



White paper

Healthcare meets the market

Executive summary

For the last 15 years, the healthcare industry's traditional barriers have been eroding, enabling new ecosystems to emerge. Market segments are blurring. Payers buy providers and providers launch health plans. Where proprietary data and a payment-by-proxy model once discouraged competition and kept consumers at the periphery of the industry, market forces now increasingly drive healthcare models. Quality and price are competitive differentiators, with the best healthcare experiences—those that put consumers at their center—carrying the day.

This emerging healthcare landscape is powered by the same ubiquitous digital technologies that disrupted business models in entertainment, publishing, real estate, banking and more. In addition, the Centers for Medicare & Medicaid Services (CMS) has committed to empowering consumers with information they need to make and manage their own care decisions. The agency's resulting data portability and price transparency regulations are dismantling the industry's data silos and the traditional value propositions they supported.

In this consumer-centric environment, orchestrating the entire healthcare experience is key to controlling its quality and value. Many of the industry's largest organizations aim to do just that with vertical integration and whole person care strategies. Through mergers and acquisitions, they are assembling the entire continuum of care, from health plans to home health and hospice care.

Mega health brands—including CVS Health, Amazon, Elevance Health, Humana, Cigna and

United Healthcare—aspire to provide a “front door to care” through their continuing investment and expansion into primary care. From that entry point, these organizations could influence, triage and coordinate all the follow-on services a healthcare consumer requires. Standardized operating procedures supported by modernized and integrated systems are necessary to enable these large and diverse organizations to deliver the seamless, frictionless experiences consumers typically receive outside of healthcare. This should reduce costs and improve outcomes.

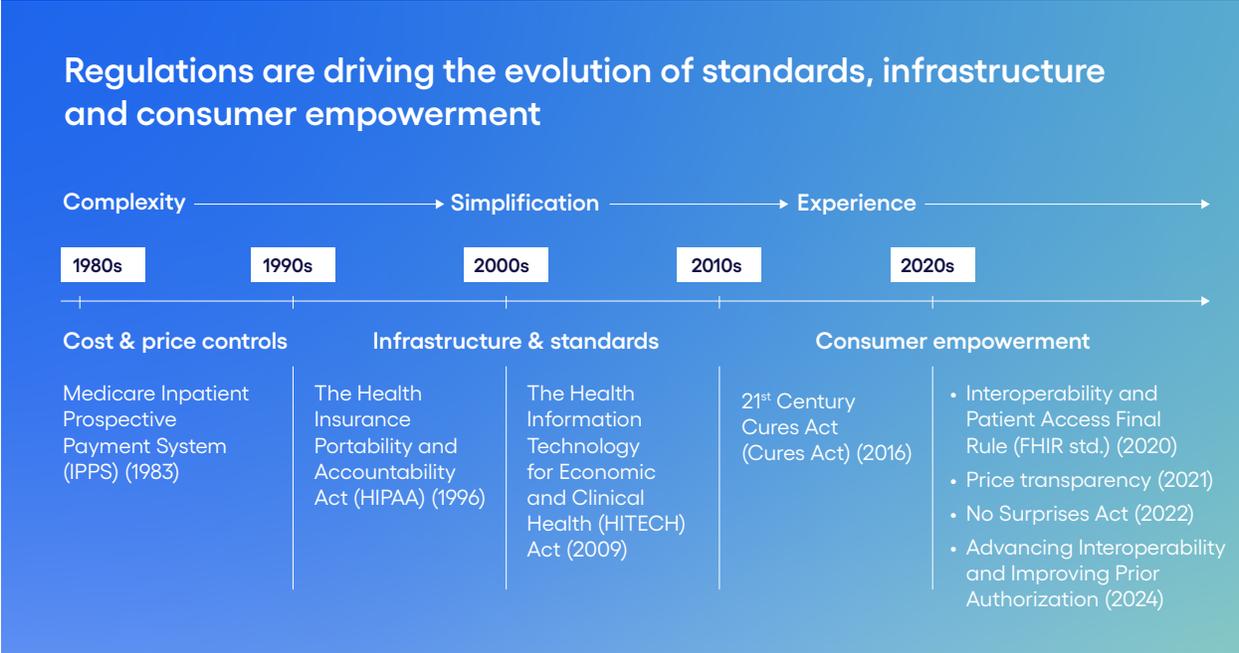
Achieving this goal will require strong execution on many fronts—technology sophistication, end-to-end process innovation, care coordination, etc. These organizations must integrate their many acquisitions into a coherent whole with standardized procedures to realize both quality gains and economies of scale, while delivering a unified experience that consumers will appreciate. It will also require orchestrating experiences with horizontally integrated partners providing services such as dialysis.

In the following sections, we'll go deeper into the story of the new healthcare landscape with a focus on the following:

- What's driving new market forces
- How the industry is responding to increased competition
- Vertical and horizontal integration tactics
- How changing data flows are changing money flows
- What's needed for healthcare organizations to compete effectively

Healthcare meets market forces

The US healthcare industry evolved over the last century into a complex, fragmented system with multiple proxy-markets controlled by the CMS and insurance intermediaries. Over time the industry migrated to a payment-by-proxy model (i.e., third-party insurance) that distorted market forces, including demand, by sheltering consumers from the true cost of their medical services. With employers, health insurers, and state and federal agencies paying the bills, consumers had no incentive to comparison shop based on price. On the flip side, the US healthcare system’s fee-for-service business model rewarded providers for volume versus value, distorting supply.



Over the last 15 years, though, healthcare’s barriers to a market-driven approach have been steadily eroding. On the demand side, employers and public policy makers have addressed continued medical inflation by shifting costs to consumers via new benefit plans, such as high-deductible health plans. In addition, public policy makers have focused on empowering consumers to make value-based decisions by mandating price transparency and data access. On the supply side, new payment models, such as value-based care, have emerged to reimburse providers based on outcomes instead of volume of services rendered. Consumers, however, have often remained at the periphery of these changes.

Now, with rapidly advancing digital technologies, healthcare is open to the same disruption occurring in entertainment, publishing, real estate, banking and other industries. The traditional walls around the industry are beginning to crack. Cloud computing resources and ubiquitous smartphones power innovative healthcare products and services, from wearables to wellness apps. Large retailers have launched healthcare offerings. Tech giants with deep pockets and cultures of innovation, including Alphabet, Apple, Microsoft and Oracle, offer the industry new capabilities. Telehealth, which received a big boost during the COVID pandemic, helped establish the channel as a viable alternative.

While industry incumbents often seemed slow to empower consumers using digitally driven possibilities, CMS focused on equipping healthcare consumers with the information they need to make well-informed buying decisions and manage their care through regulation. The [Interoperability and Patient Access Final Rule](#) calls for payers to use industry-wide data standards to exchange data with each other and with providers. [CMS price transparency](#) rules require hospitals to publish prices on a wide array of common services and for payers to disclose their negotiated rates with providers. The [No Surprises Act](#) requires providers to generate good faith estimates and protects against unexpected bills from out-of-network providers.

Taken together, these regulations put consumers first while challenging the healthcare industry's traditional value propositions and the data silos that supported them. Payers' network rates are no longer competitive secrets. Healthcare consumers now have truly portable health data that they may share with any provider or app they choose. They can compare prices across hospitals and estimate the cost of care. They have protection against surprise bills arising from gaps in insurance coverage. They also have real choice about where to get care and more affordable and convenient options.

The industry's response

In short, CMS regulations, alongside technology innovation and changing consumer behavior, are driving healthcare to a market-based system in which healthcare organizations compete on value, quality and convenience. Given healthcare's complexity and size, this will take time. However, industry players are placing significant bets that show where they think the industry is heading.

- Payers are acquiring care delivery capabilities
- Care delivery organizations are launching payer capabilities (i.e., payviders) and expanding alternate care delivery models such as "hospital in the home" to improve revenue and margins and offset declining inpatient utilization
- Many organizations are diversifying into technologies that enable whole person care so they can provide the platform to deliver a frictionless unified patient/member experience across the continuum of care

The now "ready-for-primetime" data-exchange standards increasingly enable seamless coordination of care across the health spectrum (see sidebar: "Standards Catch FHIR"). It's not just technical and it's not just about changing the formats of data flows. The increased fluidity of clinical data and value-based care-aligned incentives have the power to reward better decisions. This is the framework that will change industry money flows and winning business models. These characteristics create opportunities for two broad responses to market forces: Vertical and horizontal integration strategies.

Standards catch FHIR

Most healthcare payers, providers and other organizations have used closed, proprietary systems that greatly limited their ability to exchange data. That siloed data was also key to their value propositions. This is all changing under interoperability and transparency regulations.

Much of the new data exchanges will be based on the [HL7® Fast Healthcare Interoperability Resources \(FHIR®\) standard](#). The standard defines how healthcare information, including clinical and administrative data, can be exchanged between different computer systems regardless of how it is stored in those systems. The open-source standard draws on formats and protocols already in widespread use for web and app development, making it easy for developers to use. While FHIR should make it easier for consumers to switch among healthcare service providers, they still need to be educated about data portability and the power of choice it brings to them.

Vertical integration strategies

An organization owning the entire healthcare experience, whether literally or via comprehensive orchestration of it, is better positioned to deliver quality and value. It's no accident that most of the players pursuing vertical integration are Fortune 100 companies (see table 1). It takes substantial resources to create new business and operating models, rationalize IT landscapes, ensure accurate and fluid data flows and design human-centered experiences.

Table 1

Healthcare on the Fortune list

Industry player	Fortune 100 rank (2023 list)
Amazon	2
United Healthcare	5
CVS Health	6
Cigna	15
Elevance Health	22
Humana	42

Source: <https://www.50pros.com/fortune500>, updated 02/01/2024

These players are adopting three vertical integration strategies: owning the front door to care, building a national brand, and building ecosystems through acquisitions and partnerships to enable whole person care.

Owning the front door to care

An organization that brings in patients through its own front door could coordinate their care and services within the value chains and ecosystem the organization also owns. That's reflected in the transformation of primary care (see sidebar: "The changing role of primary care"). Some mega health players are buying physician primary care practices to open the gateway into their service continuum. Optum (owned by United Healthcare) is now the largest employer of physicians in the US with 90,000 and counting.¹ CVS has expanded its Minute Clinics to more than 1,100 and operates 204 Oak Street Health clinics.² CenterWell (owned by Humana), focuses on primary care for seniors, employs 30,000 clinicians.³

Big tech and big retail also have taken large roles in this transformation of primary care: For example, Amazon now offers primary care through its acquisition of One Medical and its more than 200 brick-and-mortar offices.⁴

The changing role of primary care

There has been intense focus on the primary care market as evidenced by the multiple acquisitions that have taken place over the last five years. Consequently, the number of independent primary care practices in the United States is dwindling.⁵ In part, this is because mega health service providers are buying provider groups to establish "front doors" to their systems. Instead of a primary care physician acting as the gateway to a broad network of specialists, pharmacies, and other providers and services, those employed by or affiliated with companies such as Optum will be well-positioned to steer patients into the ecosystem owned and operated by their employer.

Aspiring to national brands

Industry players are also working to build national recognition of their brands. Amazon has an advantage here, with its extensive reach into US households, reputation for customer service, and skill in blending physical and digital experiences. That said, CVS claims 85% of the US population lives within 10 miles of one of its stores⁶ and is working to “build a world of health around every consumer” under its new “CVS Healthspire” branding.⁷

Other giant health organizations also have rebranded key elements of their offerings as they market to consumers. That’s a first step in building consumer loyalty and brand affinity.

Whole person care ecosystems

Some of the largest healthcare organizations have set out to own the entire healthcare experience. These organizations are acquiring health plans, primary care and specialty providers, pharmacy benefit managers, behavioral health and home health.

The regulations mandating interoperable data exchange (see sidebar: “Standards catch FHIR”) should help these organizations coordinate care seamlessly across their integrated entities. Truly seamless, frictionless experiences should provide incentive for consumers to remain within a single integrated system. The benefit to integrating a broad continuum seems clear: As CVS Health notes in its 2023 annual report, it achieves 3X to 4X greater lifetime value when one of its Aetna customers visits two or more CVS Health businesses.⁸

Horizontal integration strategies

Not every healthcare organization has designs on owning the entire healthcare consumer experience. Some are doubling down on their specialties, integrating horizontally by acquiring competitors and adjacent services via mergers and acquisition. DaVita Inc. has become a national brand for dialysis services by acquiring many smaller dialysis providers. Quest Diagnostics and LabCorp have executed similar strategies in the lab space.

A narrow horizontal focus may be an advantage. Instead of having to integrate many different types of businesses and delivery models into a congruent whole, the horizontal giants can streamline a specific market segment. They can standardize specific treatment protocols and automate uniform processes across their companies. Those tactics should help them reduce costs while delivering high-quality experiences wherever their customers interact with them.

Investing to thrive in a market-driven healthcare industry

Whichever business strategy a healthcare organization follows, its ability to eliminate friction and deliver a better healthcare experience will be the measure of its success. Achieving that will take considerable resources. Here are the smart investments to make:

- **Develop M&A integration capabilities.** Healthcare organizations must expertly align systems, operating models, cultures and people with a clear vision. The acquiring organization needs strategies for change management, compliance, technology, talent retention and project management.

- **Modernize the IT and data landscape including AI.** The back office and the front office essentially are one office in the new healthcare landscape. Ensuring a quality experience requires rationalizing and streamlining the IT landscape, retiring obsolete systems and adopting cloud-based modern platforms with strong data orchestration capabilities.
- **Build a winning experience.** Healthcare organizations must build the capabilities to know their consumers deeply, understand the moments of truth along their journeys and know how to engage with them meaningfully.
- **Create a culture of continuous innovation.** Healthcare organizations will need to be nimble innovators and embrace technological advances. AI tools will help reshape clinical and administrative operations and unlock value in the industry's deep data stores.
- **Choose business and technology partners wisely.** Most organizations will need business partners to build out their ecosystems and partners with technological expertise and scale to help them implement and coordinate all investments required to deliver frictionless consumer-centric experiences.

Healthcare's competitive barriers have been eroded by technology advancements, regulations and data sharing standards, and empowered healthcare consumers. Organizations therefore must offer consistent quality, affordability and convenience along a comprehensive continuum of care. Building a brand that consumers trust and rely on will require health organizations to deliver frictionless, intelligent experiences. That requires a coherent diversification, integration and growth strategy. It also requires modern, open systems and IT architecture. Health organizations with these business models will be in a stronger position to succeed in an increasingly market-driven healthcare ecosystem.

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¹ <https://www.beckershospitalreview.com/legal-regulatory-issues/optum-added-nearly-20-000-physicians-in-2023.html>

² https://s2.q4cdn.com/44771729/files/doc_downloads/faq/ CVS-Health-FactSheet-vF.pdf

³ <https://www.centerwellcareers.com/about-us/>

⁴ <https://www.beckersasc.com/asc-transactions-and-valuation-issues/1-year-after-amazon-one-medical-deal-finalized-whats-happened-since.html>

⁵ <https://kffhealthnews.org/news/article/lack-of-primary-care-tipping-point/>

⁶ <https://cvshhealth2023inreview.com/superior-assets/>

⁷ <https://www.cvshhealth2023inreview.com/>

⁸ <https://cvshhealth2023inreview.com/superior-value/>



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