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# Impact of the New Health Law on the Digital Health Industry

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*This month's newsletter is part 1 of a three-part series examining the new healthcare law's impact on the technology sector. This month, we focus on the care provider side. Next month, we will look at its impact on the health insurance sector, and in the final Issue, we will look into the medical device industry to analyze its exposure and upside under the new health law.*

The Patient Protection and Affordable Care Act ("Affordable Care Act") passed in the spring of 2010 and took effect near the end of September. Although there will be attempts to repeal some portions of the law, Parks Associates believes most of the provisions will stay unaffected and have a positive impact on the long-term prospects of the digital health industry. Of course, given the complexity of our health system, the interconnected relationships among various stakeholders, and the ripple effect of policy changes, these positive influences could come earlier or later than expected, depending on the start dates of certain provisions, whether they are fully funded, and their process of implementation.

First of all, the influx of newly insured people will aggravate the shortage of primary care and specialist doctors and drive the adoption of alternative care models like home health monitoring and online consultation.

Provisions such as prohibiting health insurers from rejecting patients due to preexisting conditions, keeping adult children on parents' insurance longer (till they turn 26), and mandating insurance coverage for most citizens after 2014 will drive more people to use primary care services. At the same time, the shortage of primary care doctors, and especially the shortage of specialists in rural areas, is not going to abate. The Association of American Medical Colleges predicts the nation may face a gap up to 150,000 physicians as med school enrollment in the family doctor practice continues to fall and more doctors hit the retirement age in the next 15 years. Technology solutions such as

home health monitoring and online visits are reasonable alternatives to alleviate the doctor shortage problem.

Service experience and pricing are two key factors that will help (or hinder) these technology solutions in gaining the trust of consumers and doctors. Service experience encompasses many aspects. Unlike traditional services that people use for home entertainment and security, health services must address multiple dimensions of consumer needs to succeed. Current home health monitoring services on the market are good at measurement accuracy, service security, and reliability, but most are bulky, pricey, and have a poorly designed user interface.

On top of these shortcomings, they lack the “emotional assurance” Parks Associates believes is vital in stimulating consumer interest and sustaining their use over the long term. To provide this “emotional assurance,” solutions have to be exciting and cool to use; therefore, consumers are emotionally attached to it instead of trying to stay away from it. Also, they have to provide assurance that their use will lead to better outcomes—like improved health, financial rewards, or better connections among family and friends.

Pricing must also be right. Whether these solutions will be marketed to consumers directly or through insurers, cost must get closer to their respective expectations. Existing offerings at \$60-\$90 per month will not gain traction among consumers, based on Parks Associates’ consumer research.

The new health law also includes new care models and payment reform efforts to help pay for these solutions. This is the second trend we believe will lead to more pervasive use of technology to coordinate care, measure outcomes, and validate performance. The law encourages establishment of Accountable Care Organizations (ACOs) as major beneficiaries of the incentives and bonus payouts under new payment schemes such as pay-for-performance or bundled payment. Accreditation criteria for ACOs are yet to be published, but they represent a much-needed care delivery model promoting care coordination among multiple groups of doctors.

In theory, all care provider groups can qualify as ACOs. In a pervasive broadband computing environment, member organizations can be hundreds of miles apart. This model could make the local care market more competitive, incent providers to be more attentive to the overall well-being of patients, and help insurers avoid unnecessary procedures and lower claim costs.

Establishment of ACOs plus widespread adoption of electronic health records by care providers (thanks to another piece of legislation – the American Recovery and Reinvestment Act) will create a favorable environment for adoption of technology-laden self-care solutions by consumers, supported by care providers and rewarded by insurers. By 2015, consumers will be able to comfortably monitor their health status through wirelessly connected sensors, share their self-care progress with doctors through integrated health records, access health services online, and hopefully see their health insurance premiums trending downward due to insurers’ recognition of their positive lifestyles and rigorous self-care efforts. Our conservative estimates put the number of such consumers around 40 million by then, but the number could go up if the ACOs and integrated health records change not only how consumers manage their health but also how care providers deliver care and how insurers respond with measures to reinforce positive behavior changes from both patients and care providers.

The next impact comes from the belt-tightening provisions under the new health law. For the last thirty years, all major healthcare reforms have tried to rein in medical spending,

and this law is no exception. The payment reduction on care providers will prompt hospitals and physicians to scrutinize their top and bottom lines more closely. They may become more eager to secure new revenue sources or avoid services that are no longer reimbursable. Technology companies and digital health service platform providers may find it easier to partner with care providers to offer technology-based care options to patients to either increase revenues or avoid unnecessary costs.

For example, several hospitals, including Cleveland Clinic in Ohio, Allina Hospital in Minnesota, and Saint Mary Regional Medical Center in Nevada, are partnering with retail clinic chains such as MinuteClinic from CVS Caremark, Take Care Clinics from Walgreens, or Wal-Mart Clinics to extend their services to local communities. These collaborations could lead to tele-consultation services, with patients receiving remote care from doctors at nearby hospitals. In most such collaborations, hospitals want to integrate their EHR system with the retail clinic's because these partnerships will further enhance the value of remote diagnosing and consultation services.

A few care provider groups are even more ambitious. They have partnered with American Well, an online care service platform developer, to offer on-demand primary care/specialist services to consumers. American Well's telecommunication-based service platform, which uses landline, broadband, and mobile communications tools, allows care providers to flexibly re-allocate physician resources to offer care services based on a patient's schedule. Its clients include Ascension Health, OptumHealth, BCBS Hawaii, and ActiveHealth.

On the cost side, one big opportunity for hospitals is to manage admission discharges so that patients receive care after discharge and do not have relapses that lead to non-reimbursable hospital admissions. Although the law requires only CMS to implement this rule, private insurers will follow suit with similar policies in place. Hospitals have two options. They can either extend their outpatient operation to offer patients post-discharge services, mainly active monitoring and coaching, or they can outsource it to third-party providers such as unaffiliated homecare agencies or disease management firms. In either case, because of the nature of such post-discharge services, technologies can improve their operational efficiency. These post-discharge services will go beyond disease management services, offering more features and using more technological advances, and they will represent not only cost-containment measures but also new revenue sources for hospitals.

To sum up, the new health reform will be either a blessing or a curse for the care provider industry, depending on how they react and adjust their business operations. The law also coincides with the surging consumerism in healthcare and broadening adoption of technology for personal health management. Care providers that combine their health service expertise with skillful mastery of technology in their business operation are best positioned to ride the health reform wave instead of crashing into it.

# About Parks Associates Digital Health Research

Parks Associates is an internationally recognized market research and consulting company specializing in emerging consumer technology products and services. Parks Associates envisions pervasive adoption of digital technology within the global health care system and a drastic transformation of how healthcare and wellness aids are delivered to consumers in the future.

Our research clarifies the opportunities and challenges for technology vendors, healthcare providers, and companies considering entering this changing market. Parks Associates' expertise includes new media, digital entertainment and gaming, home networks, Internet and television services, digital health, mobile applications and services, consumer electronics, and home control systems and security.

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## About the Author

**Harry Wang** studies the consumer electronics and entertainment service industries with a focus on portable CE hardware, software, and associated applications and services. He is also the lead analyst for Parks Associates' digital health research program. Harry has presented his research in numerous industry events including CES, Digital Hollywood, Photo Marketing Association Annual Show, American Telemedicine Association Annual Show, World Health Congress, and at Parks Associates' CONNECTIONS™, and Fall Focus conferences

Harry earned his MS degree in marketing research from the University of Texas at Arlington. He also holds an MBA degree in finance from Texas Christian University and a BA degree in international business from Guangdong University of Foreign Studies, P.R. China.

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