

THE ASSOCIATION OF HEALTH CARE JOURNALISTS ANNUAL MEETING

HOW THE INTERNET IS CHANGING THE FACE OF HEALTHCARE

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MODERATOR: Ian Morrison is with us. Ian is a very, very well known and highly regarded speaker and writer on health care issues, as well as general business issues in the United States. He calls himself, excuse me, a health care futurist. He's based in Menlo Park, California. And he was for a number of years the president of the Institute for the Future there. He is -- he does a lot of consulting for health care organizations and businesses. He's written a number of books including *The Second Curve*. And he's also involved in a number of start-up organizations, including most recently Uncanova (?) Pharmaceuticals.

As you will soon learn, he is a native of Scotland. He grew in Glasgow and earned his degree at the University of Edinburgh and later he spent a number of years in British Columbia. And he passed up a paying gig in Sedona, Arizona today to be with us for free, so we owe him special thanks. And he is going to talk about how the Internet is going to change health care.

MR. IAN MORRISON: You know, Paul, it's a pleasure to be here and I applaud you for your new organization and wish you great success. I see a lot of my friends out there that I'm reuniting with. I don't know about you, but I'm having a great week. So far this week I've been in Las Vegas, Disney World and Washington, D.C. The three places in America most disconnected from reality. If you're a futurist, it doesn't get any better than that though.

I -- (inaudible) saying that you're not allowed to use humor in health care, so I'm going to violate that law I think now in the course -- and you can't be sarcastic. Glaswegians know no other way of communicating so.

You know, I am literally a professional futurist which is an (inaudible) in and of itself. People often ask how do you become a futurist? My undergraduate training at Edinburgh University was geographic and economic change in Scotland, 1580 to 1830, which is actually incredibly useful. I'm sure many of you in journalism have similar kinds of background.

It actually is a useful training. I've been a student of structural change for 30 years and those of you that know your Scottish history will remember in a very, very short period of time in the latter part of the 18th and the beginning of the 19th century, Scotland transformed itself from being a

bunch of brave-hearts, claymore wielding maniacs to being the crucible of the industrial revolution and the age of enlightenment. As you well know, the Scots invented every important technology over the last 500 years including golf, the steam engine and the television. You want to fight that, you can, but you'll lose. We clothe the sheep. And given my countrymen's (inaudible) for that animal, it's probably in the (inaudible).

So I grew up in Glasgow. In Glasgow, health care is a right, carrying a machine gun is a privilege. And America's clearly got it the wrong way around. The irony, deep irony is the only crippled Americans who are entitled by right to health care are people that are in prison. It's three strikes and you're covered.

I moved to Canada in the mid-1970's I guess, and did my (inaudible) in health policy and health economics in Canada. I studied with Bob Evans, one of the world's great geniuses in health economics. If you're looking for a source, there's somebody you should talk to.

And I moved to California in the mid-80s and started the health program at the Institute for the Future and ended up running that organization for many years. Actually I was a little concerned that Al Gore may be a little pissed at me talking about the Internet, after all, he invented it, so I sort of took his subject I guess. But the Institute actually has a close connection to the Internet in that when it was founded in 1968, (inaudible) organization, one of the founders was Paul Barren (?) who was the inventor of pack and switch networking, which is actually the core technology of the Internet. And in fact, the Internet, or the Institute rather, developed the early e-mail systems on the Internet many, many years ago long before my time. So there is a close connection actually back to the topic of the Internet.

Most of my-- journalists are always concerned about conflicts of interest. I work for everybody, okay, from Pfizer to Kaiser, hundreds of different organizations from on a *pro bono* basis with my local county health department and on a Pro-bono basis with venture capital. So I mean, I am the single most conflicted person in the sense I get paid by everybody, (inaudible) talk to. But on the other hand, I think I'm pretty even handed. I insult every single group I speak to and I'm going to do that to you too; okay.

Let me just give you a sort of outline of what I want to talk about. And that is really setting up what the key driving forces are shaping the Internet in health care. I want to talk specifically about some of the strategies and hopefully if we have time, we will have time because I'll go fast, answer some of your questions and concerns.

I think it's important to start by putting the Internet and health care in the perspective of the new economy. And I want to talk a little bit about my

take on where we are with all of that and draw a little bit on the book I did, *The Second Curve*.

I also want to sort of share with you some of the -- the other factors in health care that intersect with the Internet, particularly public discontent with health care generally and with managed care specifically. I say in my little break out session that we're about to start -- you guys perfected the de-managization (?) of managed care and we're now perfecting managization of pharmaceuticals. But you are reflecting a discontent with health care that is quite profound and I'll talk a little bit about that.

I want to put the Internet in the context of consumerism. And there's a lot of nonsense talked about consumerism in health care. As I said, everybody is delighted to be a consumer in health care. My colleagues at Lou Harris and Harvard, I have a long relationship with Mel Blandon (?) and Humphrey Taylor; there again, great sources for you, if you don't use them.

We've got an ongoing survey service that we provide for the private sector. And, you know, we've talked to our clients about what we call reluctant empowerment. This is empowerment is code for you're on your own power. This is consumers have been asked to pay more out of pocket. So that's a good track.

Managed care is in disarray. It's an industry going nowhere. They don't have a lot of good ideas. Although I think they bottomed out. Actually I've had calls from two CEO's in the last two months asking me to facilitate sessions fundamentally rethinking the relationship between the HMO and the provider, and the HMO and the patient. So I'm encouraged that we've bottomed out in some senses. And there's some good ideas around.

But we do-- the reason why managed care is important is we don't have another big idea. It's not like there's some other thing, you know, that somebody else around the world is doing. You know, I mean, I've worked in 13 different countries. Every health care system around the world is an ugly (inaudible) based on the values. And there isn't a magic bullet. Canada works for Canadians. You know, I lived there, my mother lives there. She sees the benefits and problems of Canadian health care. But Canadians are not Americans, they have different values. Canadians describe themselves as unarmed Americans with health insurance. They believe in equity, we don't. They believe in universality, we don't. So there are different-- it's a different trend.

I also want to talk a little bit about the fruits of innovation. You know, this fabulous new worthy technology is coming down the pipe that will be both expensive and effective and that will pose huge challenges. It's not that this stuff is all useless, some of it actually makes sense. And

finally, obviously I want to focus, obviously supposedly at the end on the -
- the IT infrastructure.

Let me just put in context the new economy. Peter Schwartz, who runs a thing called The Global Business Network, which is similar to The Institute for the Future, wrote a wonderful book called The Long Boom. And it started off as a large magazine article, in which he argued we're in the middle of a 25 year economic expansion globally because of openness in technology, trade and communication; because of new technology, the Internet specifically; but also genetics and genomics, the rise of (inaudible) technology.

By the way, these things come together. National Public Radio, which I revere, I was listening to them a couple of weeks ago in my car and there was this story about the University of Glasgow. You know, Glasgow is my hometown, so I sort of picked up my ears. And it's about this doctor who invented this little tiny pill size camera that you can ingest and it would-- eventually it would replace all the endoscopy and colonoscopy that we do today. But there's one problem. You can't get a power source powerful enough to make the thing work. And so right now, you have to swallow this little pill sized thing and swallow a car battery, which wouldn't work too well. The first part of that story is true, by the way; the second part was a joke.

The other core element within Peter Schwartz's forecast is that markets and networks are replacing government and hierarchies as the way in which things get done; okay. So that's a sort of optimistic view of the new evolution. I think the way to understand why there's so much money in the technology business is to put it the context of the financial markets and it might seem a strange thing to talk about to a health care audience, but I think you can't separate these things.

The reason the Internet is a big deal is partly because of the money behind it. Why is that? Well, because we are all in our peak earning years, us baby boomers. So there's a lot of surplus cash around. We've seen a massive shift from the (inaudible) benefit to the (inaudible) contribution, which means we're all investing. And you talk to kids. They don't want to be investing in General Mills, you know, they want to be investing in something they think is going to be around 30 years from now. So we're all putting money into technology sectors.

And what's happened over the last year, you know, even though we've got a 30 percent drop in some of these stocks, that's on four (inaudible), I mean, we're all betting that the house is money, those of us who've been in this. Many of Americans have been in this for a long while. So that's why we're still seeing significant interest in technology and of course, the well publicized the day trading on Internet stocks and institutions. Day-trading as been a fact in that.

I think also it's systematic of where we are in America. Namely, that people will take a risk for the big payoff. You know, I was with the CEO of one of Johnson and Johnson's companies recently and was saying he tried to hire ten MBA's from the University of Texas at Austin, and he came away with none. And the reason is they were all asking how many options and when to divest. So people are taking less salary in the short run to bet on the .com revolution. I'm sure many will be in this room.

And that's fueled the technology boom and until the recent sort of micro crash, dot-com-ers had free money to buy service, to buy ad space. I mean, it's been a bonanza for the newspaper industry in advertising because all these dot-com-ers have been spending money hand over fist. So that's part of where we've been.

Now, we've had this disruption, but I think it would be wrong to presume that the Internet is now irrelevant. It is the engine of change in this economy. If .com is made up and it's not real, then we have a big problem because it's fueling half the Silicon Valley and it's transforming and improving productivity across the old economy as well. And that's why it's an important deal.

We can talk about some of the other deals, I don't believe that we're going to see a huge crash but I don't give stock market advice. One way to think about this is a sort of paradigm I developed in-- and I mean, there are other versions of this other people have written about, called the Second Curve. And the argument is that, you know, you're going along quite nicely on the first curve, which is the old way of doing things, you have this sneaking suspicion in your gut it's going to decline in absolute or relative terms and be replaced by a second curve. A new business or a new way of doing business, a new economy if you like, that is radically different from the first.

Now, the dirty little secret of futurism is we cannot predict precisely the rate of change. And there's a tendency to overestimate in the short run and underestimate in the long run. So you jump too soon, you walk away from all of the profit that's currently on that first curve. If you don't start building the second curve, you're not going to be in the phone book later on in the 20th century; okay. And that's the change in every single Fortune 500 Company I ever worked with is going through. Being newer in the long run that there's something different happening. In the short run all the profit is coming from the core businesses, the old businesses. And that's true in the Internet world, too. And the reason I'm saying this, it's important building the conclusion I want to make at the end about what's going to happen in (inaudible).

So the first curve is the old way of doing business. All of the current profit and revenue, most of it is on that curve, but it's going to slow in the long

run. The second curve, the new business, the new way of doing business is radically different from the first, challenges all the distribution channels, but is the source of future growth.

Last few things that bring a new economy afoot, I saw this construction magazine which I thought was a brilliant list of how much value is added by various product, you know. I put it together because I was giving a talk on e-Commerce in the steel industry and I was just trying to point out to the steel guys that they're not exactly value added, you know. Silicone is a more prevalent, you know, element in -- on the planet Earth. And yet, you know, Intel is getting \$42,000 proponent for their product while the steel people are getting 19 bucks. But this is kind of interesting for a little perspective.

Let me skip this because really the second curve is about new technologies, it's about new consumers, it's about new geographic markets. And really the thing, the manifestation of that new technology is the intersection of computers and communications coming together in the Internet and exploding into public consciousness within the last couple of years.

Now, if you're a futurist, you're entitled to your own laws, so these are my laws of the Internet. And I really developed these with regard to business, the consumer. But I think they hold up in the business today, the business area, too.

First of all, this is the mother of all commoditizers. I mean, you think about Amazon, as an offer. I don't know how, you know, you feel about it, but Amazon killed the independent bookstore. It's also put downward pressure on margins for mid list authors. You used to be able to get great advances. You don't anymore. The -- the margin's been taken out of the book business, as it's taken out other businesses. Now, the irony here is that Amazon doesn't make any money. And it's gross margin gets worse rather than better over time. And it's what I call kamikaze capitalism. They need money, they've already got it through the ITO, you know. They need-- they needed money a long time ago. And they're going to be-- continue to be rewarded. I don't think their stock fell dramatically because they are basically being rewarded for making change not for making money. They are the leading global experiment in e-tailing and Wall Street will continue to fund them in perpetuity even if they keep losing money and, you know, I think Steve Nelson has been quite honest. He's not telling people he's going to make money (inaudible) because we need to see where this is all scaleable.

Now, the dream of course, is that we get to this third deal which is that despite the fact this is a one to one medium, the race is on to build mass product. The consumer federal by the way, (inaudible), you know, we're all better off, we get cheaper books, but they way they win in the end is to be

the only player, the only one or two. And that is the prevailing sentiment. And the irony for those of you who have been involved in the Net for a long time is profound, because the Internet is really conceived as sort of a cyber hippie place, you know, where everybody can communicate with everybody. And yet, the business behavior on the Internet is you are either number one or number two in a vertical (inaudible), you know, sports page, whatever you name it. You're either going to be number one or two or you're toast; okay. That's the venture capital margin, okay, which is sort of trentive to what you might have expected.

And it also explains why such enormous amounts of money have been spent on advertising. It's what I call the Alberta Tar Sand model of Internet advertising. If you're not Canadian, you won't know this, you see. Underneath-- underneath the western province of Alberta is the equivalent of two Middle East squirts oil lost in the tar sand. The one neat problem is the amount of energy it takes to get the oil out, exceeds the amount of energy you get out at the other end; okay. So you have to put in more energy than you get out in forfeituity. And exactly the same is true of any .com company that claims to have an advertising business model. They will spend more in advertising than they take in in advertising. That is true of every single .com company with the exception of AOL and Yahoo.

In fact, I can show you some data if you like about who does Internet based advertising and you'll see it's a form of electronic check taking, you know. Everybody is, you know, I've got banner, you've got banner, we will do an exchange. I've been to dinner parties with venture capitalists with their little portfolio guys do these deals. And it's legal. That's booked as revenue. As long as it's no more than 10 percent of your revenue, the FCC allows you to book it out as revenue. So it literally is electronic check taking. That's why an advertising model is not necessarily the best thing to hear when somebody says that's their business model. It's not like the way you guys run newspapers.

By the way, I gave a talk with a slight to the licensing executives, you know, the people that license new technologies. And this guy came up to me afterwards and he said: Ian, I didn't want to embarrass you from the podium, but I'm the head of the Alberta Research Council and I'm also the guy who invented the technology for getting oil out of the tar sands. And I'm afraid you're wrong. Currently 35 percent of Canadian oil comes from the tar sands and it's going to be 50 percent by the year 2010. So I felt a bit like Ronald Reagan, you know, it was a beautiful story, it just never happened, you know.

The final wall is incredibly important and you must be disciplined about this in your coverage of e-Health. There is a lot of physical fulfillment in e-Commerce. I don't mean this in the carnal sense. This stuff has got to get there; okay. And the notion that American health care is going to be delivered by some cyber doctor in Newfoundland and no one will ever touch

a patient is completely lunacy. Eventually this stuff has got to connect with doctors, hospitals, and patients. 85 percent of health costs are consumed by the 15 percent (inaudible) because people, any meaningful disease will eventually will require scoping, groping or urinalysis; okay. And none of that can be done effectively over the Internet. So I'm not trying to trivialize .com consumer health plays, they're all interesting and important, but it's not the end game where (inaudible) anything else. And I'll come back to that point.

Just while we're on the sort of non-health part of this, the business to business deal is really interesting. We can talk at length about who these actors are. The point I want to make and this mirrors the experience in the health sector, I just want you to look at these numbers. This is the market capitalization of some prominent business to business plays on March 17th and April 25th. They've lost about 50 percent of value in this. (inaudible) Jeff Arnold, who was at the Wall Street Journal conference I was at a couple of days ago, talking about (inaudible) as an average lost 35 percent of its value since the start of the year. So there's been a precipitous decline in a lot of .com areas, but none greater than in b to b generally and e-Health specifically.

Now, that's basically in the health care area. Now, it's very important, I'm going to talk about managed care and I want to make sure you understand my definition of managed care. It's an organized system of health care, financing and delivery that takes the excess profits of hospitals, specialists, and drug companies and gives them to (inaudible). God Bless America.

But I have-- this has been a bonanza for leeches like me; okay. It's been spectacular. I mean, running around unbelieving, telling people to change. Nobody actually changes. We don't change in American health. We have the most conservative, immobile business in American life. But they talk about change a lot, but they don't actually do much.

Now, let me just quickly, I want to sort of spell the conversation with data which I know is very bad to do with a journalist group, but let me-- let me give you just a little perspective on sort of where the public is with regard to a number of issues that relate to the Internet.

First of all, this is from Paris interactive survey calling their study we did in the last of years. Who is doing a good job with regard to health care? I'm sorry; it with regard to consumer satisfaction. Top of the list are computer hardware and software companies. The Internet is perceived as being exciting and the new technology is getting cheaper and better and faster, you know, because it moves well, they're doubling circuits per chip. Car manufacturers are up there, airlines are up there. Then hospitals and I mean, they've dropped a little bit. I went a big fancy hospital, I thought I was in the Ritz Carlton, by the way for about 20 minutes trying to find this

place and I didn't realize it was a hospital. I mean, it didn't look like any hospital I've ever seen. Anyway, but hospitals have fallen a little bit. Now, I point out to my friends in the hospital industries they're behind airlines; okay. I'm a million mile flyer with United. I fly 100,000 miles a year. They treat me like scum. God knows how they treat the poor bastards in the back of the plane, so I mean, it's pathetic. I mean, it's really bad. So hospitals should take no solace in being behind airlines.

Drug companies dropped precipitously. And I think that's a two fold effect. Partly consumers who are reacting to price increases and partly your increasing demunization of the pharmaceutical industry. You can see the rapid drop there. Health insurance companies and managed care companies have fallen very significantly and of course, tobacco companies at the bottom. I suggested to Philip Morris by the way to start and HMO and get up off the bottom of the list.

Again, you have had a significant influence, you know, the irony in this and I was listening to John Lindberg (?) earlier, and there is an irony here. And I want to be a little bit critical of you in this, because the irony is back in 1995, the public, the plurality of the public actually fell to managed care health quality. They bought some of the organized systems of care arguments that were around. You know, the sort of (inaudible), the stock model HMO's, the medical variation stuff. But that flipped over even the intervening periods and the numbers of you certainly today are unchanged from 1980.

So we have demanagized managed care and we now believe that managed care hurts quality. But in all fairness to you all, you all are reporting on a legitimate thing. The American public surrogate for quality is (inaudible) is choice. You know, the scientific rigor stuff, the evidence based medicine. Now there's consumers waiting up at night for the next few weeks (inaudible), you know. What they want to know is can I go anywhere when I'm sick. And it's the illusion of quality equals choice that has led us to the disintegration of managed care and this demanagized.

Doctors are unhappy, but the reason I show this slide is when you ask physicians about quality, and you know, I spend a living bashing doctors, but quite honestly, they care about quality. It's important to them. And you ask them who helps you with regard to quality. Number one on the list is Medical Specialty Society. By the way, no group is over 50 percent. You know, doctors are clinically depressed in America. They don't feel good about themselves or the future. But look what's number two; the Internet. This blew us away. We thought doctors would be reacting against, you know, patients coming in with 40 pages of printout off the Internet they got the night before. And that's not what's going on. They actually, as we are uncovering another service, saying it's quite useful. And of course, doctors despise the government and they despise managed care.

Now, the Internet is part of and is being reinforced by the whole brother consumerization trend. Rising education levels, the cueing of benefits that move deferring benefits to deferring contribution, the increasing co-pays and deductibles, relentless media coverage. Every morning Katie Couric's got a medical miracle, you know, every single morning. Our laboratory rat got better and there's something else I'm supposed to get.

The right to consumer advertising. And here's a conflict for you. You know, if it wasn't for pharmaceutical inserts, Newsweek would be three pages long; okay. You know, explosion is direct to consumer advertising. \$3 billion last year, it's gone up 30 percent compound.

Disease groups advocacy, how it's made a huge difference in consumerization. And of course, complimentary and alternative medicine. 70 ½ million Americans take a thing called St. John's Wart. If you were in the marketing business, the last thing you'd pick to call a product you have to take orally is St. John's Wart. You know, I mean, it's not like-- it's not the first name that comes to mind. And yet, lots of people are doing this.

But the biggest thing of course, that's happened the last five years is the use of the Internet, what we call Cyber-(inaudible). And I don't mean that in a negative sense, although there is a good deal, as I'll show you, of driving yourself to distraction in the middle of the night. You know, Howard Stern has been indicated among the chronic ill, what is the reason you're going on line. If you add bipolar disorder and depression, you get to a third of all people who are going on line. I'm serious. That's-- that's-- and there's a big story around when is the peak use of the Internet for health information. A lot of this is between midnight and four in the morning. I mean, this is the sleep deprived America using the Net.

Now, the hard data, 60 million adults search the Web for health care information in '98. That number moves to 70 million in 1999. And the most important thing is 91 percent of them found what they were looking for. Now, the important thing is where are they getting the information from. And I want to show you a chart the house developed from a panel. They have a panel of 5 million consumers who do surveys on line and allows them to do very interesting stuff. And this is, remember, the sample is 10,000 people who are chronically ill and on the Internet; okay. Where are they getting the information from? They're getting it from the .com companies. They're not getting it from the doctor today. You know, if you look at this chart, health pages are at the top, you know, on-line services; then medical journals, academic institutions. But if you look down the list, if you can read this, at the very bottom of the list are hospitals, their health plans and individual physicians.

Now, my forecast is when we do this study three years from now, this will change. It will have to change, as I said earlier because we're going to

connect the old health economy, the first curve, the doctors, the hospitals, the patients, to the new health economy, because otherwise, we're not going to liberate the value inherent in the Internet. And let's remember you heard about this morning from Karen Davis and others, there is this huge segment that we don't like to talk about mainly the uninsured. Many of them who don't have access to the Internet but perversely, I believe a significant amount of care, the 20-somethings, is being delivered to this uninsured population over the Net. This is their source of health and rather yjasm primary care physicians, I have nieces in their 20's who are well educated who don't have any health insurance. And I'm sure this is what they're doing for much of their care.

I'm going to skip this. I don't need to tell this crowd that managed care is in turmoil and it's largely because of prescription drugs. I want to get this point about where we go from here with regard to information technology and the Net.

You've got to, again, put this in context. This industry spends about less than -- between 1 and 3 percent depending on how you do the math on high (inaudible). Banking, another knowledge intensive, customer service intensive industry spends 10 percent on information technology. So we are way under-invested in information technology. And it's largely because doctors and particularly, it's not in the hospital segment and the doctor segment, it's because doctors are cheap and techno-phobic. They don't want to use technology unless they can bill for it; okay. I mean, they like stuff they can do to you that they can bill for. And you can't bill for having a computer in your office.

There's been no clinical usage and this is partly physicians' fault and it's partly technologists' fault. The reason why we don't have clinical usage by the bed side is because we never actually designed information tools that they can use, that—that-- you know, it's faster and easier to do it on paper. You know, I'm on the board of (inaudible) medical record. We're just closing the company down. We couldn't sell it to them because it required fundamental redesign of the care process to liberate the benefit of information technology and structured data sets. That was (inaudible), but we'll see. Because we're in this shift of paradigm. The old paradigm was let's create the electronic medical record; okay. The electronic medical record is in my view a permanently emerging technology; okay. It's been the future for the last 30 years and it will be the future for the next 30 years. (Inaudible) has been talking about this stuff for 30 years. This is not a new idea. And you know, the company we just shut down is ten years old. Can you see them putting in \$20, \$30 million. We basically just shut it down. So some of our knowledge assets that, you know. Why? Because it's hard to do. The dream was if we could do it, if doctors could change and redesign their practice to take full benefit of information technology, then we could do things like ordering tests and lab results and reporting them out, we could do financial transactions easily, claims,

billing. And remember, you can't do financial transactions without the deep electronic medical record information. Drug claims are easy, because drugs are standardized. You know, remember, in the medical environment, a claim is a creative fiction where doctors and patients conspire against insurance companies. You know, they're making a lot of this stuff up. And so there's no standardization there to a great extent.

So that was the old paradigm. The new paradigm of doctors using computers is about will they helping on the dot-commerce using their huge free capital they got from the stock market to drive Internet usage onto the physician's desktop, even though physicians don't work on desks, duh; but at least into their office; okay. Now this is not so they're going to have electronic medical records on line, this is so they use the Internet for what we all use the Internet for, e-Trade and downloading Pamela Anderson videos; okay. That's-- these are going to be the first applications, no question about it. You know, look at what -- who did (inaudible) they be acquired. They've got the head of ABC News come over, they've got this channel. I mean, these doctors tend to watch TV. They don't have time to see patients, for God's sake. You know, so this notion that doctors are thirsty for on line information in real time in their office is nonsense in my view. Other than that, I have no opinion.

Now, the reason I'm cheering the dot-com-ers on is I hope by getting presence of the Internet onto their desktops or at least in their offices, because most physicians are not on line. They are at home, you know, but they're not at work. But we will eventually migrate to those applications— I'll skip this. This is really the point I want to make, there are applications that make a difference. You know, Dick Lawrence, my friend who runs Kaiser, he is saying that the shafting of health care financing and delivery. It will be currently due. Discounted fee for service, big costs for those loss of doctors, 15-minute office visits. We cannot sustain that if you add on genomics, genetics, the new science on top of that. It's not sustainable. We've got to fundamentally change the way health care is delivered. And that's, you know, very threatening to a lot of organizations and institutions. And the Internet provides a mechanism for doing that.

So I am running around on platforms insulting every actor in this game, trying to urge them that we don't stop or we'll have what we call limited cyberchondria. That's where we are right now. Millions of consumer base web sites of uneven information with no pull through or radical differentiation and also, having no real impact on the way care is delivered. Improvement in the consumer's understanding of the care processes but no, not really any redesign of health care deliveries fundamentally.

This thing can (inaudible) for doctors. I mean, that's one end point. Here, doctors are rich, people are having a channel just for them, a portal just for them might be helpful, but I don't think that's the answer. For me, the

Bloomberg of health. Again, you know, I'm on the board of a Fortune 500 company, we have Bloomberg in the head office suite, the CEO spends, you know, eight nanoseconds a day looking at Bloomberg. I don't see how they do their work. Their work is something else. Similarly, many of the services that are talked about as e-Health for doctors are not going to help doctors do what they do.

The big breakthrough and where the money is and where (inaudible) is focused I think in the short run is what I call Betty-ware. Now, this is terribly politically incorrect. The politically correct version is Bob-ware. But Betty is the person who runs every physician's office in America; okay. She's the person who often sells the eligibility verification problems, who reconciles the fact that there are 13 different primaries that the person is under, and that they've got to, you know, check with them later. The physician doesn't do that generally. It's somebody on their staff who is reconciling all this stuff.

Now, the whole of what who Web and D bought, they bought companies that were in the claims processing business, the transaction business. That's where their headed in my view in the short run. It's a b to b play. It's not a new transformation play. In the long run, if they're successful and they get critical mass, if they and others, then maybe we can get along and we can actually build a new health care systems. We can actually make the Internet a platform for redesign of health care delivery.

See, right now, we're in this business of more consumer agitation on the existing health system. As Jack Lamberg said this morning, the existing health system sucks, that it doesn't do it very well. And -- and what is more, it's incredibly expensive and we've got to find a complete redesign for the whole game.

Now, the reason why transactions are important, just look at this data I got yesterday actually from Pearl Systems, a walk in transaction at the bank costs \$1.07, form transaction about 50 cents, ATM 28 cents, the Internet about 1 to 2 cents. So there is some potential for saving money on transactions. But if that's all we do, that means everything. I mean, in my view, that's a one time quick administrative theory which will be swamped by health care cost escalation within three years. We've got to use this for redesigning the way health care is delivered. And we've got to explain to people, that it's going to be different in the future. That you won't get it the same way as in the past.

Now, how is this all going to fit in -- can I do two more minutes or three more minutes? Am I okay? How does it fit in the health plan strategy. Well, I think some of the most interesting work is being done in the old health plans, the Kaisers, the health partners in Minneapolis. I was at a meeting of (inaudible) yesterday, and Kaiser on line person presented, George Halverson (?) who runs Health Partners, gave them some very

interesting things. Halverson is going to make much more transparent their internal managed care processes to their customers over the Internet. You want to know why they do certain things, what their rules are, what their guidelines are, what doctors do good work versus bad work within the HMO, that's all going to be and is currently, much of it is available on their web site.

And I think that's one route of salvation for the health plan industry generally, whether it's vertical integration for value HMO's like Kaiser, or what I call virtual single pairs like Well Point, they're going to use the Net as a navigation tool and try and establish value. However, we have a big trust problem. And that's the big issue. And what Kaiser is finding actually interestingly, they're encouraging dissent in their own internal chat room rather than somebody setting up, you know, an alternate web site called Kaiser Sucks.com. You know, and they're saying that they're seeing some -- some transferring amongst (inaudible).

I'm going to click through this. I think there's a break out strategy for health care, for both health funds and providers and I think it's going to start with patients and physicians. Right now we have a health system, where benefit managers are relatively happy and health plans have up until recently been relatively happy, but the doctors and the patients are upset. Now, that doesn't seem to me like the perfect state of health care.

I'm even going to demonstrate value in the health business on customer drug. Charles Schwab, think about that as an example. I'm-- any of you Charles Schwab customers? Charles Schwab has turned me into a data entry clerk; okay. I deliver spectacular self-service. Cisco Systems earned \$700,000 per employee in revenue compared to, you know, a really good high tech company, maybe 200,000. Why? Because much of their customer service is delivered by their customers to their customers. They train their customers, the charge for the training, they license their customers to by Cisco literate if you like. And then the customers look out for each other. Hey. Now, we ought to be thinking about how to do that in the health care system. How do we get our patients to look out for each other? And some other -- and some models are trying to do that. Not just to make money, but to get the leverage. We can be doing this. It doesn't have to be on a for profit basis. Think about how to amplify a poor clinic's effect and partly, it's to do with building teams of people who can look after each other.

I think we need a system of reimbursement. Why don't doctors answer e-mails? Only 3 percent of doctors have ever reported answering e-mails from the patients. Why don't they do it? Because they're not paid for it. You know, and it's fighting all the telephone costs. Why do we pay them equal fee for service? And we're starting to see signs of this. We're starting to see people using alternative models. I think the health plan of the future, the delivery system of the future, the Internet will be used

for everything. But the system has got to be sensitive enough to be able to provide to patients not only e-mail health care, not only frequently asked questions off the Internet, but it's also got to be compassionate enough to provide hour long hand holding. It's got to be able to be flexible enough because that's what patients are screaming out for. It's not just cyber care.

Now, let me just close with your role in all of this. I think one of the things that I would like to see is solution seeking, not just managed care bashing, you know, or prescription drug bashing, or whatever bashing of the moment. I think there needs to be a re-invigoration of hope in American health care, a re-invigoration or trust amongst various doctors, and some more positive stories. This is a very tired industry that needs to be fixed. And I think we need some more hope rather than some more (inaudible). I think, one of my knocks against your profession I guess is, and I understand it, it's a bit like lawyers, you know, getting both sides of the story, but you cover both sides as if they're equally sensible. You know, and sometimes that I think is unfortunate. Sometimes, like Tom Burton interviewing the heads of two well-distinguished medical journals and because of your rules of balance, he couldn't actually say: That's wrong. You're an idiot; whatever.

But I think for you all, health care is a business story, it's a public policy story, it's a consumer story, it's a science and technology story, it's a human interest story. And they are all connected. I don't think you can understand them in isolation. And I think you have to make those connections, even though you cover them differently. And I think that's particularly true of e-Health. It's not just a business story, it's not just consumers using the Net, it is not just health plans. You've got to think about that interconnection.

I may have insulted you a little bit but that's part of my style. I have to say though that what you do is incredibly important. I think this organization, I've spent a lot of time with Penny Dutton's group, too, I think what you do is incredibly important. You are our window into a better democracy. You are our window into creating a better health care system and I really am glad you have formed this organization. And I wish you all the success in that. Thank you very much.

Duncan says I can answer questions. Violent disagreement. I'd like violent disagreement. And don't try and be balanced, just, you know, point of view is good too. Yes?

UNKNOWN SPEAKER: Isn't part of the reason for not being (inaudible) medical recreations affecting (inaudible) over the Internet (inaudible) ?

MR. MORRISON: Well, you know, it's interesting. I mean, the AMA on the number of the specialty associations that fund this group. And they're sort

of consistent with what I was trying to argue here of driving, you know, the best health information, you know, credited credentialed information, the medical science, if you like, for many local physicians. Now, I think looking, as (inaudible) to get the information is taking it a little bit far, but I think you are on to something, but you have to connect it locally. What's (inaudible) strategy? (inaudible) strategy is to private label, they're trying to build their critical mass fast enough that they can private label to hospitals and physicians. Remember, in our surveys, 25 percent of physicians have their own web sites. They don't use it for their internal processes but they have, you know, what you all did in the early days. You have catalogue ware basically. And so I think from two very distant directions. The (inaudible) and the health (inaudible) direction. I think you're going to see physicians and consumers connected.

You're right. You can order, you know, you can renew a prescription over the Net. I just did it this morning by voice mail. But you want somebody at the other end whom you've had some contact from which they're saying, yeah, you can have that prescription renewed. I mean, there is a reason why they are called prescription drugs is because they have very bad side effects if taken inappropriately. And there supposed to be delivered under some form of medical care.

UNKNOWN SPEAKER: (Inaudible) see them looking over (inaudible) that make it a specific (inaudible)

MR. MORRISON: But looking --

UNKNOWN SPEAKER: Why do the doctors (inaudible)

MR. MORRISON: But this is the point I was trying to make is that-- that much of what medicine is predicated on is not data that can be transmitted over the Internet. I mean, there's certain-- some of it can, some of it can't. You know, we can violently disagree. There's no absolute one way or the other. It's a question of degree and I think over time, you're going to see much more of what you're talking about. I mean, look, we looked after our astronauts in space. And they were well. You know, I mean, there were stressed, but they were well.

I think it's a certainly different thing to look after somebody who is dying of cancer over the Internet. And remember, 85 percent of health costs are consumed by the 15 percent sickest patients. One percent of patients account for 34 percent of costs. You know, the (inaudible) frequent diets, you know, the ones that are heavier users. So it is important to recognize that this is not all about information and prescriptions. That's-- that can be done. You're absolutely right, but that's not the whole story. Yeah?

UNKNOWN SPEAKER: (inaudible) on the Internet are going-- are looking for what they want, how do you deal with (inaudible) the only thing that's

provided are ultimately (inaudible) you want to sell downers or (inaudible). They've got to be intervening and (inaudible). And so this (inaudible) the consumers being in control there won't be anything (inaudible).

MR. MORRISON: Well, if you travel, you know, one of the things that happens is you have insomnia, you know, and you stay up watching infomercials at three o'clock in the morning, you know. There's a great infomercial for this-- you've got to take both products. One is called the fat trapper; okay. And the other is called exercise in a bottle; okay. I'm not making this up. They have 30-minute infomercials in the middle of the night for this stuff. And you send away for it. It's a herbal based medication, you know. And says, and look, it's a brilliant ad. It says: Eat as much pizza as you want, you know. I'm not making this up. And you take the fat trapper for 9.95 supplement once, and then you take exercise in a bottle. And you're going to get better. That's-- that's fit.

And let me say something. I was exposed on Tuesday to Bill Morrow's (?) new series that's going to be out on PBS in September at the American Hospital Association meeting, which is going to be about death and dying. It's called "On Their Own Terms". And this was a bunch of (inaudible). The entire group is in tears by the end of this. And to me, it's the best in journalism. It is combining all these things we've talked about with complete minimalism. He hardly says it works, tells his stories through other people. And raises an incredibly important issue, pointing to the fact that, you know, maybe more is not better, particularly when it comes to the medicalization of death. That to me is a perfect example of brilliant journalism at work where he will make I hope, a big difference in public policy in America.

MODERATOR: Okay. (inaudible) And we will go along. Starting at two o'clock in the room across the hall; is that right? Thank you very much.

END

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