



# Health Insights & Outlooks

*A bi-weekly newsletter*

*Welcome to the July 28, 2006 issue of Health Industry Insights' newsletter, Health Insights & Outlooks. We publish every two weeks, examining recent events and offering opinions on key trends in the healthcare and life science industries. Please feel free to forward this newsletter to colleagues or others who might find it relevant.*

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## **Pharmaceutical Distributors: From Inventory to Information**

**By Eric Newmark**

Manufacturers are completely underwhelmed by the level of sales data and inventory information provided to them by distributors. While the data helps them build a historical view, it does not help drive operational efficiency. Without near real-time frequency of data, manufacturers can not tie end demand signals to the shop floor nor strive toward a just-in-time (JIT) operating model.

This desire for more real-time data, coupled with drug safety initiatives, technical innovation, and tighter channel management are changing the way pharmaceutical supply chains operate. As a result, the role distributors play within that value chain is evolving. Health Industry Insights recently interviewed more than two dozen industry leaders from various companies and segments of the supply chain in order to identify how the distributor role may change over time. Key findings include:

- Distributors will evolve from inventory to information focused over the next five years. Collecting demand signals for manufacturers will become the most important value proposition distributors provide. Logistics and inventory management will become secondary, baseline services.
- Manufacturers have lost interest in direct to consumer (DTC) distribution for mainstream pharmaceuticals. DTC distribution is suited for ePills, not cases. However, DTC opportunities do reside in small customized ordering, high-value low-volume products, and in some circumstances surrounding new product launches.
- 3PLs such as DHL, FedEx, and UPS will own a majority stake in DTC distribution as internet drug sales and other direct ordering methods increase.
- CPG has set the standard for sales and inventory information availability. Pharma companies recognize this disparity and are working to close the gap.
- As item level visibility increases, returns and reverse logistics will emerge as a leading opportunity for cost reduction.

To remain competitive, distributors must continue to differentiate themselves through product portfolio (including generics) and services offered. Non-traditional segmentation of service offerings should be explored. Providing tiered levels of service to customers with different operating requirements and sophistication needs at different price points will help more closely align actual services rendered with services charged. Distributors should also proactively design transparency into distribution processes and invest in the necessary infrastructure to provide item, case, and pallet level visibility on a near real-time basis. Those distributors late to the table in offering these services will watch helplessly as customers transfer business to their competitors. Further, if distributors do not do this on their own, the end points will eventually create this kind of model themselves through a consortium approach. Emerging product tracking services and network-wide subscription models already threaten to provide this type of a platform. For further information and related data, refer to our full report, titled "Supply Chain Evolution:





## Health Insights & Outlooks

*A bi-weekly newsletter*

The Changing Role of Pharmaceutical Distributors". On August 2<sup>nd</sup> at 12:00 pm EDT we will also be hosting a free web conference on this topic. Please feel free to register at the events section of IDC.com or directly at [http://www.idc.com/getdoc.jsp?containerId=IDC\\_P12958](http://www.idc.com/getdoc.jsp?containerId=IDC_P12958)

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### **HealthCore Study Justifies Payer-based Health Records**

*By Lynne Dunbrack*

Health Industry Insights predicts in its electronic health record (EHR) forecast that payers with their terabytes of digitized health information will be early investors in EHRs. A scientific study conducted by HealthCore, WellPoint's outcomes research division, and commissioned by MEDdecision, vendor of Patient Clinical Summaries (PCS), a payer-based health records (PBHRs) solution, identifies the economic benefits of access to PBHRs in an ED setting. MEDdecision's PCS tool, applies proprietary data summarization, clinical validation and "clinical intelligence" algorithms to payer-based claims to present clinically relevant data to providers which includes diagnoses, presence of lab and diagnostic tests (but not results) and medication history from pharmacy claims. The study analyzed retrospectively a total of 918 PCS-accessed ED encounters and 3,509 control ED encounters from Christiana Care Health System (CCHS) for health plan members. The control cases were matched for patient age, gender, coverage type (e.g., HMO, PPO), and severity (ESI scores).

Historically, when savings accrue to one or more stakeholders – usually either payers or consumers – they represent a loss in revenue for providers through a reduction in services rendered, reimbursement received or both. This breakthrough study revealed a cost savings of \$604 per PCS-accessed ED encounters compared with control ED encounters. When outlier cases were not included in the analysis, the savings was \$545 per PCS-accessed ED encounter. If the patient was admitted from the ED, the savings was \$4,012 due to cost avoidance during the first day of admission. However, ED physicians reimbursement rates increased by \$35 per ED encounter, presumably because with more information about their patients, they could focus their diagnostic efforts and justify procedure codes that demanded higher reimbursement rates. Furthermore, it is estimated that the approximately 15 minutes savings per PCS-accessed ED encounters would allow the CCHS to treat 9,000 more patients in its ED.

The results of the HealthCore study are compelling in terms of the economic benefits of access to health information made available through a PBHR that clinically validates administrative data. The next step in evaluating the efficacy of PBHRs in general, and MEDdecision's PCS specifically, is to evaluate whether clinician access to PCS yields improved patient outcomes. These HealthCore studies confirm our view that there is a role for payers in the distribution of EHRs.

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### **Wellpoint Offers a Personal Health Record to Their 34 Million Subscribers**

*By Marc Holland*

In our last edition, we discussed CMS' July 10<sup>th</sup> award of a contract for the development of a pilot PHR for Medicare beneficiaries. Just one week later, on July 17<sup>th</sup>, Wellpoint, the nation's largest private health insurer with 34 million subscribers, announced a nationwide launch of its "360 Health" program, which it touts as "the most robust benefits program in the industry to comprehensively address preventive care, health improvement and care coordination." 360 Health will provide Wellpoint's members with both claims information collected from health care professionals and targeted health and wellness information through a single secure web portal. This innovative program is designed to combine claims and benefits information with lay clinical





## Health Insights & Outlooks

*A bi-weekly newsletter*

content for each covered individual to assist them in accessing comprehensive and appropriate care, and to understand the treatment options available to them.

A key component of 360 Health is the member's personal health record (PHR), which is largely owned and managed by the members themselves. The PHRs are populated by member-provided health information and claims data received by WellPoint. The PHR can be accessed from any computer with an Internet connection, allowing members to easily track and share their health histories with their healthcare providers.

In separate but related news, the utility of PHRs based on claims data was enhanced by an announcement earlier this month from the Department of Health and Human Services (DHHS). DHHS' Health Information Technology Standards Panel (HITSP), a blue ribbon panel comprised of representatives from healthcare IT vendors, healthcare providers and national standards organizations which advises the Secretary of DHHS on broad matters of healthcare IT policy, announced that it will begin to work with health insurers to create standards for PHR data downloads. These standards are designed to allow consumers to continue to update their PHRs even after changing insurance plans.

Ease of update, relevance and portability are crucial to the value proposition of PHRs and their adoption by consumers. Efforts such as Wellpoint's, aided by the guidance of Federal initiatives, suggest that we may finally be headed in the right direction.

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### **Accelerating Drug Development: Absorbing Innovation at the Speed of Science** *by Alan S. Louie, Ph.D.*

In the not too distant past, a PC ran at 16 MHz, microtiter plates were an impressive innovation with 96 wells, and large numbers of mice were sacrificed at each stage of early drug development. With each and every technological innovation, both evolutionary and revolutionary, scientists have rapidly absorbed the innovation, molded its utility to meet their diverse needs, and exploited its capabilities to drive scientific research forward. It is often said that we have discovered all there is to discover and...we are regularly proven wrong. Within biology and the drive towards understanding and curing disease, scientific and technological innovations continue to raise the bar, enabling greater and more detailed understanding of biological processes. This growing knowledge and process foundation is enabling medical innovation with the near term expectation that disease processes will be fully understood at the molecular level.

At the cutting edge of biological research, the convergence between information technology and science continues to drive scientific progress. At one point or another, one is waiting for the other to evolve, and progress occurs when all of the stars are properly aligned. Two examples of this dynamic convergence are high performance computing (HPC) and systems biology.

- With geometrically increasing data storage and computational horsepower, advances in high performance computing are continually increasing our ability to rapidly process large quantities of data. Concurrently, cutting edge biological research is generating gigabytes of data for a single experiment in areas such as automated, high throughput proteomic analysis (using LC/MS/MS) and high resolution molecular imaging. With current commercial computing, analyses can take weeks to months. Leading HPC solutions have reduced analyses to days to weeks, with the expectation that analyses will accelerate further.
- Leading efforts in systems biology are beginning to provide models that can represent disease *in silico* and predict the effects of drugs in the body. With several technical approaches being pursued, rapid growth in available biological data, and increased





## Health Insights & Outlooks

*A bi-weekly newsletter*

connectivity enabled by the Internet, high level systems biology modeling is already contributing to research and development efforts and promises to take an increasing role in drug development. Novel innovations in modeling, new web tools to enable knowledge sharing, and increased storage and computational horsepower are all contributing to accelerated adoption of *in silico* modeling in drug development, with incremental successes driving further adoption.

Mindful of the validation necessary to establish the utility of innovations, new technology adoption by the drug development industry is proceeding at a rapid pace. With the potential for significant improvement in efficiencies, better and faster access to information, and better understanding of disease/drug biology, technological innovation is driving progress at geometric rates with the expectation that better drugs will be available faster and sooner.

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### **Love at First Site: Clinical Trial Matchmaking Goes Electronic** *By Chris Connor*

The process for successfully recruiting patients into a clinical trial is like going on a blind date or putting a personal ad in the newspaper. "Mature, sensitive, well funded biotech seeking an active 18-40 year old, healthy subject for novel phase 1, immunomodulation clinical trial. Non-smokers preferred. Must like pets."

Historically, life science companies conducting clinical trials, and their investigator sites, have relied on marketing-centric approaches to recruit patients into their trials. These media driven recruitment campaigns are typically expensive, time-consuming and often yield unexpectedly low response rates. When the goal is to reduce time, lower expense and mitigate the risk to the recruitment forecast, a 1572 is more like a "pre-nup" than a marriage vow. But hope springs eternal and life science companies are looking ardently at a technology emerging in the patient care market that offers a more analytical approach. And we all know how attractive anything analytical is to someone in clinical development.

As a result patient recruitment is slowly transforming from a media-centric approach to a data-driven methodology. This love potion #9 is made possible by mixing the availability and accessibility of managed healthcare information and data available from insurance claims clearinghouses, electronic transaction companies and electronic healthcare record (EHR) vendors. Harnessing EHR data would allow more rapid identification and recruitment of qualified patients as well as trial investigators. If that sounds like a fairytale romance, it gets better. Life science companies throughout the industry will be further smitten by the emergence of regional healthcare information organizations (RHIOs) and the potential of another powerful source of integrated, longitudinal patient data.

While this change will occur gradually, it has the potential to reduce the time required to recruit and enroll patients from months down to weeks or even days. With increasing pressure on profits, the opportunity for these various organizations to profit from brokering medical data is further quickening the transition to an electronic approach to patient recruitment. Now before we apply for the marriage license, issues such as patient privacy and good clinical research practices – not to mention their associated regulations like HIPPA and GCP – will need to be addressed.

But for the moment, this looks like a match made in heaven.





# Health Insights & Outlooks

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## **Is “Punishing” the Unhealthy the Answer to Lowering our Healthcare Costs? By Rachele Manning**

A recent WSJ.com/Harris health-care poll suggests a growing support among US consumers for charging higher insurance premiums or out-of-pocket medical costs to people with unhealthy lifestyles. In the poll the term *unhealthy lifestyles* was defined as smoking, not exercising frequently and not controlling one’s weight. The same survey was conducted in 2003. The differences between the 2003 and the 2006 poll show an increasing support for having those that lead unhealthy lifestyles take on a greater amount of healthcare costs. In 2003, 37% of consumers thought it was fair to task people with unhealthy lifestyles to pay higher insurance premiums than people with healthy lifestyles. In 2006, that figure was 53%.

Healthcare costs continue to increase and stakeholders such as payers, employers, and consumers continue to seek ways to mitigate these expenses. Pushing costs out to those that lead what are deemed “unhealthy lifestyles” is a concept that is starting to gain more attention. Thus far, the focus has predominately been on having smokers pay higher premiums or out-of-pocket medical expenses than non-smokers. But as the expenses for obesity-related conditions grow, it is not unrealistic that similar approaches will emerge for overweight versus non-overweight populations. How soon these campaigns will emerge is unknown and the implications of the stigma associated with these distinctions is also unclear. Those that lead active and healthy lifestyles have a valid argument in wanting to pay less. However, active and healthy people are more likely to be more-educated and in a higher income bracket. As a result, they can afford to pay more than those in a lower-income bracket. But is shaming the consumer into leading a healthier lifestyle really the answer? It may be for some. However, instead of framing this as an issue of “punishing” the unhealthy, it may be more beneficial to initially take the carrot approach and reward those that are already lead or are interested in starting a healthy lifestyle. Everyone would pay the same premiums, but incentives would be offered for things such as nutrition classes, reimbursements for gym memberships, or discounts on weight loss programs. The idea of “punishing” smokers would have been foreign thirty years ago. In another thirty years it is not unrealistic that similar attitudes will also be accepted for the overweight. But for now, the focus should be on encouragement, not embarrassment.

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## **Health Industry Insights Latest Research**

<http://www.healthindustry-insights.com/HII/research/index.jsp>

### **Scott Lundstrom, Vice President of Research**

**New!** U.S. Electronic Health Records Spending 2006-2015 Forecast and Analysis  
Jul 2006 - Doc # HI202444    Marketplace

2Q06 Leading Indicators in Life Science IT Spending Survey  
Jun 2006 - Doc # HI201796

### **Dr. Alan S. Louie, Research Director**

**New!** Recognizing Unmet Needs in Imaging Biomarker Adoption: Insights fr. 2<sup>nd</sup> IBM IB Summit  
Jul 2006 - Doc # HI202605    NewsFlash

Promise in the Wind: Technology's Disconnect with Drug Development Needs  
Jul 2006 - Doc # HI202434





# Health Insights & Outlooks

*A bi-weekly newsletter*

**Lynne A. Dunbrack, Program Director – Health Payer Research**

**New!** U.S. Electronic Health Records Spending 2006-2015 Forecast and Analysis  
Jul 2006 - Doc # HI202444 Marketplace

What Role Should Payers Play to Promote EHR Adoption?  
Jun 2006 - Doc # HI202323 Looking Ahead

**Christopher Connor, Senior Research Analyst**

**New!** An Overview of the Clinical Trial Management Systems Market  
Jul 2006 - Doc # HI202351 Market Overview

Phoenix Data Systems Catches the Wave with Full-Service EDC  
Jun 2006 - Doc # HI202177 Perspective

**Eric Newmark, Senior Research Analyst**

**New!** EPCglobal Tries to Put the ROI in RFID  
Jul 2006 - Doc # HI202527 Perspective

Supply Chain Evolution: The Changing Role of Pharmaceutical Distributors  
Jul 2006 - Doc # HI202392 Market Overview

**Marc Holland, Program Director – Health Provider Research**

**New!** CMS Awards Contract for a Medicare Patient Health Record  
Jul 2006 - Doc # HI202797 Perspective

**New!** CCHIT Announces First Set of Certified Ambulatory EMR Vendors  
Jul 2006 - Doc # HI202647 NewsFlash

## In the News

### News Releases

- ♦ [Health Industry Insights' Study Reveals \\$3.7 Billion Increase in IT Spending for Electronic Health Record Market](#); *Research Firm Releases Series of Reports on EHR Market, Definitions and Trends*
- ♦ [Systems Biology Modeling Likely to Transform Drug Development Process Health Industry Insights](#); *Analyst Says Spark Needed To Ignite Adoption Boom*

### Media Coverage

- [Modern Healthcare.com](#) (6/24/06)  
Headline: Payers to lead EHR push; double-digit growth expected in IT spending  
Quote by Lynne Dunbrack and article on recent EHR Forecast findings
- [Tekrati.com](#) (6/20/06)  
Headline: Bush Mandate Helps Boost U.S. Healthcare IT Spending on EHRs  
Quote by Lynne Dunbrack and article on recent EHR Forecast findings
- USA Today (6/19/06)  
Headline: Medical record e-devices get government approval  
Graphic sourcing Health Industry Insights' data

## Analyst Appearances

- **Free Web Conference, 8/2 at 12:00 p.m. ET:** Next Wednesday, Eric Newmark hosts a web conference on *Supply Chain Evolution: The Changing Role of Pharmaceutical Distributors*. To register, click [here](#).





## Health Insights & Outlooks

*A bi-weekly newsletter*

- **Archived Telebriefing:** Scott Lundstrom and Lynne Dunbrack present the findings of their EHR Forecast and Analysis in this free telebriefing, *Electronic Health Records Fuel IT Investments in Healthcare*. To access a complimentary copy of the slidedeck and audio file, post-register at <http://www.healthindustry-insights.com/getdoc.jsp?containerId=TB20060706>

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