



Stanford eCorner

Trends and Opportunities in Healthcare

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Michael Ackermann, vice president of neurostimulation at Allergan, presents industry trends in healthcare, national spending and the many opportunities for entrepreneurs in the rapidly changing sector. He describes how a desire to increase efficiencies and reduce costs are driving consolidation among hospitals, drug companies and insurance providers. Ackermann points out the business opportunities created by all this and assesses healthcare as a \$3 trillion market, based on what Americans spend every year on treatments.



Transcript

- It won't be a surprise to most of you. If anyone has read the news in the last couple of years, you know that healthcare is changing, right? So, we're seeing increased expenses. There's a lot of things that are changing in the environment as a result of that. It may even be hitting your own pocketbook. But what I thought we would do is just look at the change by the numbers. The graph on the left here shows healthcare spending as a fraction of our GDP over the last 50 years. You'll see that it's going up and do the right. And 2014, the last year for which data was available from the government, we spent 17.5% of the GDP, 17.5% of the entire gross domestic product on healthcare spending, an astounding three trillion dollars. And we're feeling it, right? I mean, we're starting to hear about pressure on prices. We're starting to hear about healthcare premiums going up as some of that costs shifts to the patients.

And we're hearing about it in terms of consolidation in the industry. Another phenomenon that's happening. So, the plot on the right actually shows the fraction of Americans that are insured. And you'll notice that, in the last couple of years, largely because of the Affordable Care Act, there's a very large increase in the number of Americans that are insured as well. I do believe that, even under a Trump presidency, there's going to be some impetus to provide a program for driving insurance amongst the population. So, what's happening is that we're running out of room for growth in healthcare spending, we have more people who need to be treated, and we're all starting to feel the pinch, right? So we're feeling it as patients, and we're certainly feeling it in the industry. So, our government also makes available the expenditure in terms of where those three trillion dollars is going, so let's take a look. So, more than half of that three trillion dollars is going to hospitals, it's going to doctors and to clinics. About nine percent of it is going to drug companies. About three percent of it is going to medical device companies.

And then a series of other things, I think including notably a seven percent that actually just goes literally to support the infrastructure of the insurance companies and the federal Medicare and Medicaid. And every slice in this pie is feeling it. So, there is drive on every single one of these to start becoming more efficient. And we can see that in terms of consolidation. And so what's happening on private practices, are being brought up and consolidated into hospitals. We see hospitals that largely have been independent for a long period of time consolidating into hospital systems, both regional and national. We're seeing consolidation in the drug companies. We're seeing consolidation in the insurance companies and in the device companies as well. And all of this is in an effort to drive more efficiency into the system. So, let's look at another dimension.

So now we know where the dollars are being spent. What is it being spent on? So, according to the CDC, an astounding

86% of this three trillion dollars is being spent on management of chronic diseases. And so these chronic diseases include things like heart disease and diabetes, some type of cancer. But it also includes things like dry eye disease, which is what our company was focused on, something I'll tell you more about. And so, what does all this mean? Well, something that's sending a little bit of a shudder through the industry is frankly that there's gonna be a higher bar, in terms of providing efficient treatment. And so that's, the technologies that are more expensive for incremental benefit, frankly probably aren't gonna get into the marketplace anymore, at least not as easily. So that's the bad news. But what's the good news is that there is a heck of a lot of opportunity out there. So you have this three trillion dollar marketplace, this enormous industry that is literally changing under our feet right now, and there's huge opportunity because someone has to be an agent for that change, right? There's tremendous opportunity in this consolidation as well. So one of the things that we'll talk about in a bit that has actually hindered some of this change and change by technology is that there's very separate groups, right? I mean, you go get your broken leg fixed by one physician, you get your eyes fixed someplace else.

And your primary care physician who may have referred you to these places can't even look up in their medical records to see exactly how that went, right? So that consolidation actually can be a real opportunity as well, particularly on the information technology side. And then, layered on all of this, there's really a tremendous opportunity in chronic disease. And so, providing better, or frankly just more efficient ways to care for chronic disease.