

# New Models for Healthcare

*Growth in the ageing population coupled with cost constraints in the NHS are forcing those involved in healthcare to think innovatively about how they can adapt their care solutions and pricing.*

**Criticleye** investigates the long-term opportunities for investors and providers

Health has become big business. As a global industry, it's estimated to be worth £2.5 trillion which partly explains why the NHS Chief Sir David Nicholson, the Department of Health and UKTI are keen to try and franchise the NHS brand overseas.

Domestically, a whopping £20 billion of costs are being stripped out of the NHS, which has an annual budget of around £106 billion and employs approximately 1.7 million people. The cuts come at a time when, according to the Office of National Statistics, the population is growing at its fastest rate since the 19th century and is projected to rise by 12 per cent to 70 million by 2027.

Given this curious dynamic of less resources and higher demand, the clear answer for the NHS lies in embracing innovation and finding new partners. **Andrew Gardner**, CEO of **Harmoni**, which specialises in out of hours care, couches the problem in the following way: "How do we deliver healthcare differently in order to save money?"

Change won't be easy in a sector that is highly charged politically. **Lewis Doyle**, Non-executive Director of Brighton and Sussex University Hospitals NHS Trust, comments: "Despite numerous research reports from government and professional services, things are incredibly slow to happen."

£106 bn

The NHS budget  
for 2011/2012

But the fact is that, one way or another, change is unavoidable. There are enormous opportunities for private companies and investors as they inject not only capital, but bring new ideas and skills to a sector constrained by tradition and processes.

Of course, standards have to be maintained and even improved because healthcare continues to be an emotive subject for the general public. As the care home provider Southern Cross plummeted into financial chaos in 2011, many pointed the finger at its former private-equity backer, Blackstone, while the scandal around some bankrupt NHS Hospital Trusts rumbles on.

The task for investors and businesses is to demonstrate they can genuinely build long-term value. **Justin Ash**, CEO of **Oasis Healthcare**, a private-equity backed company which provides private and NHS dental care, argues that focused capital and resource investment are essential for UK healthcare and he anticipates "an increasing role of PE-backed companies in the years ahead".

Over the following pages, business leaders tell Criticleye about the dose of medicine they believe is needed for the UK's healthcare system and what they see as the key challenges for the sector.

**Mark Phillips**

Head of Development, Supply and Service  
GlaxoSmithKline

*“The largest pharma company in the world barely has 10% market share”*

Healthcare is not like the automotive industry where you can look to a single company like Volkswagen, for example, as the dominating player in the market. Because of the way that the healthcare industry is regulated, no single player can take complete control. It's called the NHS but it's actually fragmented in terms of the way it is managed and operates.

The pharmaceutical industry is the same – the largest pharma company in the world barely has 10 per cent market share. None have the power of those major players in automotive, media, technology or consumer electronics. There's no Apple in healthcare. That, in itself, makes it an interesting sector: it's more fragmented and therefore there's greater competition.

Innovation and change in the industry is being driven by the combination of demographics and limited budgets against the

continued aspiration of patients and consumers. These three elements provide an almost perfect storm. So there are news stories of medical science driving ever increasing expectations around treatments and 'miracle cures'.

Then there's the issue of demographics, where people are living longer and, as they get older and invariably have more illnesses, are placing more demand on the healthcare system. Finally, there is the question of constrained budgets, not just for government and the NHS, but across Europe and the US.

Even in emerging markets, the factors of technology and aspiration, demographics and funding will come into play; they're just on different points of the cycle. But it's these common elements that are why I believe there will always be significant opportunities for people who can find innovative and better ways of providing healthcare.

**Andrew Gardner**

CEO  
Harmoni

*“Many countries see the NHS as a really good health service”*

The key question is: how do we deliver healthcare differently in order to save money? There is the challenge of reducing costs by £20 billion and we've seen a mood change in 2012 where it's dawned on people that they can't go on delivering healthcare in the way they have in the last ten years. Solutions involve moving more care out of hospitals and into the community and the home, and changing the skill mix of people involved in the sector.

This means not using consultants but using GPs; not using GPs but nurses and so on. The NHS's QUIPP [quality, innovation, productivity and prevention] programme aims to drive these changes and take costs out of the system. But they're not moving fast enough.

Innovations like e-health, tele-health and tele-monitoring will become crucial because you can prevent interventions or exacerbations of health by monitoring people at home. This is a big

thing when you consider that 10 per cent of the population makes up 70 per cent of the cost to the NHS. If you can reduce the expense of those people, whether it's by monitoring them or by improving their health... that is going to make a big difference.

In healthcare, European procurement rules guide everything, which makes innovation difficult. You have to find areas where the market is buying and then you have to be innovative in your approach to that and try to be better than anybody else.

As the NHS brand is exported overseas, [the NHS] will have to understand how to market and price things, which creates opportunities to work with the private equity world. Many countries see the NHS as a really good health service but it doesn't, as yet, possess the necessary sales and marketing capability, so how it learns how to do this when taking its product to market will be crucial.



**Lewis Doyle**  
NED  
Brighton and Sussex NHS Trust

## *“Despite numerous research reports... things are incredibly slow to happen”*

Demographics are changing and we're all living longer. The NHS and other healthcare providers are trying to readjust their pitch as to what they offer in areas like Parkinson's, dementia and other critical illnesses, but we're about five years behind the cycle on this. Despite numerous research reports from government and professional services, things are incredibly slow to happen.

Many of the issues impacting the healthcare sector are the same as those affecting the wider economy, particularly if you look at the financial angle around getting more for less. But, having worked in the NHS for the past 11 months, I see attracting and retaining talent as being one of the critical factors.

Within this, I think the healthcare sector, and particularly the NHS as it expands overseas, would benefit from greater diversity in terms of external and commercial skills. Running a university trust

in Brighton is surely markedly different from running a hospital in Delhi, for example, and I suspect you'd need different people who are familiar with those regions and cultures to make it a success.

In terms of our own talent recruitment, we typically have some 130 places available at the medical school each year. In 2011, we had 2,247 applications for 134 places. Clearly, there's no lack of demand for training.

Can you expand this model overseas? Yes. Could you make money from it? That's more difficult to assess, as is ascertaining how much would then plough back into the NHS.

But when you consider that the UK collects between £130 to £140 billion in PAYE each year, and the cost of the NHS is over £100 billion, that's an immense proportion of overall cost.



**Justin Ash**  
CEO  
Oasis Healthcare

## *“Access to focused capital and resource investment is essential for UK healthcare”*

Overall demand in healthcare is strong and will inevitably grow each year. At the moment, that growth is balanced by cost constraints in the NHS and caution on the part of people on whether or not to opt for private healthcare.

Successful players in the healthcare market need to provide quality and efficiency to the NHS and its commissioners, so they can grow its share and improve patient access in that demanding environment, as well as finding ways to make private healthcare available to patients that is not prohibitively expensive.

The vast majority of private-equity backed businesses are investing heavily in facilities, infrastructure and services, and they have forged strong and positive relationships with NHS commissioners. Crucially, they aim to provide well-regulated standards of patient care and quality engagement.

At Oasis Healthcare, for instance, our period of PE ownership [backed by Duke Street LLP] has allowed over £20 million of investment in existing practice infrastructure, 40 new NHS practices, technology and the creation of nearly 200,000 new NHS places as well as continuous new private places. The access to focused capital and resource investment is essential for UK healthcare and I anticipate an increasing role of PE-backed companies in the years ahead.

PE is already collaborating on NHS reforms in every sector – primary care, domiciliary care, residential care, secondary care and of course dentistry. Its companies are recognised in each of their areas for their innovation and are active participants in new models of care.

It is vital for PE-backed companies to be active and supportive innovators in their healthcare space, both as a source of value creation and good corporate citizenship.



**Ian Bowles**  
CEO  
Allocate Software

## “The mindset of the media and the politicians in the UK needs to change”

We are all going to live longer and therefore demand for services will continue to grow, whether that's in the acute illness sector or around old age and social care. At the same time, governments can't continue to fund that growth like they have done in the past. It's simply unsustainable.

However, there's a big difference between private and public organisations. In the private sector, patients pay for their service, so providers think about customer satisfaction. They consider patients as customers, first and foremost, because they are trying to drive a business.

The NHS has never had to think like that because their doors are open and they don't have to work in the same way to get people referred to them. They don't consider their patients as customers and they don't do any of the things that a business would do in terms of thinking

about how a patient perceived the service that is being delivered. It is changing, but very gradually.

If the government wants to push the NHS brand overseas, the mindset of the media and the politicians in the UK needs to change. The press only reports on really bad news. Politicians then jump on it and, in the resulting media frenzy, the healthcare professionals can't respond appropriately. We need to get people to think of healthcare in a more balanced way, particularly in the media.

There's always an opportunity to innovate, improve and make money out of healthcare. Communicating that properly remains a challenge, because as soon as patients, politicians or unions think of private companies making money out of the delivery of healthcare, there's a backlash. But we should be looking at the best outcomes and not dwelling on who provides those outcomes.



**Bob Beveridge**  
NED  
Hampshire Hospitals NHS Foundation Trust

## “NHS providers aren't comfortable partnering with private firms”

In my opinion the biggest barrier to co-operation between the NHS and private providers is a lack of trust. There are large sections of the NHS which might benefit from improved management and investment, but the experience to date with PFI [private finance initiative] contracts in particular has not been good for current NHS providers.

Therefore, while on paper there is a big opportunity for public-private partnerships, I fear that the objectives are diametrically opposed: the NHS aims to provide a secure, sustainable, long term, high-quality service, universally to all citizens, and make sufficient profit to reinvest in new technologies and maintain their infrastructure.

Also, the private firms find it difficult to trust the NHS because politics creates too much change and uncertainty. They want to provide a high-quality service to make a good return for their shareholders,

while also investing in technology and infrastructure, as long as it pays back within three-to-five years.

Some NHS providers are not comfortable partnering with private firms because of these dramatically different priorities. There are clearly opportunities in supporting services: IT systems in particular, but also consulting on organisation development, M&A, procurement, finance, HR, public relations, internal audit, change management, GP Practice management, and so on. I believe the private sector is best advised to focus on these and it has the capability to offer services that are really mutually beneficial to themselves, the NHS and the UK.

The fundamental conflict in healthcare in the UK is the short-termism of private investors versus the long-term needs of the NHS.

The US model is not a good benchmark.