



Medical Tourism: Implications for Participants in the US Health Care System

October 2007

MEDPHARMA PARTNERS LLC
&
MEDTRIPINFO.COM

101 Federal St., S. 1900
Boston, MA 02110
www.mpplc.com
www.MedTripInfo.com

David E. Williams
dwilliams@mpplc.com
(617) 731-3182

John Seus
jseus@mpplc.com
(978) 281-6705

Medical Tourism:
Implications for Participants in the US Health Care System

Table of Contents

Introduction	2
Five predictions about medical tourism	3
Issues for US industry participants	6
Health plans and employers	6
Health care providers	8
Medical device companies	10
Pharmaceutical companies	12
Conclusions	13
For further information	13

Why Medical Tourism Deserves Attention Now...

- US patients are discovering high quality, low cost care and excellent customer service in overseas locations. Cost savings range as high as 60 to 90 percent.
- Increasingly, patients are traveling for “serious” surgeries, including cardiac and orthopedic procedures. This builds on the established phenomenon of medical tourism for cosmetic and dental surgery.
- Employers, health plans and benefits consultants are taking notice and in some cases are launching pilot programs. The media have drawn attention to medical tourism, while medical travel facilitators have sprung up to help patients and companies go abroad.
- Singapore, Dubai, India, the Philippines, Malaysia and others are incorporating medical tourism into their economic development strategies and investing substantial resources in the sector.

Introduction

It's common knowledge that US health care spending is out of control. Per capita costs are more than double the OECD median and continue to grow rapidly. Corporate leaders worry that health care costs make the US uncompetitive in the global market and voters rank health care as the single most important domestic issue. There's growing awareness that the US doesn't get what it pays for either. US public health indicators are near the bottom of international rankings, and customer service (euphemistically called “patient experience”) is inferior to other US service industries. Furthermore, close to 50 million people in the US lack health insurance.

Despite –and to some extent because of—health care reform, the cost problem is worsening. Most reform plans –including those proposed by Presidential candidates from both parties-- emphasize increasing access to health care through subsidized and/or mandated health insurance. Proponents often claim that universal health insurance will drive down costs as newly insured patients substitute visits with primary care physicians for expensive emergency room care. Actually, insured patients tend to consume more health care services and may be even more likely to visit the emergency room than the uninsured, according to a 2006 *Health Affairs* article.

Various reforms underway in the private sector, including the introduction of health care information technology, disease management, predictive modeling, wellness programs, pay for performance, cost sharing, consumer directed plans, and limitations on medical malpractice payouts are unlikely to have any real impact. As the general public begins to comprehend the limitations of existing initiatives, a search for new answers will ensue. Traveling abroad for medical care –a concept often called “medical tourism” — is one of the ideas they will discover.

Medical tourism is not a panacea. In fact there is no guarantee that it will become a central part of health care reform in the way that outsourcing has become a way of life in other industries. Nonetheless the time is ripe for US health care players to learn more about the topic. Medical tourism presents opportunities and threats for health plans, employers, pharmaceutical and device companies, providers, payers and patients. Those who understand the emerging market will be well-positioned to take the initiative and to benefit as the field evolves. The industry is still in a very early stage – and significant changes will transpire over the next few years.

The purpose of this white paper is to lay out the issues that US players should begin addressing now and to provide the context in which to evaluate them.

Five predictions about medical tourism

No one knows exactly how the medical tourism field will unfold. However, here are some predictions.

Prediction #1: US health insurers will start to cover medical tourism in 2008

Insurers are under pressure from customers to hold down premiums. Managed care techniques such as primary care gatekeepers, limited access to specialists and hospitals, pre-certification and capitation have largely run their course. These approaches are unpopular with patients and providers and have lost much of their effectiveness.

Meanwhile, insurers are beginning to hear requests to cover medical tourism. The requests are coming from multiple sources: employers and their benefits consultants, foreign hospitals and governments, medical tourism facilitators, and individual members who want to receive coverage overseas. A few major health plans have taken small steps toward coverage. For example, Blue Cross Blue Shield of South Carolina has added Bumrungrad Hospital in Thailand to its hospital network and started Companion Global Healthcare to help other health plans establish overseas networks. Health insurers in Southern California and Texas offer cross-border plans aimed primarily at Mexican citizens living in the US.

Concerns about patient safety and liability are starting to be addressed. The Joint Commission International (JCI), an arm of JCAHO, the main accreditation body for US hospitals, has accredited over 100 foreign hospitals. Arbitration and mediation

mechanisms are being put into place to address legal concerns.

Finally, insurers sense an opportunity to increase their negotiating leverage with their existing provider networks by creating viable overseas alternatives. Such leverage may help them reduce their costs relative to competitors. The lower cost position could be used to boost profits or to create pricing flexibility that would allow insurers to better address small employers, who are increasingly unable to afford comprehensive health insurance even as pressure on them to offer coverage grows.

Prediction #2: Mini-med plans and small employers –not big health plans and blue chip companies-- will be the early adopters

Medical tourism proponents such as foreign governments and providers are heavily focused on attracting interest from Fortune 500 companies. They've also concentrated their efforts on large, well-known health plans including Aetna, Cigna, United and the largest Blue Cross Blue Shield plans. They theorize that once one big player jumps in, others will follow.

Smaller employers, health plans and Third Party Administrators (TPAs) have been largely ignored. And yet this is actually the biggest segment of the commercial market and the one most open to medical tourism coverage. Consider that close to half of Americans work for organizations with fewer than 200 workers, according to the Census Bureau. Many of those employers are at the edge of their ability to provide comprehensive health insurance. Only 60 percent of employers with fewer than 200 workers offered health insurance in 2006, a decline of

Medical Tourism Predictions

- #1: US health insurers will start to cover medical tourism in 2008*
- #2: Mini-med plans and small employers –not big health plans and blue chip companies-- will be the early adopters*
- #3: Opposition to medical tourism by US physicians will be modest*
- #4: State governments will begin to embrace medical tourism by 2010*
- #5: The emergence of medical tourism won't have a major, direct impact on US health care costs, but the secondary impact will be substantial*

8 percentage points since 2001. This compares with the 99 percent of larger employers who provide health insurance, a rate that has held steady over the last decade, according to the Kaiser Family Foundation.

Smaller employers look at insurance differently. Many are shifting to so-called “mini-med” or “limited benefit” plans that cover day-to-day expenses such as doctors’ appointments, but not surgery. The plans are affordable but often cap expenses at as little as \$25,000 per year, which *de facto* excludes major surgery. Such employers will view medical tourism as a way to enhance benefits rather than simply as a cost control measure.

Mini-med companies are already picking up on this opportunity. In fact, the founder of the Medical Tourism Association is an executive of a mini-med plan and his company has quietly begun providing coverage for overseas surgery.

Prediction #3: Opposition to medical tourism by US physicians will be modest

An oft-repeated assumption is that the US medical establishment will block the medical tourism industry from developing by bad-mouthing overseas physicians and hospitals. Some medical societies and influential physicians have made cautionary pronouncements, but the situation among practicing physicians is not nearly so negative.

Medicine is already a global profession. Physicians from academic medical centers

attend global conferences where American physicians from leading institutions treat their colleagues from other countries as peers. They have often trained together and they publish in and read the same journals. It’s typical for physicians from overseas to speak and read English.

More than 25 percent of physicians in the US are foreign-born, according to the US Census Bureau. They practice in a variety of settings, from large academic medical centers to small rural offices. As a result, US-born physicians know firsthand about the quality of overseas physicians and US patients are already accustomed to being treated by doctors from faraway places.

About 40 percent of our patients are from outside Singapore. The American embassy here goes out of its way to make sure that military, foreign service, and diplomatic corps members anywhere in Asia get here as quickly as they can, because our hospitals in Singapore have a long tradition of serving the expatriate community and doing it very well.

The good news is that for Americans who can't afford access to health care in the US, there are options. There's a wonderful, English-speaking tropical paradise called Singapore. We can provide just about anything for roughly half of what it would cost in the US. We do things just as well.

We're part of the solution. We're not the cure.

-- Dan Snyder
COO of Parkway Health (Singapore)

The demand for health care is insatiable. A shortage of physicians means that most doctors aren’t scrambling for more patients. Indeed many practices are closed to new patients. If anything, physicians may appreciate having uninsured patients taken off their hands so

they can focus on more lucrative customers.

Prediction #4: State governments will begin to embrace medical tourism by 2010

It sounds far-fetched, doesn’t it? After all, can you imagine the backlash against politicians who suggest sending patients away for medical treatment? Who will be able to stand up to the pressure even if medical tourism is a good idea?

Actually it’s likely that at least a few state governments (along with some local ones) will begin flirting with medical tourism soon. States have shown a willingness to take the

lead on health care policy. Massachusetts is implementing near-universal health insurance coverage and California is considering doing the same. Oregon, Tennessee, Florida and others have embarked upon their own innovative paths in health care.

States, unlike the Federal government, generally have to balance their budgets. Rising health care expenses mean states must shift funding from other programs or raise taxes, both of which are unpalatable. As health care costs continue their relentless climb, it becomes harder and harder to balance the books. A politician who proposes medical tourism might actually attract praise rather than scorn –by appearing to be doing something about the health care cost crisis other than complaining. Remember that state and local governments have been active participants in drug “reimportation” schemes, even challenging Federal laws to do so.

Southwestern states, due to their proximity to low-cost countries in Latin America, may take the lead. Other states or municipalities with large foreign-born populations may also be good candidates. New York, for example, has half a million Dominicans. Santo Domingo -- with US trained and board certified cardiac surgeons and low prices-- is a 4-hour nonstop flight away. Why wouldn't New York at least explore the possibility?

Prediction #5: The emergence of medical tourism won't have a major, direct impact on US health care costs, but the secondary impact will be substantial

Medical tourism will make a dramatic difference for specific cases. The stories of \$100,000 surgeries performed for \$10,000 or \$20,000 abroad are real. Orthopedic and cardiovascular procedures are particularly active areas for medical travel because the surgeries are expensive, have well-developed outcomes measures and limited or highly defined post-operative rehabilitation. Dental and cosmetic surgeries are also popular abroad, due to their elective nature.

Nonetheless the aggregate impact on US health care costs will be relatively minor. If

every US resident who could go abroad for treatment actually went, the savings on total medical costs would be about 5 percent. That's still a big number, especially compared to other initiatives that are available. But with health care costs increasing by 10 percent per year, a one-time reduction of 5 percent won't be decisive.

However, there is an opportunity to leverage medical tourism to achieve broader benefits. When overseas providers begin to present a credible alternative to their US counterparts, it may spur domestic providers to re-engineer their clinical and administrative processes and to challenge inefficient, outdated work practices. Thinking of health care in terms of discrete, albeit often complex, services with measurable inputs and outputs will advance the field. Customer service levels can be expected to rise, and not just in services that face direct competition. Additionally, US and foreign providers will start to work together, with some administrative and clinical tasks performed in the US and some overseas. Advanced, inexpensive communications technology will enable broader application of “virtual medical tourism,” through increased use of new forms of telemedicine.

Issues for US industry participants

Medical tourism has different implications for the various constituencies that comprise the US health care system. This section outlines the main issues that pertain to each.

Health plans and employers

Health plans and employers need to begin paying at least some attention to medical tourism. Customers and employees are beginning to ask about it, overseas providers and medical tourism agencies are knocking at the door, and some high-profile pilot activities have been announced. There are a variety of issues to consider.

Whether or not to participate

Despite the high interest in medical tourism, very few insured patients are going overseas for care today. An overseas provider network is not yet an important criterion for most customers. Plans and employers should consider being early adopters of medical tourism if one or more of the following apply:

- A high incidence of expensive cardiac and orthopedic procedures that can be done well overseas.
- A high proportion of members with ethnic ties to a medical tourism destination. They may be more inclined than others to return to a place where they know the language and culture and have relatives.
- Convenient air or ground connections to medical tourism destinations.

To decide whether to offer medical tourism, it's essential to understand the economic potential. It's common in the popular press to hear stories about people saving 90 percent or more by going abroad. Those figures are less relevant for health plans and employees. First, the savings are usually based on US hospital "charges" compared to foreign prices. "Charges" are a useful comparison for uninsured patients, but overstate what's paid on behalf of insured patients. Second, savings may only be achievable on a narrow range of procedures, which may not have a

substantial impact on the overall medical bill. Finally, employers and health plans may be less comfortable than uninsured individuals with the very lowest cost overseas providers, who tend to operate in countries where the overall infrastructure is less advanced.

Writing on MedTripInfo.com, Michael D. Horowitz MD MBA has demonstrated that it is possible to achieve cost savings of 80 percent or more by journeying to Costa Rica for specific procedures. On the other hand, Ken Erickson of GlobalChoice Healthcare – which offers medical travel benefits to employers—pegs the savings potential at 5 percent of the total premium, which is substantial but not overwhelming. For now it is only practical to travel abroad for orthopedic procedures, such as hip and knee replacements, and cardiovascular surgeries. The list is likely to expand over time, which will increase the potential impact.

Communications and positioning

Health plans and employers that begin offering a medical tourism benefit will be greeted with suspicion and hostility in addition to enthusiasm. Some patients and their families will question the motives of their employer or payer and close their minds to the possibility of a medical trip abroad –even if it's an option they would otherwise consider. Domestic providers may also worry that their jobs are being outsourced or that their reimbursement will be squeezed.

Plan sponsors need to move deliberately and rely to a large extent on pull from their members rather than pushing too hard. For example, uptake is likely to rise once a trusted colleague returns from a successful treatment abroad and tells his or her story to co-workers. A way to accelerate that process is to make members aware of independent, online resources such as MedTripInfo.com, a website that provides information, news, and discussion forums on medical tourism. Journeying to an overseas hospital needs to be purely optional, at least at first. Members also should be given incentives such as lower cost-sharing or additional vacation time, which some may wish to use to extend their time overseas.

Medical tourism can't take place in a vacuum; US providers need to provide pre- and post-operative care and ideally should work as team members with their overseas counterparts. Therefore it's crucial to ensure that domestic providers are comfortable with their overseas colleagues. A good way to do this is to contract with a narrow overseas network at first, comprising well-known facilities staffed with US trained and board certified physicians. Corporate and health plan networks may encompass a different set of providers than those most popular with self-pay patients. Proximity, local infrastructure, quality and financial resources are likely to be more important considerations for health plans and employers.

Depending on the local environment, it may be possible to use the expansion of the provider network overseas to spur improvements closer to home. One possibility is to use overseas providers as a way to increase the flow of outcomes information.

Overseas providers are likely to be willing to share detailed outcomes and patient satisfaction measurements. This could be a good way to get local providers to increase transparency and to improve their performance as they compete to demonstrate preeminence. And payers shouldn't rule out the possibility of using comparisons with overseas pricing to help hold the line on local reimbursement rates.

Patients and their families will naturally be concerned about the quality of care overseas and what recourse they have should things go wrong. Using only hospitals that are accredited by the Joint Commission International (JCI) in countries with solid legal systems will go a long way toward alleviating these concerns. Medical tourism players are developing insurance for complications and working out arbitration arrangements

between providers and patients to complement strong contractual guarantees from providers. Although it isn't a simple message to communicate, it may also be worth noting that patients actually don't have such straightforward recourse in the US. Malpractice suits take years to resolve and even then plaintiffs win at trial only about one-fourth of the time, compared to a 50 percent win rate for other personal injury cases, according to a recent University of Missouri study.

Coordination with other initiatives

Medical tourism is a way to enhance and extend other initiatives. For example, pairing medical tourism with consumer directed health plans is potentially quite promising. A significant limitation of today's plans that combine Health Savings Accounts (HSAs) with traditional PPOs is that members exhaust their entire HSA balance even with minor surgery, and thus lose their incentive to

keep costs low when a major intervention is required. Overseas alternatives may be inexpensive enough that they do not consume an entire HSA balance. On the other hand, consumer directed plans could undermine medical tourism by offering full coverage of major medical expenses in the US. Plans and employers could encourage medical

tourism by injecting additional funds into members' HSAs as a reward for participating in international medical tourism, assuming they can find ways to do so legally.

For companies that offer only mini-med plans, sometimes called limited benefit plans, medical tourism is a natural fit. That's because such plans usually don't cover major medical costs at all. Medical tourism provides

We're seeing a 40 to 60 percent savings on the procedures themselves. We can have up to a five percent effect on a company's entire health care cost.

But you just can't take somebody and say, 'We're going to send you to Mexico for your cancer care.' It doesn't work. You have to have the protocol to take them out of their system, put them into another system and integrate them back into their care correctly in order to realize those savings. So just saying, 'Hey, it's less expensive there, we're going to go,' doesn't work.

-- Ken Erickson
CEO of Global Choice Healthcare

a relatively inexpensive way to add a major medical component. Members will be pleased because medical tourism can be presented as an added benefit, not a substitution of overseas for domestic care. Domestic providers may be pleased, too since it will give them somewhere to refer these patients who otherwise may be left untreated or become bad debt problems.

Logistical issues

One question health plans and employers will face is whether to work through a third-party to develop a network. Even the largest employers should consider doing so, at least in the short term. That's because any single employer is unlikely to have the patient volume or the skill set to have much sway with overseas providers, unlike facilitators who often have strong local relationships. For health plans it's a somewhat different story. Plans are accustomed to building their own networks and sometimes bristle at the idea of a "middleman" interfering with those relationships. Nevertheless it's at least worthwhile listening to what the aggregators who have been in the business for a while have to offer.

Health care providers

Hospitals and physicians must develop a view on medical tourism. After all, the rationale for medical tourism is to escape high costs in the US. Those costs are what make up providers' revenue. Providers should address the risks of medical tourism but also look for opportunities. Whatever the outcome of their analysis, providers should develop a communications plan to respond to the medical tourism phenomenon.

Risk assessment

Outsourcing and offshoring have fundamentally restructured many US industries. Substantial portions of the US manufacturing base have shifted to China. Software development and call centers are often located in India. The health care sector itself has been part of this trend as lower-skilled, labor intensive functions such as transcription and claims processing have

been shifted overseas. Now pharmaceutical companies are moving R&D and clinical trials abroad.

Is the same thing going to happen to physicians and hospitals? The overall answer is no. The provision of health care services will remain a largely local business. It's not worth the trouble to travel abroad for routine care, emergent care is too time sensitive, and most seriously ill patients are too sick to make the journey. Nonetheless, there will be an impact.

In assessing the risks associated with medical tourism, providers should consider the following:

- Do they provide orthopedic surgery, cardiac surgery, cosmetic surgery or dentistry? These are the areas that will be most affected.
- How close are they to foreign destinations? This is more about airline service than geographic location. For example, Singapore is halfway around the world but there's a nonstop flight with excellent service from New York City, which puts it in range. Meanwhile, it can take longer than that to get to Central America from the Midwest.
- What is their patient and payer mix? If local patients and payers are predisposed to medical tourism either due to cost concerns, cultural affinity or business strategy, providers will need to take the issue seriously.

Opportunity assessment

For most providers, the potential opportunities from medical tourism will outweigh the risks. For example:

- Patients going abroad need a variety of diagnostic, preparatory and follow-up services. "Travel-friendly" providers in the US can attract a disproportionate share of such patients. Patients who lack health insurance –and who might turn into bad debts if they have costly surgery in the US—are likely to be able to pay for pre- and post-surgery services domestically and become profitable patients.
- Cost-effective community hospitals that struggle to compete with their local

academic medical centers may find that leading overseas academic hospitals with excellent reputations are willing to partner with them. Community hospitals may be able to refer certain tertiary cases to their partners abroad rather than lose them to their local competitors.

- Academic medical centers may be able to expand their own presence abroad in order to support their academic mission, attract the most complex cases, and carry out research collaborations. Prestigious academic medical institutions such as Johns Hopkins have already become involved in significant international medical ventures.
- Foreign-born physicians comprise a large and growing share of US providers. The emergence of medical tourism opens up the opportunity for hospitals and physicians to leverage relationships these providers have in their home countries to establish productive alliances, ensure effective communications and enhance continuity of care.

Communications plan

Providers will soon hear questions about medical tourism if they haven't already. Patients may ask questions such as:

- *"I'm planning to go to India for surgery. Will you work with my surgeon there? Will you help me choose one?"*
- *"I can't afford your price but I'd rather not go overseas. Will you match the price I've been quoted or at least provide me with some kind of a discount?"*

Health plans and employers may say:

- *"We are trying to increase affordability. Will you help us create an end-to-end offering that includes overseas providers?"*
- *"We are holding the line (or cutting) reimbursement for our US providers as we add international providers who will do more for less. You will have to get used to it."*
- *"We want you to increase your level of transparency and expect you to report more quality and efficiency information just like our international providers."*

JCI accreditation standards are comparable to Joint Commission accreditation standards, but they are different. The difference is that the JCI standards and survey process were adapted for the international community and designed to be culturally applicable and in compliance with laws and regulations in countries outside the United States. For example, informed consent by patients is a JCI requirement, but different cultures handle this in different ways. In some cultures, such as the United States, patients fill out a consent form, while in others a family member may be the only one allowed to give consent. Additionally, The Joint Commission domestic standards reference federal and state requirements, such as the code emanating from the National Fire Protection Association (NFPA) of the USA, which doesn't apply in the same context internationally. JCI accreditation may stipulate similar requirements as the domestic standards, but allows for adaptations outside the USA.

JCI standards were developed by an International Standards Subcommittee made up of experts representing five major regions of the world. These standards address important topics such as the qualifications of doctors and nurses, properly assessing patients to match care to their identified medical needs, anesthesia procedures, infection control and safe use of medicines. Additionally, JCI has established Regional Advisory Councils in Europe, Asia Pacific and the Middle East. These Councils comprise leading experts on quality improvement, patient safety and other stakeholders who provide feedback on JCI proposed standards as well as input regarding the health care delivery systems of the region and special considerations for cultural or religious adaptations.

We continue to be open to feedback and input that we receive concerning the applicability of our standards. In fact, we have recently released our third edition of the [Joint Commission International Accreditation Standards for Hospitals](#).

-- Karen Timmons
President and CEO of
Joint Commission International

It's important to have answers to these questions that match the risk and opportunity assessments. Patients have already begun asking questions about costs and clinical necessity as a result of consumer directed health care. Medical tourism is really just an extension of that trend. And of course payers are always looking for a negotiating edge.

Questions like these need not put providers on the defensive. As discussed, the opportunities generally outweigh the risks. US providers are integral to the ultimate success of medical tourism; patients and payers generally do not want to antagonize them.

Medical device companies

The onset of medical tourism appears to present more risks than opportunities for the medical device industry. The situation varies by company, depending on the specialties and procedures served, existing business strategy in medical tourism destinations, and position in the US market.

Risk assessment

Medical device companies have made large investments in Direct to Consumer (DTC) advertising in recent years, encouraging patients to exert their influence in selecting a specific implant. Medical tourism builds on this trend by encouraging patients to take an even greater role in their care. These patients will ask overseas providers to specify the medical device they will receive. Patients will want to know whether the device is the same one that would be used in their home country and whether it is FDA approved.

Overseas providers will supply this information in order to reduce uncertainty and build patient confidence. This presents a challenge for device companies. For example, if the device model used at the destination hospital is not marketed in the patient's home country, government regulation may prevent the company from providing product information on its web site.

Device companies can benefit from lessons the pharmaceutical industry has learned in recent years. Information about wide price

differentials has damaged public perception of the pharmaceutical industry and emboldened government purchasers in price negotiations. Medical device companies will face similar challenges in managing product policy and pricing across countries in the increasingly transparent world. Price variations across international markets are less dramatic than for pharmaceuticals, but prices for some high-end devices vary by a factor of two or three from the lowest to highest priced markets, which is large enough to cause friction with customers and governments. US-based surgeons, who are the key constituency for device companies, may be displeased to learn that an important factor in the cost difference between surgery in the US and abroad is the cost of the device itself.

Low-cost, offshore manufacturers are targeting medical tourism markets with their devices. In one case we are aware of, an Indian supplier offered pacemakers at one quarter of the market price of US products in a medical tourism country. Clearly, there are questions about this product's features and the company's quality systems, but such companies are a fact of life. Should global leaders simply ignore them? Will a segmented market develop, with lower cost, prior generation products offered at low prices in the same geographic markets alongside the latest generation, highest priced products? Will global leaders begin to compete in the lower priced segments? If so, should this be done by introducing lower priced brands alongside core brands? Will the high and low ends of the markets converge over time as they have in some technology markets such as computer chips?

Medical tourism will create other challenges for medical device companies. Companies that sell certain types of implantable devices are required to maintain patient registries in case there is a product recall or related issue. Typically, these are country-based registries. Medical tourism will force companies to consider global registries, which are more complex and costly.

Companies also need to decide whether they will assist their customer physicians and hospitals in treating medical tourists, either for the initial intervention outside the home country or for follow-up care, which may take place in the home country. Device companies can make product design decisions that raise or lower barriers to medical tourism. They have choices in how they specify the onboard electronics and adjustable features of an implant and can influence how registry data is created and managed.

For the most part, leading medical device companies manufacture their most important products in the US and Western Europe. While some companies have opened plants or entered joint ventures in low-cost countries, they generally manufacture or source accessories or lower tech products from these locations, not the “crown jewels.” Depending on how companies respond to the product policy and pricing challenges, medical device supply chains may become much more complex in the future.

Companies will need to step up policing of their supply chains to limit grey market and counterfeiting activity as growth accelerates outside their home regions, where companies typically have less direct control over suppliers. A market for used stents already exists in parts of Asia, presenting serious risks to patients and the device industry.

Opportunity assessment

The emergence of medical tourism will underscore the importance of the high-growth medical tourism countries and accelerate the development of larger world-class health care delivery institutions in those countries.

After a long period of robust growth, US and European markets for drug coated stents and implantable cardioverter defibrillators have cooled. Device companies already have their eyes on Asia as incomes in the region rise. Any movement of patients from Western markets, and concentration of patients from across Asia into world-class medical tourism destinations, will make these markets even more valuable.

The growth of medical tourism will open up opportunities for product development. As major medical tourism centers expand their global reputations and patient volumes, they will become attractive research partners and clinical sites. Leading players such as Harvard and Johns Hopkins are already involved in ventures in potential medical tourism destinations. Microsoft, GE and other leading technology companies have expanded R&D activities to Asia in order to benefit from high-quality, low cost technical talent. Medical tourism may help enable medical device companies to decentralize their largely US-centric R&D models.

US-based global medical device leaders can seize the opportunity, but medical tourism also presents an opening for non-US companies with smaller US market shares to pursue global leadership.

Few of the largest medical device companies have truly global organizations. Typically, there is a commercial leader for the US market, which can represent 60 percent of revenue, and a leader for International, to whom largely autonomous country managers report. Other industries, including pharmaceuticals, have shifted to a more integrated global management structure over the past 10 to 20 years. Medical tourism and its indirect impacts may accelerate the industry’s shift to a more modern, global management approach in order to manage the resulting pricing and product policy challenges.

Overall, medical tourism presents significant risks for medical device makers, but it also accentuates trends in the globalization of the business. Companies need to understand their specific issues based on the medical specialties and procedures that their products support. Significant changes to organizational structure, international product policy and pricing, product development and supply chains may all be in order.

Pharmaceutical companies

Medical tourism will not have a profound impact on the pharmaceutical industry, but it is something pharmaceutical companies should think about. Like the medical device industry, pharmaceutical companies need to consider medical tourism's impact on the movement of patients, information and physical products.

The hospital is a key source of drug starts for some pharmaceuticals, such as antiplatelet therapies and anticoagulants prescribed after cardiac surgery or insertion of a cardiac stent. Patients who begin therapy abroad may see a disruption in their pharmaceutical therapy when they return home if the therapies are not approved in both countries, if formulations differ, or their insurance company favors a different product. Hospitals serving medical tourists will be targeted by non-Western suppliers of specialty drugs such as EPO that are infused during the hospital stay. The business gained from medical tourist destinations could help these suppliers achieve the financial wherewithal to file for approval and launch in Western markets.

The Internet has increased the awareness of international drug pricing disparities and placed pricing pressure on the industry. Pharmaceutical companies have become adept at trade management to limit cross-border shipments by distributors and have made progress in raising doubts among consumers about the safety of "reimported" drugs. But consider the case of a patient who travels to India for major surgery. Upon discharge he receives a few days' supply of pharmaceuticals from the hospital pharmacy and is told he can refill his medications over the Internet through the hospital's mail order service once back home. It seems likely that this patient—who traveled halfway around the world for care—will become a loyal, long-term customer.

The emergence of medical tourism may provide Western pharmaceutical companies with leverage in intellectual property disputes with foreign countries. For example, middle-

income countries such as Thailand and Brazil have placed heavy pressure on Western companies to lower the prices of AIDS drugs, threatening to break the companies' patents if they don't comply. Companies such as Abbott have found themselves with limited leverage and have tended to back down. However, some of the same countries are counting on medical tourism to help drive economic growth. This could provide them with an incentive to respect intellectual property norms in order to bolster their image in the eyes of prospective medical tourists.

Conclusions

Medical tourism is an emerging phenomenon that has important implications for participants in the US health care system. The direct impact will be modest at first because only certain procedures and treatments lend themselves to medical travel and only a small percentage of eligible patients will travel over the next few years. However the impact is likely to increase over time as medical tourism becomes an accepted part of the solution to high health care costs and as the industry evolves. If medical tourism is incorporated into state or Federal government policy, the effects will be felt sooner.

The indirect impacts of medical tourism are potentially more significant than the direct effects. Health plans and employers are likely to bring medical tourism into the mix of cost containment solutions, exposing US doctors and hospitals to the possibility of international competition for the first time. Medical device companies will face some of the challenges of international trade that have bedeviled the pharmaceutical industry, and this may accelerate the industry's shift to a more global approach to management. Pharmaceutical companies will witness a further globalization of their business.

For further information

This white paper raises questions that US players should be asking about medical tourism and provides general guidance. If you would like to discuss how MedPharma Partners can assist your organization in clarifying its strategy regarding medical tourism please contact David Williams dwilliams@mppllc.com or (617) 731-3182 or John Seus jseus@mppllc.com or (978) 281-6705.

To read more about medical tourism or to provide feedback on this white paper, please visit www.MedTriplInfo.com

About MedPharma Partners LLC

MedPharma Partners is a health care and life sciences management consulting firm serving pharmaceutical, biotech, medical device and health care services clients in North America, Europe and Asia. Clients range from Fortune 100 companies to start-ups.

Our professionals average 15 years of health care consulting and corporate experience.

About MedTriplInfo.com

MedTriplInfo.com is a website devoted to medical tourism. It features news, information, interviews and commentary, along with discussion forums for patients, entrepreneurs, health care providers and policymakers.

As medical tourism enters the mainstream, MedTriplInfo is becoming a trusted resource for employers, patients, and their families who are considering going abroad for care.