



## Impact of Entrepreneurs on Consumer-Driven Health Care

- Moderator: **Regina E. Herzlinger**, Nancy R. McPherson Professor of Business Administration
- Panelists: **Ratan Jalan**, CEO, Apollo Health and Lifestyle Limited  
**Michael B. McCallister**, President and CEO, Humana  
**Tony Miller**, Cofounder and Managing Director, Lemhi Ventures; CEO, Carol Corporation  
**John J. Moore Jr.**, Head of Global Healthcare Banking, Morgan Stanley  
**Glen D. Nelson**, Chairman, GDN Holdings LLC  
**M. Edward Sellers**, Chairman and CEO, BlueCross BlueShield of South Carolina

### Overview

There is no disagreement on the problems that plague the U.S. health care system; there is much disagreement on the solutions. But among these panelists, there was consensus that the way to improve the U.S. health care system is through innovation and entrepreneurship.

These panelists show what entrepreneurs can do in health care. They are giving consumers newfound information and power, reshaping how care is delivered, and changing the services that health plans provide and the financial aspects of health benefits. They provide models that can be reapplied in other parts of health care to improve the quality of care delivered and dramatically lower the costs of delivering it.

### Context

Professor Herzlinger provided context around the challenges facing health care in the United States and identified areas of possible entrepreneurial innovations. The panelists then described their particular innovations.

### Key Takeaways

- **Innovation is the only viable way to address the health care challenges in the United States.**

Controlling health care costs must be a national priority in the United States as well as in all other developed countries. Health care now represents 17% of U.S. GDP, compared to an average of 10% for all other developed nations, and continues to grow faster than the rate of economic growth. The high costs of health care are:

- *Hurting U.S. competitiveness.* Employers pay more than 50% of the costs of health care, hurting their competitive positions versus competitors from other countries. For example, General Motors's costs are \$1,000 more per car just due to the costs of health insurance.
- *Hurting job growth.* Small companies are the engine for job growth, but because many small employers do not provide health insurance for their employees, employees are often reluctant to leave large firms and the benefits these firms provide. This could be remedied if tax laws were changed to treat employer-purchased health insurance (which today is a non-taxable company expense) the same as giving employees money to purchase their own insurance (which is treated as taxable income for the employee).

A person's approach toward health care is based on if he or she believes that the productivity of the health care system can be improved. If a person does not believe productivity can be improved, which is the view of many, the only ways to lower the costs of health care are through economies of scale that result in greater purchasing power, or by rationing care. Since today 80% of health care is consumed by 20% of the population, if care were to be rationed, who would receive it?

If a person believes that productivity can be improved, then he or she would support the notion that entrepreneurs have the ability to increase productivity and decrease costs through innovation, which is the view advocated by Professor Herzlinger. The types of innovation that are possible are:

- *Consumer-based innovation.* This is where products, services, or systemic changes are made that cause consumers to drive change.
- *Integration-based innovation.* This is where integrators create new types of solutions by integrating information and/or aspects of the delivery system.
- *Technology-based information.* This is where entrepreneurs leverage technology to innovate.

Examples of all three types of innovation were represented on the panel.

- **Innovation is taking place, but the system is extremely complicated and major challenges exist.**

Mr. Sellers sees innovation taking place, but emphasized that it is important to understand health care's extremely complicated context. He described health care as the most complicated industry in the United States, and said that while lowering costs is a good objective, it is extremely difficult to achieve because it means taking something away from someone.

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*"Everybody's cost is someone else's revenue. If you try to take away someone's revenue, you will be bloodied."*

— M. Edward Sellers

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He said that for those who decry the notion of a single payer system, in many ways the United States is a single payer system since Medicare represents 50% of all health care spending. And, Medicare is squeezing providers by lowering payments, paying providers less than what it costs them to render care.



He also said that 80/20 rule common in most industries is more like 85/15 or 90/10 in health care, with very few patients representing the vast majority of costs. The problem is that the 10-15% of patients who account for most of the system's costs change every few years.

With this as the context, Mr. Sellers's organization is embarking on numerous innovations which include: HRAs and HSAs; wellness incentives that motivate behavior change; a health care toolkit with an integrated EHR; and real-time information for patients, providers, and pharmacies. One dark side of innovation is that some small employers who previously provided health insurance to employees are now providing health savings accounts but aren't funding them at all, essentially shifting 100% of the financial responsibility for health insurance to employees.

- **Humana is innovating its way to success by focusing on consumerism.**

In 2000 Humana had fallen on tough times. The company had been around for many years, had been in a range of different health care businesses, and faced a series of problems. Its brand was in trouble, earnings were off, the costs of health care were unsustainable, and nothing that the company had tried to control costs had worked.

It was at this point that the company determined that the key to the future of health care was engaging the consumer. Humana didn't embrace a particular product; it bought into the entire concept of consumerism in health care. It believed in educating consumers and giving them information, then letting them make choices and accept responsibility for those choices.

The company started with its own employees, providing them with high deductible plans and health savings accounts. They would use their own money to pay for such things as doctors' appointments as these were not insurable events. Since then, Humana's health care costs have only been rising at 5% per year, well below the national average, and 94% of employees have money in their HSA. These results support Humana's efforts to more fully engage consumers in their health care decisions, just as consumers are engaged in all other decisions in their life.

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*"Even as messed up as the environment [for health care] is, lots of progress can be made by rethinking how to apply the same principles to health care as to the rest of the economy."*

— Michael B. McAllister

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In addition to consumerism, Humana is innovating by working with other payers to create critical mass to support use of a web-based information exchange system. This system allows real-time administrative, multi-payer processing. In Florida, it has been adopted by 100% of hospitals and 93% of physicians. This innovation makes the administration of health care work better, resulting in greater speed, increased efficiency, and lower cost.

- **Financial innovation plays a critical role in fixing health care.**

Seeing his 52-year-old father lose his health insurance from the one employer he had ever had caused Tony Miller to conclude that financial innovation was necessary in the world of health care. People need to be taken care of when they lose or leave a job, which is essential based on today's movement from job to job. In addition, while health insurance benefits have typically been structured on a calendar-year basis, Mr. Miller saw an imperative to create a financing vehicle that provided financial protection based on recognizing the continuity of disease.

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*"Disease doesn't recognize the tax year."*

— Tony Miller

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In his view the solution is not a high-deductible plan; it is a restructuring of the financial system that underpins health care to provide health care coverage over the long term, analogous to an annuity.

Mr. Miller also envisions intensive, education-oriented disease management programs that are managed and delivered by providers; not payers. In such programs providers should be compensated for providing holistic care to patients. This will actually increase the compensation that providers receive while increasing the expectation of services they provide for patients having diseases such as diabetes.

- **The processes used at MinuteClinic provide a model that can be used in other areas of health care.**

MinuteClinic is the foremost example in the United States of the retail clinic concept. There are currently about 1,000 retail clinics in the United States, about half of which are MinuteClinics. These clinics, which are staffed by nurse practitioners, are often within retail pharmacies like CVS. They are able to assist patients with simple conditions.

The backbone of MinuteClinic is an electronic medical record (EMR) used by the nurse practitioner. The care process is built into the EMR. When delivering care to each patient, the EMR leads the nurse practitioner through the diagnostic process, testing, and more. Everything is recorded in the EMR, which is provided to the patient at the end of the visit along with additional information about his or her condition, and this information is then transferred by MinuteClinic to the patient's physician.

This is a process innovation where IT (the EMR) enables the delivery of consistent and efficient care for very specific conditions. It eliminates defects and helps produce very high levels of patient satisfaction. There are other areas within health care where a similar model could be applied, delivering consistently high quality care at low cost for very specific situations.

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*"Most people think about iterating their current process instead of truly innovating and doing things differently."*

— Glen D. Nelson

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- **There are “islands of excellence” in India that are attracting medical tourists from around the world.**

The problems with the health care system in India are very different than those in the United States. India lacks infrastructure, most of its citizens lack health insurance, and spending on health care in India is actually too little. While the United States is trying to rein in its health care system, India is trying to create one. This provides a fertile market for health care entrepreneurs.

While the overall health care system in India is lacking, there are “islands of excellence.” Foremost among them is Apollo, founded by Dr. Pratap Reddy. Apollo is the largest health care provider in Southeast Asia, with over 8,000 hospital beds. It was founded on a vision of delivering world-class quality health care at a reasonable cost. Care follows the highest global standards and Apollo’s facilities meet Western certification criteria.

Because the quality of care is so good and the costs are only about 20% of those in the United States, Apollo is attracting many consumers from the United States and elsewhere. At this time, Apollo’s customers aren’t choosing Apollo over another option; they are mainly non-consumers of health care services in their home country.

- **The innovations that will be supported by the capital markets are those that wring savings from the system.**

Mr. Moore offered the perspective of the investment community. He made clear that it will be difficult for companies to raise money in the capital markets in the near future. And, the approaches that were attractive to investors in the past, such as small best-of-breed companies or Internet-based companies like WebMD that rely on advertising, may not be supported by investors at this time. Investors are likely to find most attractive large companies that can wring costs out of the health care system.



## Speaker Biographies

### Regina E. Herzlinger, DBA 1971 (Moderator)

*Nancy R. McPherson Professor of Business Administration*

Regina Herzlinger is the Nancy R. McPherson Professor of Business Administration. She was the first woman to be tenured and chaired at HBS and the first to serve on a number of corporate boards. She is widely recognized for her innovative research in health care, including her early predictions of the unraveling of managed care and the rise of consumer-driven health care and health-care-focused factories.

Her newest book, *Who Killed Health Care?*, published in 2007, was on the CEO Best Seller List. Her previous book, *Consumer-Driven Health Care: Implications for Providers, Payers, and Policymakers* (2004), received the 2004 American Journal of Nursing Book of the Year award for history and public policy. She has won the American College of Healthcare Executives' Hamilton Book of the Year award twice, the Healthcare Financial Management Association's Board of Directors Award, and *Management Accounting's* research prize.

Other books include the best-selling *Market-Driven Health Care* (1996) and *Financial Accounting and Managerial Control for Nonprofit Organizations* (1994). Her articles include "Why Innovation in Health Care Is So Hard," *Harvard Business Review* (2006); "Consumer-Driven Healthcare: Transforming the Delivery of Health Services," *Futurescan: Healthcare Trends and Implications 2006–2011* (2006); "Consumer-Driven Health Care: Lessons from Switzerland," *Journal of the American Medical Association* (2004); "An IT Trojan Horse," *Modern Healthcare* (2004); and "Specialization and Its Discontents: The Pernicious Impact of Regulations Against Specialization and Physician Ownership on the U.S. Healthcare System," *Circulation* (2004).

*Modern Healthcare* readers have selected her as among the 100 most powerful people in health care each year since 2003, and *Managed Healthcare* named her one of health care's top 10 thinkers. In recognition of her work in nonprofit accounting and control, she was named the first Chartered Institute of Management Accountants Visiting Professor at the University of Edinburgh. She has also delivered many keynote addresses at annual meetings of large health care and business groups and been selected as one of the outstanding instructors of the MBA Program.

Herzlinger has served on the scientific advisory group to the U.S. secretary of the Air Force and as a board member of many private and publicly traded firms, mostly in the consumer-driven health care space, often as chair of several governance and audit subcommittees. She received her bachelor's degree from MIT and her doctorate from HBS. She is married and has two children.

### Ratan Jalan, AMP 173 (2007)

*CEO, Apollo Health and Lifestyle Limited*

Ratan Jalan has over three decades of experience across diverse industries and functional responsibilities.

He started in the IT industry with HCL Technology, one of India's leading global IT services companies and then joined Duncans, a multiproduct business house in eastern India, as its CIO. He then moved to Lintas, a unit of IPG, a global advertising conglomerate. During his 10 years there, he set up and headed the integrated marketing division and worked with many international and Indian clients.

In 1996, Jalan migrated to health care and joined Asian Health Service, a joint venture with ServiceMaster, as its president. Since 2000, he has been with the Apollo Hospitals Group, the largest health care company in south Asia. As CEO of Apollo Health and Lifestyle Limited, a subsidiary of Apollo Hospitals, his mandate has been to establish a nationwide chain of innovative health care facilities such as day-to-day health care clinics and boutique birthing centers on a franchise business format. He also guides the marketing initiative across the entire group and is a member of the top management team.

The company received the Franchisor of the Year Award in India for two consecutive years. Jalan was also given the Marketing Impact Award by S.P. Jain Management Institute, Mumbai, a leading business school in India. He has also been nominated as one of the 50 most influential professionals in retailing. He is widely acknowledged as a thought leader in the health care industry.

Jalan has been a frequent speaker at premier management institutes in the country and leading industry forums. His interests range from marketing to health care to leadership.

He graduated from the Indian Institute of Technology, Kharagpur, in electrical engineering. He also completed the Advanced Management Program at HBS.

### Michael B. McCallister

*President and CEO, Humana*

Mike McCallister is president and CEO of Humana, a *Fortune* 200 company within the health-benefits industry. During his tenure, Humana, based in Louisville, Kentucky, has gained a reputation as the nation's premier health-benefits innovator, leveraging new products, processes, and technology to solve the employer's cost dilemma through a consumer-centric value proposition. Under his direction, Humana is defining a new world of health benefits featuring consumer-choice health plans that empower employees to choose and use their health benefits with confidence.

McCallister has an extensive history with Humana, having joined the company in 1974 as a finance specialist. From 1975 to 1980, he served successively as an administrator



and associate executive director for Humana hospitals in Louisiana, Mississippi, and California. He became executive director of Humana Hospital–Huntington Beach (California) in 1980 and served as CEO for Humana hospitals in California and Arizona for the next nine years.

He was promoted to vice president in 1989 with responsibility for the integrated operations of Humana's hospitals and health plans in Arizona. In 1992 he began serving in the same capacity in Texas, becoming responsible for Humana's health plan operations exclusively after the company spun off its hospitals in 1993.

McCallister was appointed division president, in charge of Humana's Texas, Florida, and Puerto Rico operations, in 1996. For the three years prior to being named president and CEO in February 2000, he had senior management responsibility for health plan operations throughout the company.

He plays a leadership role in key industry advocacy organizations. He is on the boards of the Business Roundtable and America's Health Insurance Plans and serves on the College of Business Advisory Board of Louisiana Tech University. In his community, McCallister is a board member of the Greater Louisville Fund for the Arts and a former executive committee member of Greater Louisville Inc. (the metro chamber of commerce). He also serves on the board of directors of National City Corporation.

McCallister holds an MBA from Pepperdine University and a BA from Louisiana Tech University.

### **Tony Miller**

*Cofounder and Managing Director, Lemhi Ventures;  
CEO, Carol Corporation*

Tony Miller is managing director of Lemhi Ventures. He cofounded Lemhi Ventures in 2006 to build the capital base and value-added approach to forming and helping companies continue to advance the marketization of the health care industry.

Miller is also CEO of the Carol Corporation, the Care Marketplace, a Lemhi Ventures portfolio company. Carol is an online marketplace where consumers can shop, compare, and select health care packages provided by a variety of large, medium, and specialty medical facilities in their communities. Carol launched in the Twin Cities marketplace in January 2008.

Miller was also a cofounder and CEO of Definity Health, a national market leader in consumer-driven health benefit programs, which was sold to UnitedHealth Group in 2004. Before launching Definity Health, he was a consultant at Deloitte Consulting, where he focused on strategic business development in the managed-care industry, including mergers and acquisitions, market development, and performance turnarounds.

Miller regularly serves as an industry expert in articles and other news coverage and is a frequent speaker on the topics of consumer-driven health care and health policy. Miller holds an MBA from Cornell University's Johnson Graduate School of Management and an MS in kinesiology from the University of Illinois at Champaign-Urbana.

### **John J. Moore Jr.**

*Head of Global Healthcare Banking, Morgan Stanley*

John Moore is head of Global Healthcare Banking at Morgan Stanley. He had served as cohead of Global Healthcare Banking for several years and before that, had worked for seven years in Global Capital Markets, where he focused on the health care industry. He has also covered the consumer, industrial, and financial-services sectors as well as Latin America.

After graduating from Harvard College in 1985, Moore joined Morgan Stanley as a financial analyst, eventually leaving the firm to pursue a law degree at Stanford Law School (1991). He clerked in the U.S. District Court of New Jersey from 1991 to 1993 and then practiced law at Paul, Weiss, Rifkind, Wharton & Garrison. In 1994 he rejoined Morgan Stanley, where he worked in the Mergers and Acquisition Department.

Moore is the president of the Irvington Institute for Immunological Research and a member of the Rockefeller University Council, the Council on Foreign Relations, and the National Arts Club. He was named a David Rockefeller Fellow, Class of 2006, under the Partnership for New York City. He speaks fluent Spanish.

### **Glen D. Nelson**

*Chairman, GDN Holdings LLC*

Glen Nelson is chairman of GDN Holdings LLC (health services and medical devices). Before GDN Holdings, he was a director of Medtronic Inc. from 1980 to 2002 and served as Medtronic's EVP from 1986 to 1988 and as vice chairman from 1988 to 2002. Nelson practiced surgery from 1969 to 1986 at Park Nicollet; was chairman, president, and CEO of the Park Nicollet Medical Center, a large multispecialty group practice in Minneapolis from 1975 to 1986; and was chairman of the board and CEO of American MedCenters Inc. from 1984 to 1986. He is an emeritus clinical professor of surgery at the University of Minnesota.

Nelson received a BA from Harvard College in 1959 and an MD from the University of Minnesota in 1963. He completed his training in general surgery at Hennepin County General Hospital, Minneapolis, in 1969 and was certified by the American Board of Surgery in 1970.

Nelson serves on the public board of the Travelers Companies Inc. He also serves on a number of private boards and committees, including Advanced Bio-Surfaces Inc., Arstasis Inc., Cardiovascular Systems Inc. (chairman), Carlson Companies Inc., Carlson Holdings Inc., Evera Medical, Guided Delivery Systems, Inspire Medical Systems LLC (chairman), Interrad Medical Inc., RedBrick Health,



Reliant Technologies Inc., Stemedica Cell Technologies Inc., and various nonprofits. He is chairman of MinuteClinic Inc., a wholly owned subsidiary of CVS (Caremark Health Care Services).

Nelson is a member of the HBS Healthcare Initiative Advisory Board, the Harvard University Committee on University Resources, and the Harvard University Committee on Science and Engineering. He is also chairman of the board of trustees of American Public Media/Minnesota Public Radio and a member of the Johns Hopkins Medicine Board of Advisors.

Nelson's major current interest is in improving the performance of our health care system through reforms, including uniform universal coverage for all citizens; standardization, measurement, and reporting of health delivery interventions; universal electronic medical records; continuing timely introduction of best practices; and efficacious new technology (validated by clinical research and postmarket surveillance).

**M. Edward Sellers, MBA 1975**

*Chairman and CEO, BlueCross BlueShield of South Carolina*

Edward Sellers is chairman and CEO of BlueCross BlueShield of South Carolina. Under his leadership, the company consistently ranks as one of the top Blue Cross plans in the nation, serving some 1 million South Carolinians.

BlueCross BlueShield of South Carolina and its family of companies include more than 20 subsidiaries involved in health insurance services, U.S. Department of Defense health program and Medicare contracts, and other insurance and employee benefits services. Today, BlueCross BlueShield has over \$3 billion in annual revenue and more than 13,000 employees, located in 11 states.

Sellers joined the company as president and COO in 1987. He was named CEO in 1992 and chairman in 2001. Earlier in his career, Sellers worked for Westinghouse Electric Corporation (Pittsburgh), the Boston Consulting Group (Boston), and the Blue Cross and Blue Shield Association (Chicago).

A native of Kentucky, Sellers holds a BA in physics from Vanderbilt University and an MBA from HBS.