



The New Old: Building a Value Proposition for the Ageing in Private Healthcare

Over its 70 years of existence the NHS has become part of the fabric of Britain, encapsulating the post-war Labour government's promise to look after people "from the cradle to the grave."

The ability to deliver on that promise is now under threat, and the NHS is in crisis. There has been a slow but steady reduction in the services offered, with waiting lists lengthening, and hospitals and trusts constantly complaining that they lack the funds and facilities to meet demand.

Up to now, private healthcare providers have supplied a relatively small part of the U.K.'s health services — valued at less than £10 billion — but they have the potential to help meet the country's growing healthcare needs in a much more substantial way, providing critical and complementary support to core NHS services.

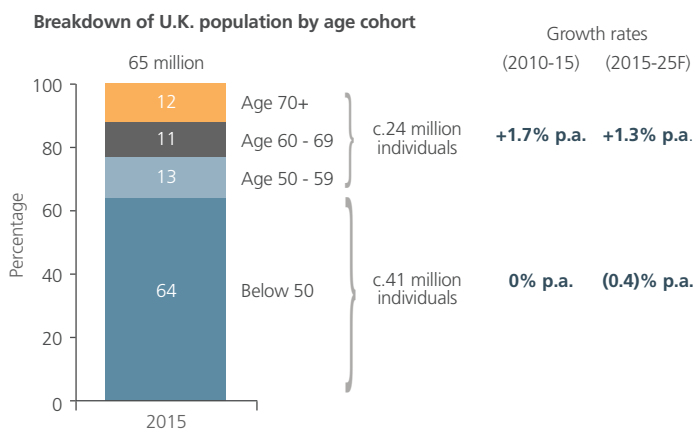
The structure of the U.K. market is such that it is not a simple matter for private healthcare providers to fill gaps left by the NHS. In this *Executive Insights* we examine the changing nature of the U.K.'s healthcare needs and detail five key challenges private providers need to address if they are to become of greater strategic importance to the system. We also discuss what might be done to encourage a greater contribution by the ageing population for their own care.

The U.K.'s changing healthcare market

The healthcare needs of the U.K.'s population are expanding, as is the cost of providing that care. One of the main causes is an ageing population. People aged 50 and over currently represent 36% of the population, a proportion that is growing and will reach 43% by 2035, an increase of over 8 million (see Figure 1).

This shift in demographics reflects the impact of baby boomers and a profound change in life expectancy, and creates many challenges from a healthcare perspective. Increasing age usually

Figure 1
The U.K. population is ageing and a large cohort will hit retirement in the next 10 years

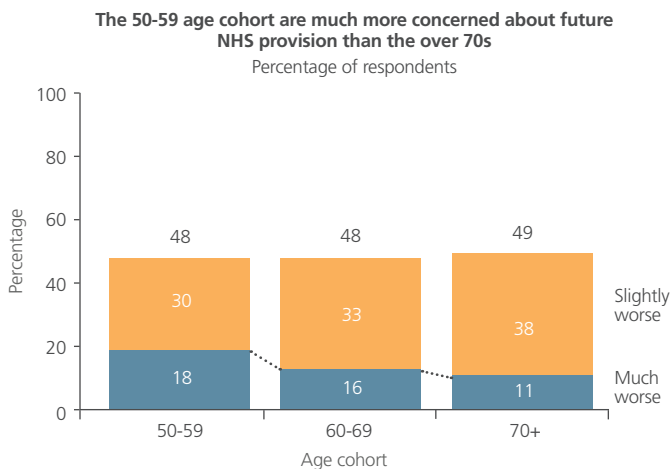


The New Old: Building a Value Proposition for the Ageing in Private Healthcare was written by **Jonathan Sparey**, Senior Partner in the Healthcare Practice and Head of Europe for L.E.K. Consulting, and **Garry Watts**, Executive Chairman of Spire Healthcare.

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Figure 2

There is growing recognition that the NHS will need to change and that privately funded healthcare will be required



Source: L.E.K. Ageing Population survey 2016

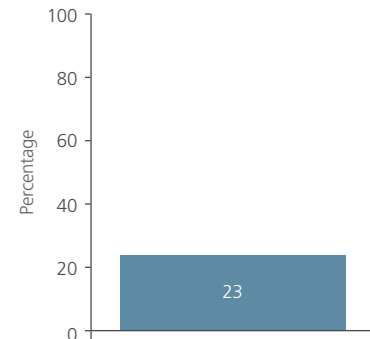
brings increasing ill health, notably chronic diseases including cardiovascular disease, stroke, dementia, arthritis, osteoporosis and type 2 diabetes, all of which need intervention and long-term treatment. In fact, the over 50s already consume around two-thirds of the total healthcare budget in the U.K. Without a radical change in taxation or a major reallocation of public finances, the U.K. will not be able to support the cost of its ageing population from the public purse alone.

The U.K. already spends around £150 billion on healthcare, or more than 9% of GDP, the vast majority of which comes from public finances. Yet the government has recently stated that there will be only limited additional funds for the NHS, or indeed adult social care services, over the next five years, and, as recently reported in the U.K. medical journal *Lancet*, the NHS share of GDP is actually declining. Furthermore, the NHS is struggling to deliver the £20 billion in efficiency savings required of it by 2020.

The impact of this financial pressure is already evident through rationing NHS provision of some elective services (e.g., joint replacement, cataracts and hernias), and there is a growing recognition among the over 50s that the NHS as they know it will have to change. Approximately 50% of those surveyed by L.E.K. Consulting¹ believe that NHS provision will deteriorate over the next decade, and a quarter of over 50s believe that universal care will cease by 2026 (see Figure 2). This is consistent with other surveys,² which highlight concerns by the generation aged under 45 that the NHS will not provide them with the care they need in the future.

A second feature of the U.K.'s ageing population is older people's changing attitude toward their age. The baby boomer generation

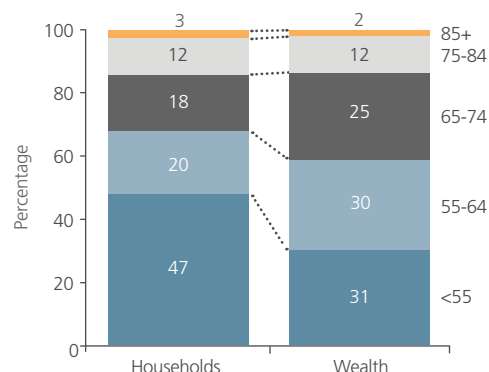
A quarter of over 50s believe the NHS will not provide universal free care in 10 years
Percentage of respondents



that is now reaching retirement — those born between 1946 and the early 1960s — is redefining what it means to be “old.” They are wealthier than the rest of the population, owning two-thirds of the private wealth of the entire U.K. population (see Figure 3). Furthermore, their spending power is expected to increase strongly in the years ahead, rising by almost 70% to £130 billion per year in 2030. This raises the important question of whether they will use some of this wealth to pay for more healthcare.

This generation do not consider themselves to be elderly, believing that “old” refers to someone in their late 70s or older. They are more active than their predecessors and, as they age, they are likely to want medical intervention to maintain their lifestyles (see Figure 4). However, they also struggle to

Figure 3
70% of U.K. wealth is controlled by the over 55s
Wealth and household distribution by age cohort



Note: Definitions: Physical — all possessions, Financial — net assets, Pension — exc. state basic / earnings related, Property — net of mortgages

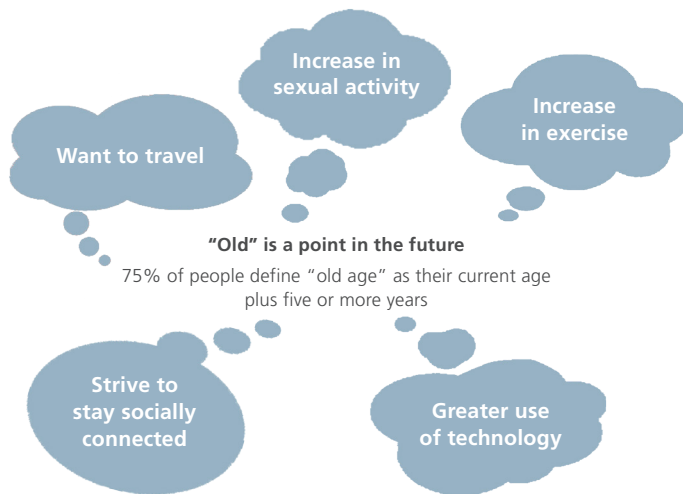
Source: L.E.K. analysis of ONS Asset and Wealth Survey Wave 3 (2010 / 12 published in 2015)

¹ L.E.K. Ageing Population survey 2016; the study surveyed c. 2,500 U.K. residents in March 2016

² Benenden Trust 2015

Figure 4

People do not consider themselves old and want to live healthier, more active lives further into retirement



Source: L.E.K. Ageing Population survey 2016

motivate themselves to save for their healthcare needs or pay for preventive measures, and are, or appear to be, unwilling to accept that they will eventually need medical help.

The challenges facing private healthcare providers

The combination of structural challenges facing the NHS and the changing population should represent a significant opportunity for private healthcare providers to expand. Yet the private share of the market is low, and consumers are reluctant to save for, or spend on, their health. We have identified five principal challenges that private sector providers need to address if they are to expand their participation in the U.K. market:

- 1. The question of trust.** For most people living today, the NHS is the only healthcare system they can remember. Trust in the NHS system is high, while many people remain skeptical about the quality of private healthcare, although that is changing. On balance, consumers believe private healthcare to be less dependable than the NHS and typically less caring and helpful; and, according to L.E.K.'s survey of 2,500 U.K. consumers, around 50% consider it to be less reliable. This perception is based on relatively low awareness and even less direct experience with the private sector.
- 2. Awareness of private health providers.** Nearly 25% of respondents in L.E.K.'s survey could not name a single private healthcare brand. Of those who could name one, most named insurance providers such as Bupa and AXA, as opposed to healthcare providers such as Nuffield Health, Spire and BMI Healthcare. Respondents also stated that they were uncertain how to find out about the healthcare procedures available privately.

3. Affordability and cost transparency. Public perception of cost presents an especially tough challenge to the expansion of private healthcare in the U.K. Private providers have historically offered little transparency on cost, so consumers perceive it to be too expensive. L.E.K.'s survey found that around 50% of consumers who considered — but did not use — out-of-pocket private healthcare cited high costs as the primary reason, with another 20% stating cost as the second or third reason. Consumers are three to five times more likely to prioritize spending on leisure than on healthcare. The cost issue is especially marked among the over 50s. Some 70% of the over 50s sampled cited cost as a key inhibitor, even though only half of those individuals had researched the costs, and 46% stated they were unwilling to pay for diagnostic tests or health checkups. Affordability is of course all relative, and U.K. private healthcare is much cheaper than in the U.S., but it is more expensive than, for example, in the Netherlands.

4. Articulation of value. Private providers' value propositions are not strongly differentiated, with consumers believing they can get the same level of care and service from the NHS. About 90% of consumers acknowledge that private providers offer better waiting times than the NHS; only 55% believe private facilities are better than public ones, and 70% believe NHS clinicians are at least as good as private clinicians. This shows lack of knowledge that most private healthcare is delivered by NHS clinicians who work predominantly in the NHS.

5. GPs as gatekeepers. Publicly funded general practitioners are the primary providers of healthcare advice and guidance to the public, and they effectively act as gatekeepers for hospital and specialist care in the U.K. 70% of GPs don't ask patients about their interest in private care, and two-thirds feel disinclined to recommend it. GPs are therefore not acting as navigators for all the available options. In fact, they are often unfamiliar with the private care options and, therefore, are unlikely to promote them to their patients.

Moving towards a more customer-oriented approach

There are positive aspects of the private healthcare system that are already recognized by consumers, and there is an opportunity to build on these areas. Private healthcare is seen as efficient, high-quality, professional and fast. When individuals do pay for their own care, satisfaction rates are high: 90% of those who have paid for care would do so again, and 85% would refer a friend.

To change U.K. consumers' attitudes, private healthcare providers need to adopt a more customer-oriented approach to create pull-through from the market by being proactive and creating a

Figure 5
New models need to focus on consumer-led propositions and delivering value for money to encourage participation

	Today's model	Potential future model
Funding source	Typically private medical insurance	Self-pay
Customer	Insurer	Consumer
Role in providing care	Care partner	Customer carer
Route to market	Insurance shortlist	Powerful marketing to relevant community
Engagement	Transactional	Relationship

Source: L.E.K. analysis

consumer brand (see Figure 5). They need to segment the market and build propositions that meet the needs of different customer groups and support their ability to pay.

As discussed above, cost is a major inhibitor to uptake because the U.K. population as a whole is not used to spending on private healthcare. According to L.E.K.'s survey, of those earning over £100,000 per year, only 22% had ever used private healthcare, with this figure falling to 9% of those with incomes below £25,000 per year. The few areas with strong private funding typically address non-life-threatening conditions, including physiotherapy (65%), dental care (60%) and nursing home care (45%). Private providers need to demonstrate the value they offer and differentiate their offerings from the services provided by the NHS (e.g., by emphasizing fast access and high quality, particularly in areas where the NHS is allocating less funding).

Education is critical. Private healthcare providers need to articulate and communicate a value proposition and options directly to customers, and also to the GPs who are providing advice and guidance. The position of GPs as, effectively, the gatekeepers to most of U.K. healthcare makes them enormously influential, and private healthcare providers can support them with much better information about patient pathways, response times and outcomes, as well as more transparent pricing. Armed with such information, GPs are likely to be more confident in recommending private pathways to patients, offering them a viable alternative to waiting for NHS treatment. However, a decline in the number of GPs per capita since 2009, and challenges in gaining access to GPs, given shortages in some parts of the country and the available hours,³ suggest additional communication is key. Digital channels will be important here, offering new avenues and

opportunities to provide information and access to healthcare services for a largely internet-literate ageing population.

Private providers also need to build stronger partnerships with the NHS and those regulating and commissioning healthcare provision, as data management will be critical to seamless provision of care and the ability to demonstrate beneficial outcomes. The private healthcare sector relies on the NHS for GP referrals, consultants, training and appraisal, and protocols and procedures — a partnership approach is essential.

Addressing the lack of trust with patients and many in the NHS is a priority, and private providers need to build brands that can be valued both locally and nationally. They should consider both pricing (e.g., fixed) and low-cost financing options that appeal to consumers. This should include working with insurers to develop new insurance propositions specifically designed for those no longer working full time as well as for those still employed.

Developing a complementary proposition

The private sector is currently a relatively small part of U.K. healthcare, but there are significant opportunities for providers to become more influential in the future. Successful providers will be the ones who regard their customers as consumers as well as patients and create attractive, well-articulated value propositions for the market segments where they can have the most impact.

Suggested priorities could include:

1. Treatment at home, enabling care in a lower-cost setting that preserves independence
2. Self-research and administration, facilitating the next generation to be fully tech-enabled

³ Royal College of General Practitioners 2015

3. Mobile health apps for monitoring and diagnostics — Fitbit, Apple, etc.
4. Deploying private sector capital to improve outcomes, building and replicating local partnerships
5. Screening against over-diagnostics, over-diagnosis, over-treatment and over-charging

Education, of both consumers and GPs, will be crucial, while popular perceptions about cost mean it is essential to address the value proposition that private healthcare offers. Providers also need to work to build trust and overhaul attitudes toward the role of private healthcare in the 21st century, ensuring it is seen as complementary to NHS provision in serving the U.K.'s healthcare needs and not as a threat to the NHS's existence.

About the Authors



the healthcare market in Europe.

Jonathan Sparey is a Senior Partner and Head of L.E.K.'s European region. He is a member of the Global Leadership Team and leads the European Healthcare team. Jonathan has more than 34 years of advisory experience in strategy consulting, and has a particularly deep understanding of, and wide ranging experience across



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