable shield, the merchant had no answer.

U.S. healthcare faces just such a paradox today. Healthcare consumerism has growing and seemingly unstoppable momentum. Using their purchasing power to select value-based products and services, consumers decimate old ways of doing business, power new companies into the stratosphere and turn legacy organizations into dinosaurs. In the process, rampaging consumerism intensifies competition, lowers prices and expands choice.

Healthcare incumbents, to date, have held consumerism at bay. They resist transparency, pursue volume-based care delivery and deliver inferior customer service. The powerful conjunction of a well-funded healthcare industry, a massive healthcare bureaucracy and aligned legislative support has created a gargantuan and all-powerful Healthcare Industrial Complex™ intent on keeping the status quo intact.

As currently constituted, US healthcare is unsustainable. Treatment prices skyrocket upward even as Americans are sicker than ever. Many doubt the system can ever truly change. The costs of sustaining its centralized delivery mechanics and administrative superstructure are overwhelming the funding capabilities of governments, self-insured employers and individuals.

Meanwhile, COVID has necessitated widespread adoption of digital health tools to receive vital care treatments. In response, consumers increasingly believe healthcare should offer the same level of convenience, choice and price/service competition that other industries do. Moreover, venture and private equity investments in digital health companies are at record levels. Many companies are striving to give consumers the healthcare products and services they demand.

In a marketplace where suppliers and consumers are increasingly at odds, something has to give…doesn't it?

IRRESISTIBLE CONSUMERISM

Consumers' purchasing power is on the rise as out-of-pocket expenditures approach $500 billion per year. Co-pays and deductibles now account for almost one out of every eight dollars spent nationally on healthcare.

Also, as the ranks of beneficiaries enrolled through Medicare Advantage plans and ACA-exchanges increase, consumers are becoming accustomed to choosing the prices and options they want. Naturally, this makes them more discerning and demanding.

Meanwhile, digital-tech adoption has soared during COVID and beyond, increasing consumer access to care services and providers, which empowers consumers with knowledge, information and their own data. Most healthcare organizations (upstart and legacy) now offer app-driven products and services.

On the regulatory side, the government has supported consumerism by doing the following.

- Mandating pricing transparency for hospitals and insurance companies.
- Enabling full data interoperability so app developers can enhance their service offerings.
- Limiting surprising billing.

With their market impulses unleashed, consumers today increasingly demand better service, access and convenience.

These compounding forces give healthcare consumerism its irresistible character. Consumers increasingly expect to receive care on their terms, digitally or in convenient locations. They engage providers through text, chat and email. They're shopping for providers based on ratings. They want to understand charges and prices up-front. They want hand-off referrals and seamless care coordination.

Healthcare organizations and digital startups are responding to consumer demands. They're developing user-friendly tools, portals and platforms that help with navigation, payment, access and coordination. Consumer demand for value-based service provision is just beginning. It will expand and deepen as the health companies rise to meet their needs, wants and desires.

THE UNMOVABLE STATUS QUO

Resistance to system transformation by a deeply entrenched and influential healthcare industrial complex is widespread and almost omnipotent. It works in the shadows. It applies market leverage and lobbying muscle to feed its voracious appetite for societal resources. It's not a coincidence that Congress passed watered-down surprise-billing legislation. Even worse, the American Medical Association sets Medicare reimbursement rates that skew payment toward high-cost specialty care and away from vital primary-care services.

Healthcare's dysfunction centers on complex payment formularies that reward overtreatment and overpricing without penalizing errors and poor outcomes. Fee-for-service medicine incentivizes hospitals and doctors to optimize revenue generation, not care outcomes, nor service provision, nor disease prevention, nor health promotion. Third-party claims administration insulates consumers from the costs of those services and impedes choice.

Absent true market forces, consumers have had limited power to influence incumbent behaviors and/or demand better service provision. This reinforces their passive approach to receiving care. Institutionalized, expensive, inconvenient and disjointed care is the rule. Consumers have nowhere else to go.

Efforts to repair this dysfunction have yielded marginal improvement at best. The ACA-led transition to value-based care has been painfully slow. More recent regulatory measures like price transparency confront indifference or willful opposition. Over 80 percent of hospitals are not complying with the new rule. At every turn, lobbyists counter policy proposals to lower drug costs or advance site neutrality.

With little incentive to change, incumbents engage in rent-seeking behaviors because they can.

Americans admire doctors for their disease-curing, life-sustaining capabilities. Communities support their local hospitals through volunteerism, preferential tax status and funding campaigns. Meanwhile, incumbents line their coffers.

In financial disputes between doctors and insurers over care provision, patients understandably side with doctors who they believe have their best interests at heart. Doctors and healthcare executives do not see themselves as the villains in some epic battle between transformation and resistance to change. Far from it. They're the good guys. Paraphrasing Upton Sinclair, it's hard to get healthcare leaders to understand real consumerism when the system pays them not to understand customers.

Digital technologies have improved some aspects of care delivery and made others worse. With effort, consumers can schedule appointments, pay bills and see lab results online. At the same time, health systems prioritize data hoarding over data sharing. Few apps and cloud-based services can break through their data silos. The burden of managing all this data falls disproportionately on caregivers and patients.

Bolstered by digital tools, their own money and greater choice, consumers should be able to influence and shape the marketplace by rewarding higher-value providers. This is happening to some extent, but sweeping market transformation has yet to occur. The contrast is stark. Think how quickly and completely Uber disrupted the taxi industry, Airbnb overwhelmed hoteliers and Zillow empowered real-estate buyers, forcing legacy businesses to adapt or die.

Within healthcare, constructive change occurs slow or even retreats. Consider that telehealth utilization, which had achieved little penetration of care delivery pre-COVID, soared to 80% utilization during the pandemic, but has since fallen back into the low teens. Moreover, providers demand and have received parity payment for lower-cost treatment options including virtual-care visits and hospital-at-home services.

It's become a cliché, but where are the Ubers, Airbnbs and Zillows of healthcare?

POCKETS OF SUCCESS

In 2014, a Colorado woman elected to receive back surgery after carefully determining that her share of the costs would be around $1300. To her shock, the hospital subsequently billed her $303,709, of which she owed $229,000 out of pocket. After 8 years of legal wrangling, the Colorado Supreme Court determined she only owed an additional $767 to the hospital.

Though extreme, this example illustrates the dysfunction of an opaque system with misaligned incentives and little consumer empowerment. Indeed, orthopedic care exemplifies an area of healthcare where the infrastructure of acute-care delivery conflicts with patients' care needs.

More than half of all Americans (~54% annually, 127 million) suffer from musculoskeletal (MSK) issues.[1] Almost half of those afflicted have chronic conditions that require ongoing medical consultation and treatment, often leading to an orthopedic surgeon.[2] In aggregate, MSK treatments account for approximately 10% of all U.S. healthcare spending[3] and are the leading cause of employee days lost to illness or injury. Total productivity losses can be up to five times greater than treatment costs.[4]

MSK's stratospheric costs and delays are largely driven by misdiagnosis, overtreatment and prolonged interventions. Surgery is the biggest culprit. According to a 2019 study in JAMA, nearly 2.5 million US patients received lower-back or lower-extremity pain diagnoses between 2008-2015. Of those, only 1.2% received surgery but these patients accounted for 29.3% of the total orthopedic spend.[5]

A new company, Sword Health, has taken advantage of technological advances (the convergence of sensors, wearables and telehealth platforms) and inefficiencies in MSK care delivery to create a much better offering.

Sword's model works because it meets consumer needs for service and quality and creates price competition. AI-powered digital-therapeutic technology leverages remote physiotherapists to provide rehab services to patients in their homes. Cases are successfully resolved within the evidence-based best-practice standard of four visits. Patients don't linger in pain and meander from one increasingly-costly provider to another. Surgeries are largely avoided.

Meanwhile, self-insured employers (who bear the care and productivity costs of chronically-injured employees) and commercial health plans only pay for results. Sword operates under a money-back guarantee of increased quality, lower costs and improved patient satisfaction.

The results in terms of market growth and valuation have been outstanding. Two years after launch, Sword's valuation already exceeds $2 billion.

Sword is one of many companies including Amazon, CVS and Walgreens, that aim to counter acute-care delivery with better primary and chronic care oriented toward consumer needs. Apple, Google, Microsoft and other tech-oriented companies promise to empower consumers with better access to data and information. Civica Rx and Mark Cuban are working to rein in generic drug prices

Will consumer-friendly companies be able to dent the healthcare industrial complex? Thirty years ago, two new technologies entered the market: Lasik surgery and MRIs. Both were initially expensive, rarely-used services. In the years since, Lasik surgery has become commonplace, and its prices have plummeted. MRIs are also commonplace, but their costs have soared, contrary to economic logic.

Forget Nebraska-Oklahoma, determining whether healthcare's future is more Lasik or MRI-like is the real game of the century.

HEALTHCARE'S MURKY FUTURE

The 1971 Game of the Century between Nebraska and Oklahoma was finite. It ended after four quarters with a victorious Nebraska raising a trophy. The battles between consumers and the healthcare industrial complex are ongoing and seemingly infinite. Victories for consumers are rare and hard won.

Digital-tech adoption has accelerated and empowered consumerism. New consumer-focused companies are making inroads. Value-based payment systems like Medicare Advantage are attracting innovation and customers. Consumers have more convenience, access and choice than ever.

The healthcare establishment, however, remains stalwart and formidable. It's important to consider the dark possibility that consumerism will fail to transform healthcare service delivery. If that proves to be the case, US healthcare will continue to consume ever more societal resources without delivering commensurate improvement in individual and community health and well-being. The fragmented system will consolidate to increase market leverage, pricing power and revenue. Rent-seeking competitors will have little incentive to improve service, quality and customer experience.

In contrast, we'll know that consumerism is winning when providers sharply increase their delivery of expansive primary care, chronic disease management, behavioral health and health-promotion services while sharply decreasing their provision of acute- and specialty-care services. Consumers will access care in-person at convenient locations or virtually whenever and wherever they prefer. Home care will be more prevalent than hospital care.

Historically, consumers with market clout and access to digital technologies have sufficient purchasing power to topple incumbents and reshape supply-demand dynamics. In this way, consumerism has transformed industries as diverse as hospitality, transportation and financial services. Consumerism as a transformative force fails when pricing schemes are complex, markets are opaque and pro-business regulations favor incumbents.

The following three force multipliers are consumerism's not-so-secret weapons in its mission to cure healthcare's pathologies (complexity, information asymmetry, uneven regulation and rampant influence peddling).

1. Widespread payment reform that shifts financial risk to providers.

2. Liberated data that flows to the place it generates the greatest benefit.

3. Vigorous pro-market (as opposed to pro-business) regulations that create level-field competition.

When unleashed, these forces act in tandem to support and sustain consumer-driven transformation. They are necessary for innovation to take hold and create value.

Despite healthcare's importance to national, community and individual well-being, the outcome of this titanic struggle between consumers and the healthcare industrial complex is unpredictable. For better or worse, this all-encompassing contest will shape America's political and socioeconomic future.

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