

Note: This is the initial draft as submitted to client.

The Changing Healthcare Landscape

How Risk-Bearing Organizations can successfully navigate the dynamic movement of risk in the healthcare industry.

Executive Summary

Rarely in history has an industry the size of healthcare undergone such dynamic change in so short a timespan. In just the past few decades the patient base has steadily grown older and more overweight - and by extension, more ill. Healthcare costs have soared to historically unprecedented levels. The private payers that have long sustained the industry continue to decline in volume.

Additionally, revenues from Medicare- and Medicaid-based business have fallen well below the breakeven point, and are expected to decline further. Most healthcare organizations are also struggling to support an accelerating level of "retail awareness" among healthcare consumers. And along the way, the burden of business risk has shifted to providers as value-based care models have become predominant.

Given the breadth and depth to which the healthcare industry impacts every single life, the ramifications of such change extend far beyond healthcare professionals. But healthcare professionals are charged with bearing the brunt of the changing dynamics of the industry. All healthcare professions, from executive management to healthcare provider, must adapt and evolve as necessary - not only to secure the ongoing financial viability of the industry, but also to assure the consistent delivery of the quality care depended upon by millions.

The key to surviving and thriving in the face of ongoing changes in the healthcare industry lies in information. Organizations that now bear the bulk of the risk in the healthcare market must be able to convert disparate datasets into actionable information - quickly, economically, and securely. And this information must be delivered consistently and reliably into the provider workflow, supporting the decision-making process at the clinical level. As the healthcare landscape continues to evolve, the successful organizations will be those that employ analytics to progressively support and enhance risk management capabilities.

A Time of Unprecedented Change

For modern healthcare professionals, the common assessment of the current state of the industry might borrow heavily from Charles Dickens: "It was the best of times, it was the worst of times..." That's because the healthcare industry is undergoing a period of unprecedented change.

Some of the change is for the better, offering dramatic advances in healthcare technologies and capabilities. But much of the change is undeniably negative.

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Four Key Factors Driving Change in Healthcare

Much of the change impacting the healthcare industry in recent years has been driven by four key factors:

1. **Soaring Costs.** Spending upon healthcare is at record levels, and still climbing. Currently, spending upon healthcare consumes 23% of the federal budget, and 21% of the average state budget. ¹

In just the 10-year period from 1999 to 2009, healthcare spending on an annual basis nearly doubled, climbing from \$1.3 trillion to \$2.5 trillion. ² In 2013, spending upon healthcare in the U.S. reached an astounding \$2.9 trillion - 17.4% of the nation's entire Gross Domestic Product. ³ In fact, over the past 30 years, healthcare costs have exceeded the GDP per capita by an average of 2.25% per year. ⁴

The out-of-control costs have focused unprecedented pressure upon the healthcare industry. The demands upon healthcare professionals to 'do more faster' and 'do more cheaper' are incessant and unrelenting.

Sidebar:

Healthcare costs are also taking a historically huge bite out of personal budgets. Nearly a fifth of all discretionary spending in the average household is consumed by healthcare. ⁴ And as of 2013, nearly \$10,000 was spent on every man, woman, and child in the United States. ³

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Possible pull quote: The demands upon healthcare professionals to 'do more faster' and 'do more cheaper' are incessant and unrelenting.

2. **Mobility and Consumerism.** The age of 'retail awareness' has dawned among healthcare consumers. The proliferation of mobile devices such as smart phones and tablets has enabled a new paradigm in customer service. Industries such as

banking and insurance have provided consumers with unprecedented access to information, and greater power and flexibility in making decisions and managing services.

But healthcare is lagging behind. Most providers simply don't provide the level of control and access to consumers that modern technology enables, and that many other industries already provide. A number of surveys have indicated that healthcare consumers are highly unsatisfied with the level of access to information available to them from providers.⁹ Healthcare organizations *must* become more patient-centric.

3. **Mergers and Consolidations.** Consolidation within the healthcare industry has accelerated at a tremendous rate in recent years. Pressures to increase efficiency among both payers and providers has been the key driving force behind this 'land grab.' It's a trend that will not be abating in the near term as industry players continue to attempt to consolidate market share. According to a recent survey, nearly 9 of 10 healthcare professionals expect consolidations to increase in the industry.⁵

Possible pull quote: Nearly 90% of healthcare professionals expect consolidations to increase.

4. **Movement of Risk.** Risk was once born primarily by payers. But the burden of risk is shifting dynamically in the healthcare industry. Providers are now bearing a far greater share of the risk.

The Movement of Risk to RBOs

Payers carried the majority of the risk within healthcare for many decades. But that's no longer the case. In today's changing healthcare landscape, payers no longer compete primarily with only other payers. The pressure of change has shifted the burden of risk more onto providers, and less onto payers. As a result a new type of healthcare entity has evolved: Risk Bearing Organizations (RBOs).

Graphic recommendation: in sidebar or margin - PP slide 10: 2015 Kickoff - RCG Healthcare

The RBOs that are becoming more prevalent throughout healthcare are fulfilling new and evolved roles within the industry. Rather than the traditional roles of payers, providers, and life-science professionals, RBOs represent a new paradigm in value-based care and shared-risk arrangements.

In many cases organizations that now assume much of the risk in healthcare are unaccustomed to bearing that burden. And yet these RBOs are facing an ever-increasing risk profile.

Risk Profiles Must Be Managed

Graphic recommendation: in sidebar or margin - PP slide 6: 2015 Kickoff - RCG Healthcare

Concurrent with the shift of risk *within* the healthcare industry, RBOs also find themselves exposed to increasing levels of *external* risk from the very clientele they serve. On average, the U.S. population has grown significantly older in recent decades.⁶ And as the population has aged, it has also grown heavier. According to the CDC, more than a third of Americans are obese - that's more than double the percentage of the population that was classified as obese in 1980.⁷ The combined effects of age and obesity have resulted in a population that is more ill, on average, than at any time in recent history.

The financial risks born by RBOs also continue to grow. The most profitable source of revenue for healthcare organizations, the private payer, continues to decline as a percentage of overall revenue. And Medicare and Medicaid revenues have been below breakeven for many years, and continue to decline.⁸ In short, the volume-based models that have long provided the financial foundation of the healthcare industry are no longer sustainable.

Graphic recommendation: in sidebar or margin - PP slide 7: 2015 Kickoff - RCG Healthcare

All of the above factors combine to put the risk profile of each RBO in constant flux, prone to change with every new contract signed and with each new patient added. And an ever-changing risk profile requires constant re-evaluation and careful management.

Analytics Provides the Key to Success

How can RBOs survive this dynamic new landscape of risk? How can they capitalize upon the opportunities that are inherent with change? The key lies in data; more specifically, employing analytics in harnessing the value of data. Raw data must be turned into actionable information, quickly, cleanly, and securely. And then that information must be disseminated throughout the organization to those that need it, *when* they need it - most importantly, at the clinical level point-of-care.

And analytics capabilities must evolve - and be maintained - to help organizations stay ahead of their ever-changing risk profiles. Accordingly, today's successful RBO will continuously implement increasingly sophisticated analytics capabilities. The ongoing goal will be to remain constantly ahead of continuously evolving risk profiles.

In sum, RBOs must develop patient-centric analytics strategies that:

- Incorporate Big Data
- Leverage current technology and data

- Morph data-driven insights from prospective to predictive

Graphic recommendation: in sidebar or margin - PP slide 14 and/or 15: 2015 Kickoff - RCG Healthcare

Organizations that succeed in turning healthcare data into actionable information will become beneficiaries of *THE* future major market differentiator in healthcare.

Sidebar:

Are You Looking to Harness the Power of Analytics for Your Organization?

You're not alone. According to a recent survey, 95% of healthcare CEOs are actively exploring ways to harness the power of Big Data and analytics. And nearly 9 of 10 believe that technology will have a transformative impact upon their business within just 5 years.¹⁰

End Sidebar

The Best of Times...

The viewpoint of many within healthcare may hold that the present day truly represents the worst of times. And it certainly cannot be argued that the industry currently faces unprecedented challenges.

But those challenges are accompanied by great opportunity. *Extraordinary* opportunity. That's because the potential benefits of Big Data analytics offers far more than the opportunity to simply survive a landscape crowded with new and growing risks. It also provides an opportunity to excel by increasing efficiencies of operation, and by providing unprecedented levels of patient-centric service. Analytics, in short, offers RBOs the key to both surviving *and* thriving in these trying times.

Notes

1. *Bureau of Economic Analysis*, U.S. Department of Commerce, n.d. Web. 27 Aug. 2015.
2. California Healthcare Foundation, n.d. Web. 27 Aug. 2015.
3. *CMS.gov*, Centers for Medicare & Medicaid Services, n.d. Web. 27 Aug. 2015.
4. Kaiser Family Foundation, n.d. Web. April 2012.
5. Dvorak, Katie. "Healthcare consolidation on the rise" *Fierce Healthcare*, 3 July 2014: n. pag. Web. 27 Aug. 2015.
6. U.S. Department of Commerce, Bureau of the Census. *Projections of the Population by Age and Sex for the United States: 2010 - 2060*. 2015. PDF file.
7. Centers for Disease Control and Prevention. *Prevalence of overweight, obesity and extreme obesity among adults: United States, trends 1960-62 through 2005-2006*. 2015. PDF file.
8. American Hospital Association. *The Opportunities and Challenges for Rural Hospitals in an Era of Health Reform*. 2011. PDF file.
9. Topol, Eric J. "The Future of Medicine Is in Your Smartphone" *The Wall Street Journal*. 9 Jan. 2015: n. pag. Web. 27 Aug. 2015.
10. Diana, Alison. "Healthcare Dives Into Big Data" *Information Week*, 14 May 2014: n. pag. Web. 27 Aug. 2015.