

How our healthcare system is like network TV, and why it needs to be more like ESPN and Netflix

As the token healthcare CEO on this panel, everyone is expecting me to talk about health exchanges and Obamacare, but I'd rather pick on a different industry, at least for a minute or two. So I thought I'd start with network television.

James Gandolfini, better known as television mob boss Tony Soprano, passed away last month. I'm sure I'm not the only CEO in the room who was a secret member of the Sopranos fan club. If only we could make decisions and deal with competition the old fashioned way...

When Gandolfini died, I read an article by a business and economics columnist named Matthew Yglesias who made the case that the Sopranos was significant not only because it was a great show, but because it actually changed the business model of television.

What made the Sopranos different from other shows, and what made it so successful at creating a new model for television?

I'll get to that, but more importantly, I want to tell you why I think the Sopranos helps us better understand the business model of healthcare, and where the industry is going. To give you a teaser, I'll just say that our current system is very similar to network TV, but it's changing quickly, and in the near future it will look and feel a lot more like HBO and ESPN, and perhaps even like Netflix and YouTube.

For a customer, what's the difference between broad and shallow vs. narrow and deep?

I didn't watch a lot of TV growing up, but I still remember the shows that were on. There were sitcoms like I Love Lucy and All in the Family. There were game shows like

The Price is Right or Hollywood Squares and talk shows like Merv Griffin and Mike Douglas. Sunday nights were reserved for Lawrence Welk.

All of these shows were broadcast on network TV, meaning that they were distributed by one of the big three networks, ABC, CBS, or NBC.

I don't know how many people really loved them, but I never knew anyone who truly disliked them either. They were on when you turned the TV on. They were familiar and mildly entertaining. They were never upsetting or surprising.

That milquetoast quality was not a fault in the creative capabilities of those who made them. The output was a reflection of a very successful business model based on advertising. Network TV, as we all know, is "free" to viewers, and the networks earn their revenue through commercials. The more viewers the network can secure for a show, the more advertisers need to pay for the privilege of airing commercials. As a result, the shows themselves were and are designed to be as broadly appealing, inoffensive, and inexpensive as possible.

Back then, if viewers wanted quality writing, big name actors, excitement, and high production values, they needed to go to the movies and pay to get in. Notably, movies were commercial free at that point.

Then came the Sopranos. It was edgy, dramatic, violent, funny, and realistic in a way that felt more like watching a movie than a TV show. It was also very well written, and its production values were high. There had never been another TV show like it before, though there have been many imitators since, Mad Men and Breaking Bad probably being the strongest torch-bearers.

Based on the amount of water cooler talk and the press coverage, you would have thought the Sopranos was the most-watched program on TV ever. In fact, it usually didn't come close. The final episode, which was the fourth-highest-rated of the show's

six seasons, garnered 11.9 million viewers, putting it second that night to the premier of NBC's America's Got Talent at 13 million.

Of course, the Sopranos had distinct disadvantages compared to America's Got Talent. Specifically, the NBC show was being broadcast to 111 million homes for free, while HBO, the cable channel which aired the Sopranos, was only available to 30 million homes at a cost.

So why was the Sopranos such a success for HBO?

You might remember that HBO's brand slogan was, "It's not television, it's HBO." This wasn't just a pithy saying, it was clear recognition that HBO was, essentially, in a different business than network TV. As a cable channel, HBO made its money not on advertising but on subscription dollars. Those 30 million homes paid for access to HBO's programming. Accordingly, HBO needed to produce a very different kind of television show to deliver the right kind of value to its audience. No one would pay to watch a milquetoast show on cable when they could watch such a show for free on one of the networks. On the other hand, a show like the Sopranos would never have succeeded on network TV. Advertisers would have been scared to death of it. And government censors (read regulators) would have watered it down to such a degree that passionate fans would not find it interesting. Success at the networks was achieved by reaching broad audiences with programs that met a shallow level of interest, while HBO succeeded by producing shows that reached a narrow, segmented audience whose passion ran very deep.

In other words, the networks stay in business by satisfying minimal expectations reliably. For a cable channel like HBO, it's necessary to wow customers, blow expectations out of the water, and continue to raise the bar over time.

What does it really mean to shift from volume to value?

You're probably starting to see some parallels with our current and evolving healthcare system.

The traditional employer-based or government-funded system is like network TV. I'm not saying that this is an exact fit, but in terms of meeting the needs of the market, the traditional health care system is, like network TV, designed to appeal to the broadest possible base of consumers, with the shallowest level of service. How does it maximize its appeal? First, it's very indiscriminating about its audience – any patient, with any condition, at any stage can become a customer. Second, it's relatively indiscriminating about its content – the doctors enlisted in its care networks are not selectively chosen. "Any willing provider" is the criteria because it's more important to serve the maximum number of customers with the maximum number of procedures than it is to achieve notably higher quality.

As we all know, the network TV approach to healthcare is no longer working. Even though we've come to accept a mediocre, unsatisfactory, highly inefficient system as the norm, we can no longer afford to pay for it. While the system feels free, the cost to the tax-payer and to business is enormous. Currently, we're close to 20% of GDP and if we don't bend the curve in that spend, we're going to reach 50% at some point.

I'll put aside my opinions of Obamacare for now, but the aim of that reform legislation was to do three things: to slow the growth in spending on healthcare, to provide access to an additional 30 million uncovered patients, and to increase the quality of care that is delivered.

Fundamentally, this is not a contradictory set of ideas nor an impossible task. Lower cost healthcare is not incompatible with higher quality care – the two objectives actually go hand-in-hand in theory. In practice, a lot depends on how you go about making that possible.

Right now, healthcare costs are largely out of control because providers are incented to throw every possible test, medicine, or service at a patient regardless of how expensive those approaches are and whether they actually improve the patient's condition. To achieve lower cost higher quality care, we need to shift from a focus on maximizing the volume of care that is provided to maximizing the value of that care. We need to pay providers not for the quantity of services they give, but for the quality of the outputs they achieve.

The second problem inherent in our volume-based system is that no one in the care delivery supply chain has a clue what anyone else is doing in support of the patient. Sometimes the patient doesn't even know. There is no coordination between treatments or approaches, including some basic things that we know would help, like pre-emptive wellness care, follow-ups, or some kind of monitoring system to ensure the patient is adhering to their medicines and progressing well enough to avoid readmittance or complications. Why doesn't this coordination happen? Because there's no financial incentive for it and, until recently, the information technology infrastructure didn't support it either.

Shifting to a value-based healthcare system means solving both of these problems at once. More efficient and cost-effective care does lead to better outcomes, but only when that care is coordinated. In such a system, everyone along the care delivery supply chain – from the claims management people in the health plan to the primary care physician to the emergency room doc, the surgeon, the pharmacist, the physiotherapist, the family member, and the social worker – must be on the same page with regard to the condition of the patient and the care that should be delivered.

This requires a vastly different approach than we currently have in place. First, you need to pay organizations in such a way that they are held accountable for outcomes, forcing them to manage care in a coordinated fashion. Second, you need to

automate everything that can be automated to remove the human element that leads to errors and wastefulness while making data immediately and transparently available to everyone along the care delivery chain. And third, you need to shift from broad and shallow markets to narrow and deep ones. This means you need to completely revamp your network of providers and transform it from “any willing provider” to a narrow range of trusted people who do their work in line with your business model. And it also means you need to narrow your range of customers by focusing on the populations you can serve the best, or the specialties you treat better and more cost-effectively than anyone else in your market.

In other words, you need to stop practicing network TV medicine and start acting more like HBO.

Is there a place for new business models in healthcare?

“Business model” is not a very popular phrase in the healthcare industry. Perhaps it’s because we’d prefer to think that the human compassion behind care is separate from the need to balance the books or generate revenue, let alone make a profit. At McKesson, we strongly believe – in fact, we are evangelical about it – that better business health goes hand-in-hand with better patient health. Healthcare is a business and to deliver it and pay for it efficiently, and produce the best outcomes, it needs to be in optimal condition.

Business model change is starting to happen among leading stakeholders. You may even have noticed it. Some of the major health systems are increasingly differentiating themselves by the type of care they provide. They’re establishing their brand as the best in cardiac care or the best in cancer treatment, and they’re drawing a narrower and deeper range of consumers as a result. We’re also seeing providers organize themselves differently to provide more coordinated care. Accountable Care

Organizations or Patient-Centered Medical Homes are two types of organizational approaches designed to do so. And some providers are delivering discrete services to a narrow range of patients through other new delivery models like Episodes of Care. On the flipside of the same coin, payers are developing new payment models that meet similar objectives. They're transitioning their payment systems to develop a spectrum of approaches ranging from global capitation to partial capitation to pay-for-performance, all designed to incent providers to care for patients in a more coordinated way.

All of these approaches require a more select group of providers and patients, who are deeply engaged and aligned with that business model. The basis of that engagement and alignment is a more precise delineation and reliable delivery of value.

What is the role of innovation in uncovering and delivering new value?

To give you a complete picture of the transition we're seeing, I still need to talk about the critical role of innovation in uncovering and delivering that value. The elite leaders in healthcare already get this – they're engaged in lean-like processes to improve performance, they're forming innovation institutes to uncover and spread the best ideas and practices, and they're directing capital to invest in new businesses that can generate new growth. But this is on the margins. Just as most healthcare organizations fail to appreciate the link between better business and better health, so most also fail to understand why innovation is so important.

The average healthcare organization thinks of innovation as improvement. They're trying to do what they already do better. This is critical. At McKesson we call this evolutionary innovation. It's absolutely necessary for us to get more value out of the processes we already have in place. After all, just as traditional TV is not going to vanish so traditional healthcare is with us for the long haul. Believe it or not, the average American watches 4 hours and 39 minutes of live television every day, and the numbers

have been increasing steadily since the 1950s, regardless of the rise in other forms of entertainment. Similarly, our reliance on traditional “network TV” healthcare will persist and likely grow. We have to do it better.

But at the margins, we can do a lot more to bend the cost curve, improve quality, and actually generate growth through disruptive innovations to the traditional business model. At McKesson, we call this revolutionary innovation. Both E and R innovation are necessary for our healthcare system to be transformed while still providing the services we all need.

Revolutionary innovations are fascinating, however, because they are game changers. In the words of Clayton Christensen, they disrupt business as usual and create a new way of doing things that eventually everyone ends up following.

Often, disruptive innovations come from competitors we don’t know are there, or from products and services we consider marginal or trivial until they become leaders of a new and very lucrative market. An example from technology is the iPhone. Apple wasn’t a phone company, it was a relatively small computer company, yet it saw a new way to create value for consumers by bringing the power of the computer, combined with an ecosystem of apps and media to a beautifully designed mobile device. Amazing revolution, and now we can’t live without them.

Going back to our cable example, I like to think of a little company called the Entertainment and Sports Network. Before ESPN, no one believed that a 24-hour sports channel was a viable concept, except for one laid-off marketer from the Hartford Whalers hockey team, a fellow named Bill Rasmussen, who wanted to launch a cable channel to distribute Connecticut college sports throughout the state. While Rasmussen was trying to get funding for that particular offering, he learned by chance that satellite signals were becoming commercially available for the first time, and that it would be cheaper to distribute sports to the entire country via satellite, than it would be to hook up houses in

Connecticut. That signal access was being offered on a first-come first-served basis and Rasmussen got in line ahead of the big three networks.

Was that one of the luckiest breaks in business history or just great timing? Who cares. ESPN met needs that the networks hadn't even imagined existed, and they delivered value to overlooked sports fans via a business model the networks hadn't even considered.

But ESPN wouldn't have survived let alone thrived without other innovations to its business model. The most important of those innovations probably saved cable as an industry. At a certain point, now being led by McKinsey consultants, the fledgling network realized it couldn't continue to operate and grow using the traditional cable model. At that point, cable channels paid a fee to cable companies in order to be distributed to consumers. Like network channels, cable channels got by on ad revenue. But ESPN's sports offerings back then were not broad or popular enough to garner sufficient revenue from advertisers, even though a narrow range of consumers desperately wanted such programming. So ESPN flipped the business model on its head, and they went to the cable companies and said, "We need to stop paying you and we need you to start paying us for our content or else none of us are going to make it." At first the cable companies thought ESPN was nuts. This wasn't the way things were done. But a few visionaries understood the idea, and began to pay ESPN instead of receiving payments from ESPN. Initially, the charge was a few cents per subscriber, then, as ESPN improved its offerings and expanded its market, the price went up to a dollar, then five dollars, and so on, until ESPN with its dual revenue stream from advertising and subscription dollars was the most profitable channel on television – network or cable. Indeed, Disney bought ABC largely because ESPN was its crown jewel asset.

What does your customer really value?

The intensity of the engagement between ESPN and its customers is important to reflect on because the understanding of “value” is going to become even more critical for healthcare organizations going forward.

Sports fans are among the most obsessive and loyal viewers of television. They spend an astounding number of hours a day consuming ESPN programming. The networks ignored or overlooked their passion while ESPN provided the deep and narrow niche such fanatics craved. In part, they were able to do this because they were fanatics themselves. They had a keen understanding of what sports fans wanted through a very direct and visceral connection.

As a result, boosted by the high profits they secured through their business model, ESPN went about surrounding those customers in an integrated way, creating a connected ecosystem of content and value delivery mechanisms. ESPN expanded their offerings and developed astoundingly tight relationships with the various content providers like the big three leagues. They made fans of the athletes themselves. They knew that customers not only valued the big games but the behind-the-scenes moments, too. They turned the NFL draft, for example, into a spectacle that extended a relatively short season into a year-long engagement for passionate fans of football. They practically invented March Madness by broadcasting basketball games that, previously, only students and alum were thought to be interested in. They launched a second cable channel to provide different kinds of sports, than a third, than three or four more. They developed one of the first big websites, an all-sports magazine, a series of theme restaurants, a mobile telephone, and a system of push technologies to send content to subscribers online. Not everything worked, or was dominant in its field, but it didn't have to be. Collectively, it captured the customer.

Could we see this in healthcare? Imagine integrated health systems developing a line of fitness centers, grocery stores, pharmacies, check-in clinics in airports and malls, wellness spas, and an online ordering system?

I'm not sure if that's what people will want, but I know that we can do a better job of figuring out what they do want. What level of engagement with customers will be possible when we begin to use the power of big data to more clearly understand which customers value what and why?

Netflix is an interesting example from the TV world. Do you remember Blockbuster? Once upon a time, they absolutely dominated the in-store video distribution market. Overnight, they were decimated by Netflix with its mail-in ordering system, not unlike the way Amazon overwhelmed Borders and Barnes and Noble. No more Blockbuster. But Netflix knew that its mailing system, though cheaper than a bricks and mortar model, was still vulnerable, so it pioneered streaming content over the internet. Before Netflix "Watch it Now" only the most technically savvy people watched content on their computers, and they were pirating it. Netflix brought that appealing value to the masses. It didn't even build its own delivery machines, it just piggybacked existing devices like game consoles. Suddenly you were able to watch a plethora of movies whenever you wanted to, legally. Now, it's estimated that 40% of the traffic on the Internet is due to people watching Netflix.

But Netflix was also watching its customers. Early on, it knew that it was critical to understand what its customers' needs really were, and to deliver on those or it would be beaten by competitors like Amazon with bottomless cash reserves. So it began to analyze viewing data to understand patterns of consumption and preferences, and it learned some interesting things. This became apparent when Netflix decided to become a content producer and develop its own shows. Its first show, House of Cards, starring Kevin Spacey, was a thirteen episode story, not unlike the Sopranos, about the inner

workings of the Washington DC political system. A cable channel like HBO or AMC would have released that series on a weekly basis over the course of a season, generating a buzz of water cooler conversation and a commitment to sit in front of the TV at a certain hour every week. But Netflix broke that paradigm and released all 13 episodes at once. Why? Because it knew, from its own data, that customers who stream such TV shows typically binge-watch them, taking in two or three episodes a night when possible. In fact, such customers are frustrated and less likely to follow a series when they can't watch more than one episode in a row. So Netflix had uncovered another unmet need, a point of value, and delivered on it.

What kinds of healthcare needs are not being met by the organizations delivering care today? What needs related to or beyond healthcare do those same customers have that they would like care deliverers to provide? I can only imagine that the possibilities are endless – and that the pioneers will have entire continents of value to claim.

What if healthcare were not a drain on our economy but an engine of explosive growth?

In our traditional “network TV” healthcare system such needs are almost never uncovered let alone met, and business model innovations rarely arise. In our new system, wracked by the kind of cost and quality pressures that lead to creative destruction, desperate enough to finally change or die, we just might see something very different.

I doubt that any of us in the CEO business, and certainly no one in government, can accurately predict which companies, which products, and which services will emerge with disruptive innovations that will change our healthcare system in unforeseeable ways for the better. Instead, some ex-marketer from Hartford will have a passionate entrepreneurial idea and refuse to take no for an answer. Or a once sleepy insurance

company like Geico will decide to become consumer oriented and take over the retail health insurance market, dominating the exchanges.

I would like to submit, however, that this is an opportunity to conceive of the healthcare industry in an entirely new light. Currently, we see healthcare as a drag on the economy, a growth burden to business, a bureaucratic burden, a tax burden. But healthcare is a huge part of our economy, and if its innovative energy is unleashed, and if we don't use tax dollars to pay for it, healthcare can drive economic growth and contribute in a positive way to GDP. It could, in fact, be the catalyst for a new economic boom.

What will that boom look like? Again, if we think of TV as a parallel industry, we can imagine some of the possibilities. Network TV is still around, it's still viable, even though it's pretty stagnant, and its value is being eroded by remote controls, DVRs, cable channels, and the Internet. Now, direct cable, still less than 35 years old is feeling worn out, too. In its place, we have companies like Netflix which have introduced streaming movies and broken the TV series paradigm, and competitors like Amazon chasing Netflix's heels. Then there are other new models lurking around the margins. Google, which owns YouTube, has put a \$100 million into web-based content production and is seeking to become the "next generation cable provider." Roku, a streaming device that also displaces cable, has an array of established and user-created channels to choose from, similar to the "apps" that are available for download on iTunes. Where will that lead? I'm betting that some new ESPN will arise to offer content and service that reaches needs previously overlooked by global media companies. Maybe the CEO will be your teenage daughter, uploading or curating content with her friends.

In healthcare, I think the parallels are powerful. With technology and a keener understanding of value, a neighborhood pharmacy, a small physician clinic, a regional health system, or an alternative medical practitioner might be capable of creating new

value at global scale. For established stakeholders and market leaders, this seemingly remote possibility may actually be a greater threat than all of the economic and regulatory pressures we face today. And yet, the possibility of disruptive innovation represents great opportunity, too – not just to drive significant new growth, and not just to meet patient needs in new and better ways, but both at the same time.

How can we position ourselves to discover or take advantage of such opportunities? I think that the leaders in healthcare, like the entrepreneurs who see a chance to remake the system, need to ask themselves three questions:

1. Who are your customers, and what are their unmet needs?
2. As a healthcare business, what value are you really delivering, and what value could you be delivering that would meet more intense needs?
3. In order to intensify the value you deliver, in what areas do you need to improve your current business model and in what areas do you need to transform it completely?

I see these questions as open-ended and ongoing – as challenges to stale thinking that should wake us up in the middle of the night with equal parts inspiration and anxiety. I also see them as wonderful catalysts for a new healthcare system – a system that will make our old 3-channel universe appear so unimaginative, inconvenient, and limited our children will find it hard to believe we once suffered through it.