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Health sector goes under the knife

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The healthcare sector is undergoing a revolution caused by changing demographics and the increasing pressures on national healthcare systems. As populations age, governments and employers are looking to shift more of the responsibility for healthcare on to patients.

According to the UN, the proportion of the global population aged 60 or over rose from 8 per cent in 1950 to 10 per cent in 2000, and is projected to reach 21 per cent by 2050. In the UK it is estimated that 46 per cent of the population will be over 60 by 2026.

"There is a shift from being a patient to being a consumer. As a patient, our healthcare demand is set by others so it is more finite - once you become a consumer, your demands never stop until you, or the government, runs out of money," says Ton Gardeniers, head of healthcare at ABN Amro.

The increase in patient choice will increase consumerisation, adds Robert Wendin, healthcare practice leader at Marsh, but it is not here yet. "Decisions are being made primarily by GPs but that will change and it will lead to reputational risks for healthcare providers."

As patient choice increases, hospitals and clinics will be paid by results - the more people they treat, the more they will get paid. "So what happens if no one goes for treatment?" asks Mr Wendin.

What happens if the organisation's reputation suffers from a poor showing in a league table, for example, or because of a health scandal such as the teenager who died recently after being given huge overdoses of radiation treatment at a Glasgow clinic?

Reputation can also be hit by financial impropriety - William McGuire, UnitedHealth Group chief executive, had to resign after a scandal over backdated stock options.

Product recalls can also play havoc with a business - Boston Scientific's \$27bn acquisition of Guidant was complicated by lawsuits related to the latter's heart rhythm devices, while Boston Scientific is trying to restore its quality-control system after receiving a warning letter in January from the Food and Drug Administration - a warning that is holding up new product approvals for the company.

These factors led to a dramatic drop in the valuation of the deal, says Niall Kirk, of F&C.

Quality is obviously a key issue for this sector, because pain, suffering, and, ultimately people's lives are at stake, says Mr Gardeniers. The corollary of this is litigation - whether for device makers, such as Sulzer Medica, which had to pay \$1bn to settle a class-action suit over faulty hip replacements - or for medical facilities, where major risks remain in superbugs such as MRSA, medication errors, even "wrong-site surgery", according to Mr Wendin.

"We estimate that a medium-sized hospital spends €1bn annually on costs created by medication errors," he says.

While implementing best practices can cut down on these costs, technology will be the biggest beneficiary of the problems, according to Mr Wendin.

"There is huge potential for technological solutions to some of these solutions through systems such as digital incident reporting, which can highlight where patient identification errors are being made [in blood transfusions, for example], computerised physician order entry (CPOE), which is a way to reduce medical errors and electronic patient records, which allow integration of treatment across different departments," he says.

There is clearly huge scope to increase IT spending in healthcare - in 2002, the finance sector spent \$8,000 per employee, the transport sector spent \$1,200 and the figure was under \$500 in healthcare, Mr Wendin adds.

Cardinal Healthcare is one of the leaders in CPOE technology, while Olympus, the Japanese company famous for its cameras, is at the forefront of blood transfusion machines. IBM is one of a number of computer companies involved in medical software, while Oracle is applying its database expertise to patient records.

The potential returns from the sector have persuaded many of the world's biggest companies to move in, including Siemens, Philips and GE, which has a \$14bn healthcare business. Technological advances are leading to a huge change in diagnostic techniques and opportunities.

Mr Gardeniers says health experts expect at least 10,000 new tools to come on stream in the near future.

"We will be able to ascertain our health much more precisely, but it will cost a lot more money," he says.

The ageing population will require more long-term health care, both general and specialised treatment for diseases such as Alzheimer's and Parkinson's, which companies such as Bupa, United Health, Axa and South Africa's Discovery are well placed to provide.

There will also be opportunities for groups including hearing aid manufacturers such as Amplifon and GN Store and optical groups including Fielmann, a German group that has a 28 per cent share of its domestic market, says Emma Howard Boyd, head of SRI at Jupiter Asset Management.

She also names Huntleigh, an engineering group serving the healthcare industry with products including specialist mattresses, beds, hoists and stretchers through to equipment for enhancing blood circulation or controlling clotting. Meanwhile, the increasing trend to outsource medical staffing will benefit companies such as Care UK and Nestor Healthcare.

In the longer term, the sector may find itself facing healthcare equity issues in developing countries, as the pharmaceuticals sector has. As basic healthcare improves and becomes more widespread, patients will want access to the more sophisticated treatments, diagnostics and equipment enjoyed by patients in the developed world and companies may come under pressure to provide their products cheaply - in the same way as pharma companies face challenges from generic drugs.

Given the speed of development in the sector, one possible solution is for users of equipment to switch to leasing it rather than buying it. This would make lots of equipment available to be sold on to other markets, some analysts say.

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