MARKET INSIGHTS

4 leaders (and 3 followers) in today's digital health market

Understand how industry stakeholders are using digital health—and what they might do next

Conversations about disruption in health care often focus on digital health startups. But the influence of individual startups is relatively small compared to big industry players: vertically integrated organizations, big retail, health plans, and corporate venture capital. These players decide what ideas are worth scaling, who is valuable enough to get acquired, and what level of funding goes where. See how industry stakeholders use digital health and where they fit in the digital health market.

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Audience

All health care organizations

Advisory Board

Insights on stakeholders leading in digital health

Our research uncovered four players (listed below) whose motivations, aims, and needs in the health care industry push them to lead in the digital health market. Each section discusses how they are using digital health and their option for action going forward. The following pages also include the players following in the market and what they might do next.

SECTION	STRATEGY	PURPOSE
01	**Vertically assembled organizations**	Leverage digital health to strengthen and integrate assets with the goal of embedding consumers into their ecosystem
02	**Big retail**	Transform the transactional consumer interaction into an ongoing patient relationship to capture more of the consumer wallet
03	**Health plans**	Influence patient decision-making to better manage member experience and costs
04	**Corporate venture capital**	Guide the direction of innovation in digital health to reap the second-order financial benefits of products in their ecosystem

More resources on digital health

Accessible on **advisory.com**

BLOG POST
Amazon, UHG, CVS: The 'big 3' to watch in digital health.

FIELD GUIDE
The big players in digital health.

01 Vertically assembled organizations

Why is vertical integration a signal in digital health?

Most of the health care industry is vertically integrating to some degree. Digital technology is a crucial component of this integration process from the digital infrastructure needed to tie together newfound assets to the virtual care services themselves.

Organizations looking to vertically integrate will increasingly rely on digital health to strengthen their assets, engage consumers, and create differentiated offerings—making vertical integration inseparable from digital health.

What are examples of vertically assembled organizations?

- **Amazon: Bringing extensive experience in digital consumerism to health care**

  Amazon's vertical integration strategy hinges on its ability to monetize its expertise in digital consumer experience. By capturing more touchpoints (and revenue) from the health care journey, Amazon can ultimately build more entry points into their consumer ecosystem. That said, Amazon's acquisitions are not only for capabilities but also data. With the right data, Amazon can iterate on their existing health care portfolio and better position itself as a partner to patients and health care organizations going forward.

- **UnitedHealth Group[1]: Amassing digital capabilities to stay ahead of the industry**

  UnitedHealth Group (UHG) has leveraged digital technology and vertical integration as a tool to force almost all industry stakeholders to work through some part of their business—making them both a partner and competitor within the industry. UHG's strategy appears to be "bet everywhere with the hope of winning somewhere." By building or buying for any potential need or gap in the market (e.g., analytics capability, technology service), UHG has positioned itself to compete or dominate whenever or wherever the industry shifts.

- **CVS: Moving into digital health to round out health care portfolio**

  CVS was the first major health care company to combine drugstores, insurance, and pharmacy-benefits management (PBM). To integrate and generate more value from these assets, CVS must adopt a more digitally robust infrastructure to deliver on the promise of an omnichannel retail health experience and retain patients in a world of "everywhere care." As CVS attempts to connect digital health to their physical footprint, they will need to capitalize on their existing customer relationships and health care portfolio to increase patient "stickiness" across the care journey.

1. Advisory Board is a subsidiary of UnitedHealth Group. All Advisory Board research, expert perspectives, and recommendations remain independent.

02 Big retail

Why is big retail interested in digital health?

Companies like Walgreens, Walmart, and Dollar General recognize that many consumer goods are going online—and in-person retail is not enough to survive. They're willing to place big bets on health care as an avenue to capture more of the consumer wallet and diversify their revenue stream. Digital health has become integral to big retail's health care endeavor, especially in the pursuit of increasing patient stickiness across the care journey.

How does big retail use digital health today?

Currently, big retail is investing in the technology and capabilities to operationalize hybrid care from in-house builds such as Walgreens' "Find Care" patient navigation platform to partnerships such as Walmart with Hims & Hers and UnitedHealth Group. Others are choosing full buyouts such as Walgreens' with VillageMD or Best Buy with Current Health.

Consequently, digital health has become a tool for big retail to either:

Build an outpatient care offering with the intention to close patient care gaps and develop longitudinal relationships with patients.

Go business-to-business (B2B) with niche technology services (e.g., Best Buy with capabilities to deliver care at home).

Option for action:

Big retail will partner or have to compete with payers who are similarly exploring strategies to reduce costs through chronic disease management and care at home. To attract the right partners, big retail will need to:

- **Uncover ways to make hybrid care profitable** by going beyond the technology and capabilities to operationalize hybrid care and investing in the digital experiences that deliver ongoing revenue, potentially through an omnichannel retail platform
- **Convert patient interactions from in-person to digital and back** by pushing forward technologies that position themselves as essential to serving chronic disease patients who require ongoing engagement across care settings

03 Health plans

Why are health plans interested in digital health?

Digital health allows health plans to better manage member experience and engagement—and ultimately influence member spend. An active hand in digital health solidifies health plans' role in the market and might prevent digital health companies from developing robust partnerships with competing stakeholders (e.g., health systems, employers, and retailers).

How do health plans use digital health today?

Health plans are proactively approaching digital health and investing in virtual-first products, partnering with online behavioral health vendors, and even exploring digital therapeutics. However, due to lack of in-house technical talent and limited opportunity to sell digital solutions to other payers, plans have taken a partner and/or buy approach with digital health companies. This mutually beneficial relationship has provided digital health companies with a captive member population to test their products, prove ROI, and access other meaningful health metrics to inform analysis.

Option for action:

Health plans will likely continue to leverage digital health in the pursuit of developing more member touchpoints—and ultimately influence patient decision-making. In this endeavor, large health plans will likely continue to use:

- **Digital health to integrate and improve health and wellness benefits** to attract and keep employer contracts
- **Digital health as an enabler to expand into other health care competencies** such as primary and home-based care

To do this, health plans will need to break the cycle of point solution vendor management and instead push digital health companies to develop more multi-solution platforms before partnership or acquisition.

04 Corporate venture capital

Why is corporate venture capital interested in digital health?

Most big players in health care have a venture arm, creating a diverse but noteworthy group called corporate venture capital (CVC). The CVC funds of big players in health care are around $100 million each, not too far from pure venture capital firms. However, unlike pure venture capital, CVC is investing with the aim to not just diversify revenue but influence the direction of innovation. The end goal is to reap the second-order financial benefits of digital health investments in a future ecosystem.

How does corporate venture capital use digital health today?

The rise of CVC emphasizes that disruption in health care is still in the hands of many big corporate players. Entrenched health care stakeholders such as life sciences companies, health plans, and health systems build venture arms to strategically fund point solutions that solve specific clinical and technological problems and/or to commercialize their own products. Others, like out-of-industry funders like Google Ventures and Salesforce, use these funds to have a hand in health care—and digital health is the natural overlap.

Option for action:

Unlike traditional venture capital firms, which primarily care about growth and off-loading the startups they invest in, CVC faces more pressure to make appropriate bets and ensure that investments are aligned with existing assets and lines of business. Here are anticipated avenues for CVC based on the type of industry stakeholder:

- **Acquirers of digital health** (e.g., health plans, big tech): Leverage venture capital to make riskier bets on emerging trends to control any future market landscape
- **Users of digital health** (e.g., providers, life sciences companies): Build relationships with digital health companies earlier in the product lifecycle and play a more active role in what is being developed and how to adopt it

Who are the followers in digital health—and how should they respond?

The three groups listed below are responding to industry shifts toward digitally enabled health care—and are the "followers" in today's digital health market. Provider organizations, life sciences manufacturers, and health care technology vendors benefit from the existing paradigm of care delivery and will likely shift their approach to digital health only to keep pace with the industry.

1. Incumbent provider organizations

Despite being one of the biggest implementers of digital health, health systems and physician practices are often still followers in the digital health market. Providers tend to have a singular focus on clinical practice, which limits their investments in digital technology to operationalizing clinician workflows, managing patient data, and digitizing historically analog processes. While providers feel pressure to innovate and meet the bar of a rising consumer experience, they often view digital health as point solutions, regular updates to existing software (e.g., the EHR), or in the hands of an in-name-only innovation arm.

Option for action: Develop deeper alliances with vendors

Many provider organizations have taken a back seat instead of innovating alongside digital health companies. Providers likely cannot play catch-up but can competitively position themselves by:

- **Shifting away from transactional vendor relationships:** Move toward strategic alliances with digital technology players who can advance competitive position (e.g., transition to risk, adoption of consumer technologies, building an attractive workplace)
- **Investing at the crux of the workforce and consumerism challenge:** Compete or partner with vertically integrated players by investing or partnering on these industry challenges
- **Preparing to bring more to the table:** Market yourself as the right partner—while recognizing that partnerships will require a level of sacrifice over what and how much data to share and what parts of the operating model might need to shift (e.g., certain workflows)

2. Life sciences manufacturers

Despite the potential for digital health to strengthen the role of life sciences manufacturers in the health care ecosystem, leaders have been slower to make big bets in the space. Historically, life sciences manufacturers have had to go through other industry stakeholders to reach patients and gather the data to demonstrate product value. Digital health offers life sciences manufacturers the chance to build relationships directly with patients from decentralizing and diversifying clinical trials to developing new and compelling "digital first" endpoints across care settings. However, partnerships won't be enough to capture the benefits of digital health.

Option for action: Own or influence digital capabilities

Life sciences are entering into a world where payers and providers are expanding treatment options from just drug vs. drug to drug vs. digital therapeutic or drug vs. non-medical intervention. To prepare for this world, life sciences manufacturers must begin to:

- **View digital health as an essential capability** to diversify revenue and better position themselves, especially as the pipeline of treatments grows across the next several years
- **Align incentives with digital health** to generate better data, evidence, and ultimately differentiated value for payers, providers, regulators, and even patients

3. Health care technology vendors

Health care technology vendors such as Epic, GE, Oracle, and Salesforce view digital health as a tool to grow market share and deepen relationships with buyers. Due to their large existing market share and the high search cost of vendor selection, most vendors do not feel pressure to invest in singular capabilities to create a more comprehensive or cutting-edge offering for customers. These vendors are often not leading the pack in digital innovation but waiting for solutions to be proven before embedding them into their products.

Option for action: Horizontally integrate digital health

Large health care technology vendors might continue to make the calculus that it is low risk to be second to market with new technologies or digital solutions. Because of their existing market penetration and client relationships, most vendors likely won't lose customers over stand-alone features. However, others looking to solidify their market presence might view digital health as part of a horizontal integration strategy or an endpoint to their health care technology business.

Regardless, all vendors will have to:

- **Come to terms with an increasingly competitive business landscape** where revenue generation cannot be dependent on the 10-year life cycle of a hardware product
- **Experiment with new types of contracting models** from subscription to bundling to lock clients into their ecosystem and fend of new entrants

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