

Healthcare Systems and Services Practice

Seven healthcare industry trends to watch in 2020

What issues will matter for the healthcare industry in the United States through the year and into the 2020s?

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Healthcare is an essential, dynamic, and opportunity-rich industry. The demand for innovation to drive simultaneous improvement in health outcomes, affordability, quality, and access will continue to be high. As we look ahead, we suggest keeping an eye on the following seven trends:

Business model transformation

Multiple forces (including the mitigation of additional funding from the Affordable Care Act) are combining to form headwinds against profit pool growth in healthcare. New business models that create significant healthcare value (that is, substantially better cost, quality, and outcomes) will be critical—and are emerging. For example, payers reimagining the next generation managed care model with meaningful engagement in care delivery, which includes the integration of a patient's care journey, are seeing superior returns. Similarly, health systems that are aligning the continuum of care and reducing reliance on acute care assets are outperforming substantially. Healthcare leaders will need to focus on how to drive this practical innovation and scale it even beyond what they've done in prior years.

Healthcare ecosystems

The impact of digital technology and artificial intelligence/machine learning (AI/ML)-driven change will scale up. Technology giants are locked in a trillion-dollar battle to win share in the public cloud and to retain consumer mindshare and engagement. As a result, they are investing billions of R&D dollars into their platforms to create services easily usable across a range of customers and for a range of applications (for example, predictive analytics) that accelerate innovation.

Additionally, institutional investors have pumped more than \$80 billion into health tech in the last five years. Regulators are pushing interoperability and freeing up data to be aggregated around the patient.

Combined, these digital advances create fertile ground for the development of consumer-centric personalized, intuitive, and integrated health and social care ecosystems. Ownership of the consumer relationship, and therefore the ability to add and derive value, has the potential to shift. Leading players will need a clear view of their intended role in these ecosystems of the future; investigate partnerships, alliances, and acquisitions; and find how they want to organize their programmatic M&A and innovation capabilities.

Healthcare reform

The 2020 presidential election will likely keep healthcare in the forefront. While all major healthcare regulatory reforms have happened in the aftermath of a recession, affordability issues felt directly by consumers through cost sharing raise the chances for real change. Proposals will continue to evolve, including "Medicare for All," "Enhanced ACA," or other alternatives, which make uncertainty high and require scenario planning. However, a few common elements will also continue to be true, such as guaranteed issue without medical underwriting, catastrophic coverage for all, means-tested subsidies, and a managed care model with increasing risk transfer to providers. In large part payers, providers, and other service players who are operating successfully in Medicare Advantage will have an advantage in most future scenarios. Additionally, many organizations are taking a closer look at their employer-sponsored health benefits with increased sensitivity to employee affordability.

Programmatic M&A and an agile operating model

Given the high uncertainty, impact of technology, and the very large institutional investor-funded market for innovation, programmatic M&A to build capabilities and new businesses will become the order of the day. Rather than simple horizontal or vertical consolidation, programmatic

M&A will be used to develop new business models and refine existing ones. An agile operating model, mostly applied in IT/digital to date, will become de rigueur for all management process, from planning to execution. Speed of execution will become a major source of advantage fueling this shift. Senior leaders will have to rethink their talent, organization structures, operating model, and reskilling of their employees and leaders.

Recession and resilience¹

The goal is not only to survive a recession but also to emerge differentially stronger from it than one's peers. Three major characteristics will separate these winners from the rest: they will secure their balance sheets ahead of the downturn and shore up performance; they will move faster to drive a step-change improvement in operating costs, particularly through automation and analytics, before the downturn, and investment in growth during the downturn; and they will purposefully shape their portfolios by divesting before the downturn and acquiring afterward, as appropriate.

Social influencers of health

Healthcare organizations will expand their aperture to take a holistic view of the well-being of patients and consumers. It has become clear that social, non-medical factors—including socioeconomic factors, neighborhoods, employment, and physical safety—play a major role in individual and population health. Behavioral health disorders affect one in five Americans, and 70

percent of those with a behavioral health disorder also have a physical health condition.² Six percent of hospitalizations in the United States in 2016 involved a principal diagnosis of Mental Substance Use Disorder (2.2 million stays) while 22 percent had a secondary diagnosis (7.7 million stays).³ Leaders will innovate to integrate behavioral and physical health as well as address access to social care.

Drug spending

Pharmacy costs and pricing continue to generate debate. Between 2000 and 2015, the percentage of workers whose health plans included three or more drug tiers rose from 27 percent to 81 percent.⁴ Today, 9 out of 10 prescriptions are filled with generic drugs.⁵ Prices for branded drugs rose by 57 percent since 2014, while generic drug prices have dropped by 35 percent.⁶ Innovation across the specialty pharmacy supply chain and delivery model will be high on the agenda, as will simultaneous efforts to reshape the PBM business model.

As innovators and incumbents settle into this next decade, those that can achieve productivity gains will create competitive advantages through growth and margin. Stakeholders that can remain alert for innovations and leaps in best practices will have the potential for greater impact and improvement. Those that stick with a plan propped up by traditional approaches may not find enough ability to flourish in this new era.

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¹ Martin Hirt, Kevin Laczkowski, and Mihir Mysore, "Bubbles pop, downturns stop," *McKinsey Quarterly*, May 2019, McKinsey.com.

² "Behavioral health care is high-value care," American Hospital Association, May 2019, aha.org.

³ Pamela L Owens et al., "Inpatient stays involving mental and substance use disorders, 2016," Statistical Brief #249, Healthcare Cost and Utilization Project, March 2019, Agency for Healthcare Research and Quality, hcup-us.ahrq.gov.

⁴ Shubham Singhal, "Pharma spending growth: Making the most of our dollars," May 2017, healthcare.mckinsey.com.

⁵ FDA, "Generic Drugs," US Food and Drug Administration, last reviewed November 21, 2019, fda.gov.

⁶ Rabah Kamal, Cynthia Cox, and Daniel McDermott, "What are the recent and forecasted trends in prescription drug spending?" Peterson-KFF Health System Tracker, February 2019, healthsystemtracker.org.