

WHITEPAPER

# How Biopharma and Medtech Can Successfully Engage Payers in Support of Digital Health



BrightInsight

A Flex Company

L.E.K.

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## Executive Summary

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Digital health – which we define as the convergence of digital technologies and medical devices or therapies to enhance healthcare delivery and make medicines more personalized or precise – has become an area of strategic investment for biopharma and medtech. Key drivers include advances in technology; the unprecedented increase in the amount of data that can be collected from patients, providers and payers; and the need to improve healthcare access, delivery, efficiency and outcomes.

Developing compelling digital solutions will require collaboration among patients, payers, providers and suppliers (e.g., biopharma, medtech companies) who, collectively, have access to the data and its insights in order to change patient behavior and improve outcomes. In addition, these partnerships enable development, optimization and scaling of solutions within a real-world setting. However, because there are so many digital technologies available to payers and providers, it can be challenging for biopharma and medtech to break through and create these partnerships. Despite potential for significant benefit for biopharma, medtech and payers, there have been limited partnerships to pilot technologies and even fewer examples of successful proof of concepts.

Read on to explore the payer’s perspective on digital health and gain firsthand knowledge of how biopharma and medtech can successfully engage them as partners to advance digital health. Our findings are based on interviews that BrightInsight, a Flex Company, and L.E.K. Consulting conducted with payer executives from top payer organizations and leading integrated delivery networks.

### About L.E.K. Consulting

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and rigorous analysis to help business leaders achieve practical results with real impact. The firm advises and supports global companies that are leaders in their industries. Founded in 1983, L.E.K. employs more than 1,400 professionals across the Americas, Asia-Pacific and Europe. For more information, go to [www.lek.com](http://www.lek.com).

## State of Digital Health

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Digital health is poised to transform the healthcare industry. Significant demand for value-based care to improve quality of healthcare delivery and outcomes, coupled with rapid advancements in technology and digitization of data, has undoubtedly created significant opportunity. Beyond these trends, growing cost pressures, the shift of care to the home and the rise of consumerism are also anticipated to accelerate and broaden the impact of digital health. For example, high-burden chronic diseases, such as heart disease or diabetes, and/or risk factors – such as cigarette smoking or being obese – account for a large majority of healthcare costs. Solutions that change behavior and improve outcomes will drive positive return on investment. As a result, investments in digital health by healthcare companies as well as investment firms have rapidly increased. Venture funding reached nearly \$8.1 billion in 2018, contributing to over \$30 billion invested in digital health since 2011 (source: Rock Health), and in a 2018 survey by Rock Health of 4,000 respondents in the U.S. adults, 89% of respondents used at least one digital health tool (source: Rock Health).

Despite continued evolution of digital technologies and the increasing prevalence of applications for them, digital health has struggled to take off. To date, there are few examples of digital health solutions that have demonstrated ability to change behavior, improve patient outcomes and/or drive value, and scaled implementation is lacking. Digital health is uniquely complex and challenging given the involvement of multiple stakeholders with different and often misaligned incentives, and creating reward for patients who engage via digital is complicated. Unlocking the potential of digital health will likely require engagement and collaboration across all healthcare stakeholders – payers, providers, biopharma and medtech – as well as continued innovation from technology players.



# Top Challenges Facing Payers Today

Successfully engaging payers to advance digital health requires the development of value propositions and solutions that will motivate payers to act. First understanding payers' top challenges can provide context.



## Sustained, rapidly increasing costs of healthcare

The U.S. now spends over \$3.5 trillion on healthcare: more than the next 10 countries combined and more than the total GDP of all but three other countries (China, Japan and Germany). While most countries' healthcare spending is generally proportional to their wealth or GDP, the United States' spending is clearly off the charts. Additionally, on a per capita basis, healthcare is more than twice as expensive in the U.S. as in other wealthy nations: about \$10,000 per person in the U.S., compared to about \$4,500 per person in other wealthy nations (sources: World Bank, OECD, The Commonwealth Fund). U.S. spending on healthcare is unsustainable, and looking forward, expenditures will grow even faster than historical rates. Absent intervention or industry disruption, the Centers for Medicare & Medicaid Services (CMS) projects that U.S. healthcare expenditures will climb by about an additional \$2 trillion by 2027.



## Health and cost management for a large, complex patient population

Payers de-risk future health expenditure for their customers: taxpayers, institutions and employers. However, at a scale of thousands to millions of patients, payers often lack meaningful details about and transparency into who their members are. Payers' member populations are a heterogeneous population with complex health problems, making it more challenging to manage patients' health, risks and costs. Even within a population of Type 2 diabetes patients, for example, patients have varying degrees of diseases and comorbidities and different lifestyles, quality of healthcare practitioners, and levels of medication adherence. All of these factors lead to widely variable quality and total costs, and it is challenging to disaggregate the causes and identify solutions. Payers face these challenges with hundreds of diseases and conditions, and continually look for opportunities that provide greater transparency into their member population.

In addition, payers have become increasingly accountable for the health and satisfaction of their patients. Once viewed more as administrative agents of healthcare, payers are now required to optimize the quality of care and health of their patients. The Five-Star Quality Rating system, created in 2008 by CMS to rate the quality of payers' Medicare Advantage and Part D plans on a scale of one to five stars, marks a key example that helped trigger this shift. Star ratings are based on roughly 50 measures ranging from outcomes and medication adherence to patient experience in satisfaction. In 2012 CMS aligned its premiums and bonus payments to a plan's annual star rating, creating a significant incentive for payers to invest in solutions to improve the health and outcomes of their patients. Analysis by L.E.K. shows that moving from a three-star to four-star rating can increase revenue by 5-10% due to premiums and bonus payments alone. Additionally, the Medicare Access and CHIP Reauthorization Act (MACRA) in 2015 replaced the sustainable growth rate with a value-based payment system that further aligns physician payment to quality and performance.



## Slow, complex shift toward value-based care

In line with their evolving role as managers of the health of their member populations, payers continue to move away from a traditional fee-for-service model. They are shifting toward value-based models, including pay-for-performance, bundled payments and shared savings programs, which incentivize quality and outcomes rather than volume of services. However, the transition will be slow, because wholesale changes are required and there are material challenges to changing the fee-for-service paradigm. While payers are eager to share risk with healthcare providers, many providers do not know how to operate in a world that rewards care coordination and value, and in many markets there are few existing models to serve as benchmarks. Ultimately held responsible for managing the health and costs of their member population, payers are working with providers to align incentives, change providers' workflows and help them treat patients differently (through, for example, population health initiatives, risk management and payer-provider sharing) to enable a successful business in a value-based environment.

Similarly, value-based contracts with biopharma have been slow to gain traction given the difficulty of aligning on metrics for success and which drugs to assign value. The only exceptions to date have been a handful of expensive therapies that target a small subpopulation and are administered alone, such as Entresto (sacubitril/valsartan) for reduction of risk of death and hospitalization in patients with long-lasting chronic heart failure, and Kymriah (tisagenlecleucel) for treatment of pediatric and young adult B-cell ALL (Acute Lymphoblastic Leukemia). Given these challenges, most payers cite near-term cost savings enabled by volume-based discounts.

**"Value-based care is new, and people are still trying to figure out what the outcomes and metrics are. When it comes to pharma, value-based contracts make the most sense for higher-cost therapies. For example, for a CAR-T therapy that costs \$500,000, a payer won't pay unless they can prove it will lower costs over traditional care and hospitalizations,"** says a former director of clinical strategy at a national payer organization.



## Key Benefits of Digital Health Solutions for Payers

Digital health now provides payers more innovative tools to persistently engage providers and patients in driving behavior change and serving the triple aim of healthcare: improving the patient experience, improving the health of populations and reducing the per capita cost of healthcare. Payers we interviewed from organizations ranging across a number of dimensions – including national and regional, number of covered lives, degree of provider integration (e.g., integrated delivery networks vs. managed care organizations), and digital capabilities – elaborated on four key benefits of digital health they see for their organization.

### Improves quality of healthcare delivery and patient outcomes for high-risk patients.

Solutions that encourage behavior change in the highest-risk patients (e.g., frail and/or polychronic patients with multiple comorbidities), as well as in the healthcare practitioners treating them, can materially help payers reach their objectives of improving outcomes, reducing risk and lowering costs for their member population. High priorities include reducing hospitalization rates and emergency room visits, improving medication adherence, and driving lifestyle modifications (e.g., exercise, diet). For example, digital solutions can engage patients and predict the patient journey (e.g., likelihood of hospital readmission) in order to intervene and improve outcomes

### Addresses operational inefficiencies.

Digital solutions can remove unnecessary costs. Key examples include supporting the shift of care to lower-acuity, less costly settings (e.g., ambulatory care settings, home) or engaging patients for a lower price.

**“There are certain populations, such as the elderly or disabled, who are high-cost utilizers in part because they do not have access to a physician. Digital tools can help us engage these patients at a lower cost while also improving outcomes,”** says George McNulty, chief information officer of Team MD (a UnitedHealth Group company).

### Reduces unnecessary variability across patient populations.

Payers indicate that variability in delivery of care and access is a major driver of costs. Digital solutions that can help standardize care (e.g., drive adoption of standardized guidelines) across providers or engage or identify patients requiring intervention are valuable to payers.

**“Digital solutions can help reduce variation and complexity, which will in turn drive better outcomes and reduce costs,”** says a former director of clinical strategy at a national payer organization.

**“Our data shows that the provider is a driver of variability, based on their training, geography or personal preferences. There is value in standardizing care as much as you can on a macro level by driving adoption of guidelines,”** says George McNulty, chief information officer of Team MD (a UnitedHealth Group company).

### Improves patient satisfaction.

As pressure from customers (e.g., employer groups and Medicare and Medicaid) to deliver value increases and patients become discerning retail-like consumers of healthcare, payers are placing greater importance on patient satisfaction (e.g., CMS aligning premiums and bonus payments to star ratings, which are based in part on patient satisfaction).

**“The benefit of many digital health interventions are often not immediately realized. As such, digital health solutions should also increase member satisfaction and member tenure, so patients can fully benefit from the intervention and plans can realize the return on their investment, while the member is still a customer,”** says the VP of Digital Health at a regional payer organization.

Given the challenges payers are facing today, key use cases that can demonstrate the benefits of digital health include contract adjudication for value-based care, disease management for high-burden diseases, and value-based health plans enabled by digital.



## Recommendations from Leading Payers for Biopharma and MedTech Developing Digital Solutions

Payers are on the front lines trying to figure out how to manage the health of their patient populations while reducing the costs of healthcare. Given limited bandwidth for payers to take on additional external projects and the multitudes of digital health solutions available, biopharma and medtech will have limited opportunities to demonstrate potential unless the solution addresses a major cost center or the payer is deeply invested. Leading with only the most attractive solutions, developing a clear plan and maximizing operational ownership to drive it forward and maintain momentum are critical for the success of the pilot and eventually scaled implementation. Interviewed payer executives provided five recommendations for biopharma and medtech organizations that are looking to partner with payers.

### Understand payers' business and their challenges

Given that payers' business models and processes are very different from those in biopharma and medtech, payers recommend that companies first invest time to understand payers' business, processes and challenges. When thinking about a disease intervention, for example, payers first think about treating patients on a disease and population level, while a biopharma or medtech company's objective may be to maximize sales to a subpopulation of patients.

**"My plea to pharma is to not be transactional. Don't just think about your drug and your solution. We want to develop a solution for a disease, not in support of one drug," says a chief medical officer from a regional integrated delivery network.**

In addition, biopharma and payers are not always aligned on which diseases are attractive for adoption of digital health solutions. An analysis by L.E.K. demonstrated that while anti-TNFs (e.g., for rheumatoid arthritis and ulcerative colitis) and multiple sclerosis therapies represent attractive opportunities to capture lost revenue using adherence solutions, they are not attractive to payers given that the cost of nonadherence-related complications to the healthcare system is low. These differences can have significant implications for how a digital health solution is positioned. Innovations that address an entire disease or therapeutic category and have a material impact on the economics of their business will best resonate.

All diseases and patients are part of a much broader, complex ecosystem, and companies should not be working in silos or developing solutions that are too highly focused. Solutions should be integrated with all stakeholders comprising the ecosystem. This will provide greater opportunities to assist patients and monitor and treat diseases, and additionally support increased scalability.

**"A key driver of a (digital health) solution's success is how well it integrates into the life of a patient and/or a clinician's workflow. Vendors should place as much focus on how their solution will integrate as they do on the digital health technology itself." says the VP of Digital Health at a regional payer organization.**

## Articulate a value proposition that is centered on shared objectives

Biopharma and medtech companies should start by identifying and defining objectives they share with payers. Digital solutions that do not help payers address needs in the ways discussed above are unlikely to resonate and should be deprioritized. If objectives are shared – as they are in the example of an app that helps patients administer their medication properly, which improves outcomes for the payer managing the health of the patient while also supporting greater drug adherence – they should be translated into a value proposition. The value proposition should clearly articulate stakeholders the solution is influencing, as well as actionable insights that are enabled, behaviors that are changing and outcomes that can be impacted by the solution. Additionally, preliminary proof-of-concept data that provides some support of the value proposition may be needed to garner enthusiasm, unless the potential to impact outcomes or drive cost efficiencies is obvious.

**“The data needs to be meaningful, actionable and tied to outcomes,” says a chief medical officer from a regional integrated delivery network.**

## Develop a plan with clear objectives, approach, metrics and operational support

Getting a payer to partner will require the biopharma or medtech company to begin the conversation with clear objectives, an approach to reach required stakeholders, and concrete metrics to evaluate success.

**“Biopharma and medtech should have a hypothesis and operational plan in place for a digital health program. Tell us the relevant patient population, how we would reach out to them and what we would measure. It is important to have a crystal clear operational plan in place that the payer can react to,” says a former director of clinical strategy at a national payer organization.**

In addition, it is critical to provide operational support to move the pilot forward and maintain momentum. Pilots require significant time for the payer to engage, ensure legal and security review, and provide information/data, etc.; and anything a partner can do to take operational ownership and remove activation energy is attractive.

**“As a payer, I am already making a significant investment in improving the health of my customers, and you’re competing for many of those same resources when you’re proposing to put a pilot in place. In addition to having a good story, companies will need to prove that they can fit within the payer’s system and that there isn’t a lot of work or disruption for the payer,” says Tom Rekart, former COO of Bravo Health.**

Payers note that any digital therapeutics prescribed similarly to a traditional therapeutic will be similarly reviewed. However, there may be need for additional education, and payers recommend that biopharma companies engage payers early to understand the real-world evidence and clinical effectiveness data that will be needed.





## A trusted data integration platform is necessary

Technology is not payers' core competency, and they indicate that biopharma and medtech are best set up for success when they limit the payer's burden and risk of integrating data (e.g., electronic medical records or EMR, claims, Bluetooth connected devices, systems for coordinators or case workers) in one of two ways. First, they could entirely own data integration, ideally through a third party. Alternatively, a phased approach could be taken, in which proof of concept is tested in a first phase requiring limited data integration, accompanied by a robust plan for full integration as a second step.

**"The more [the partner] can integrate with EMR to embed information, the better. Anything that involves our IT resources can be a nonstarter," says a chief medical officer from a regional integrated delivery network.**

**"The need to integrate with the EMR can be a rate limiting step. A phased approach where implementation (or incubation) first occurs without EMR integration, followed by a second phase with EMR integration, can lead to faster implementation and additional efficiencies," says a VP of Digital Health at a regional payer organization.**

Regardless, payers do not believe it is feasible or rational for them to integrate with a multitude of bespoke solutions and prefer to integrate with a few industry standard data platforms with the highest levels of privacy and security (e.g., HITRUST certified). Compromising on these standards is not an option and a trusted data integration platform that limits risk as well as IT resources is necessary.

## Develop the strategy to scale early, but exercise patience with scale-up

Payers will not be able to integrate with every pharma or medtech company providing a digital solution, and companies that have developed a clear plan and path to scale are more likely to rise above other companies approaching payers. Scale-up should be developed from the beginning as part of the strategy and operational plan, not after a successful proof of concept. However, healthcare is highly region-specific, and success in one area might not be replicated in another. Companies should exercise patience while scaling up the solution. If a pilot is successful, spend time evaluating the profile of the member population and providers, and understand why the digital solution worked. Identify any improvement opportunities and implement the rollout in another region with a different profile. Taking time to rationally validate the solution in different areas before going regional and national provides time to learn, resolve any issues, continue improving the solution and scale through an organized process.

**"If a company enters the discussion with an approach to implement and scale once there are positive results, the willingness of the payer to engage goes way up. Once there's a successful pilot, it's important to rationally roll out the solution rather than trying to go broad immediately. Healthcare is hyperlocal, and a pilot that works in North Carolina may not work in Colorado. You want to learn from the pilot, scale to the Southeast and maybe do a portion of the mid-Atlantic. If you're patient, you'll end up having more success over two years than if you move too quickly," says a former director of clinical strategy at a national payer organization.**

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**About the Author**

Max Cambras is a Managing Director and Partner in L.E.K.'s Life Sciences practice and is based in Los Angeles. He has over 17 years' experience working with biopharmaceutical companies on commercialization strategy, innovation planning and management, drug delivery and digital health and patient engagement.