



HEALTHCARE CSOs FEEL UNPREPARED AS DISRUPTION SURGES



While 90 percent of healthcare chief strategy officers (CSOs) think new technologies will upend their industry over the next five years, only 13 percent feel their organizations are prepared—far less than peers in other industries—reveals a recent Accenture survey.

Healthcare CSOs stare down disruption every day as gatekeepers and champions of future competitiveness. Yet its pace, scale and complexity is making it increasingly difficult for CSOs to advocate and act to set priorities, make investments and allocate resources. Effective strategies for competing and winning are changing fast.

A PERFECT TARGET

The size and struggles of the US healthcare industry make it uniquely susceptible to disruption. A massive and growing industry, national healthcare spending is expected to reach **\$5.7 trillion in 2026**.¹ And competition is increasing from non-traditional players—of the **Fortune 50 firms**, 84 percent (42) are in healthcare or entering healthcare.²

Widespread inefficiencies across healthcare are a welcome mat for new entrants.³ Not surprisingly, 85 percent of technology companies and 77 percent of venture capitalists consider disrupting healthcare to be a top strategic priority.⁴ From Silicon Valley giants to leading retailers to entrepreneurial start-ups, competitive pressures are increasing. More are following fast behind them.

Even the hint of incursions by non-traditional new entrants has negatively impacted share prices across healthcare segments including health insurers, distributors, pharmacy benefit managers and drug makers. Big technology platform players, in particular, bring distinctive capabilities like consumer relevance, artificial intelligence, and digital supply chains powered by ecosystem effects and large cash reserves. All of these aim to address longstanding healthcare challenges and leapfrog incumbents. In fact, Accenture analysis of future industry profitability suggests healthcare's most durable future profit pools will be in segments enabled by technology.⁵

Current disruption in the healthcare industry is low today relative to other industries. Of the 20 industries examined in Accenture's Disruptability Index, healthcare's current disruption score is the lowest. However, there is no room for complacency. Healthcare is quickly moving up the list, and is now the ninth most susceptible industry to future disruption.⁶

¹ Centers for Medicare and Medicaid Services, National Health Expenditure Projections 2017-2026, <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/ForecastSummary.pdf>

² Accenture analysis

³ Donald M. Berwick, MD, MPP and Andrew D. Hackbarth, MPhil, "Eliminating Waste in US Health Care," March 14, 2012, https://www.icsi.org/_asset/y74drr/eliminating-waste-in-the-us-healthcare-2012.pdf

⁴ Accenture, "Silicon Valley's New Darling: Healthcare Just What the Doctor Ordered," 2016.

⁵ Accenture, "Healthcare's Future Winners and Losers," 2018

⁶ Accenture, "Disruption Need Not Be an Enigma," 2018, <https://www.accenture.com/us-en/insight-leading-new-disruptability-index>

GOOD NEWS, BAD NEWS

The good news is that healthcare CSOs are under no illusions about the change in motion in the industry. Nearly 90 percent believe new technologies will disrupt the industry within five years. The bad news is that most say they are unprepared to address disruption. Only 13 percent of healthcare CSOs feel their organizations are prepared compared to 19 percent of cross-industry CSOs. Among the 11 industries Accenture analyzed, healthcare is tied with the chemicals industry for second to last in preparedness for disruption.

The survey results also indicate that disruption-ready healthcare companies (those with CSOs who feel prepared for disruption) are more likely to engage in three functional activities. These are growing and maintaining ecosystem partnerships, developing cross-industry platforms, and building and sustaining collaborative operating models. It is no coincidence that the technology players rapidly breaking into healthcare have digital business models that are enabled by technology and cultural competencies to excel in these same areas.

PLAYING CATCH UP

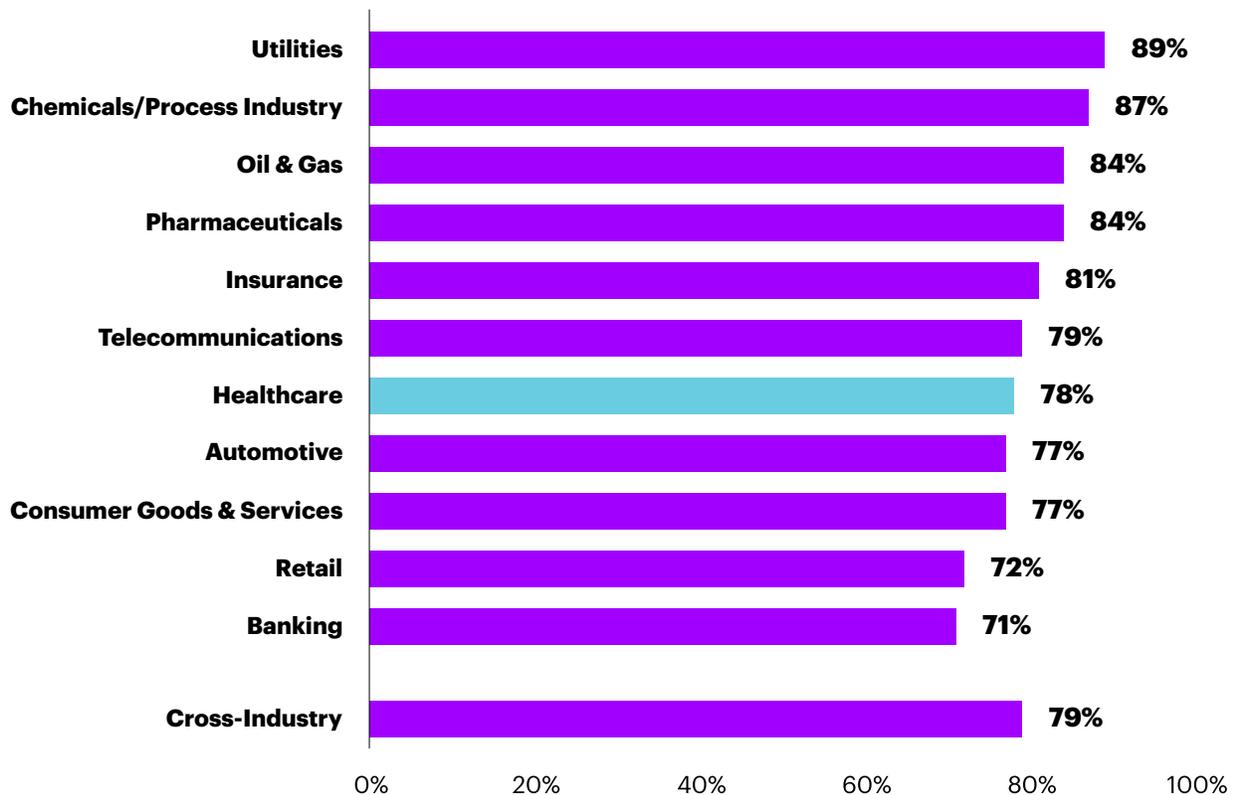
While disruption-ready healthcare companies are engaged in these important areas to defend market share, innovate, and grow the business, their performance lags peers in other industries. This signals they are not realizing the full value of their efforts. Accenture's survey of CSOs reveals how healthcare stacks up in cross-industry comparisons:

PARTNER OR PERISH

Disruption-ready healthcare companies are much more likely than the rest of their industry to partner with direct competitors, logistics companies, innovators and retailers. Such partnerships are critical because they help solve complex problems faster and with less investment by tapping into existing capabilities, experience and relationships of partner companies. In addition, the explosion of customer touchpoints is making it difficult for any single healthcare organization to be close enough to consumers across all moments that matter in people's lives.

Even so, these healthcare companies fall short in partnership engagement compared to other industries. They are in the bottom half of all industries in collaborative partnerships. Case in point: Only 78 percent of disruption-ready healthcare companies report a high level of collaborative partnerships compared to 89 percent of utilities companies and 87 percent of chemical companies, the leaders in this area (Figure 1).

FIGURE 1 Healthcare trails in partnerships among disruption-ready companies



Source: Accenture 2017 Healthcare CSO Survey and Accenture 2016 Global CSO Survey

Healthcare is also slower to advance the partnerships they do have than other industries are. Disruption-ready healthcare companies fall second to last (ahead of only banking) compared to other industries. The growth in partnerships across disruption-ready healthcare business functions (66 percent) trails leaders such as telecommunications (83 percent), chemicals (85 percent), and retail (86 percent). The growth rate is 8 percent less than the cross-industry average of 74 percent.

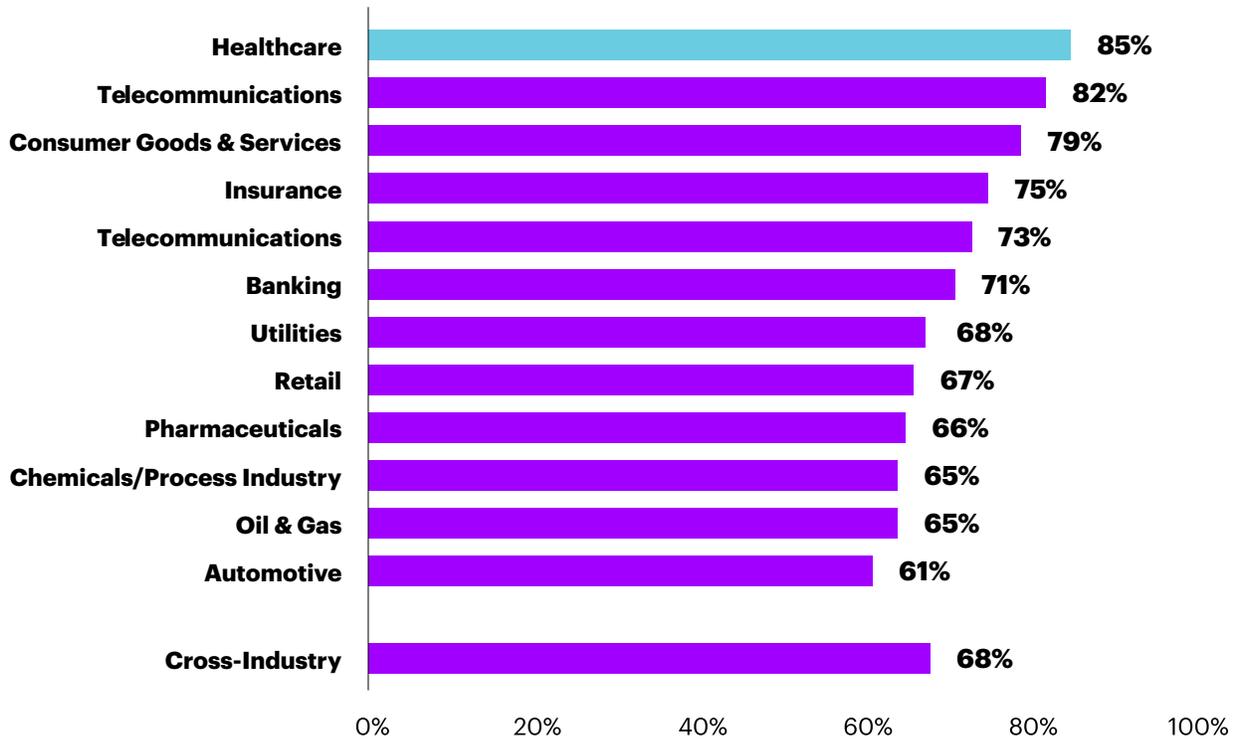
PUSH FOR PLATFORMS

By plugging into technology-enabled platforms, healthcare companies can reach partners and customers quicker and scale faster at a lower cost.⁷ Platforms are the powerhouses of the ecosystem, connecting consumers with producers of services. Each platform producer provides value to the others—including new data insight—creating a multiplier effect for all and improving customer experiences.

Disruption-ready healthcare companies are the most likely to invest in platforms in the future. Eighty-five percent report significant planned future investments in platforms compared to just 68 percent across industries. Chemicals, oil and gas, and automotive industries are the least likely to invest (Figure 2). What is astonishing, however, is that even though more healthcare companies are investing in platforms, healthcare ranks last in its perceived benefit from these investments (Figure 3).

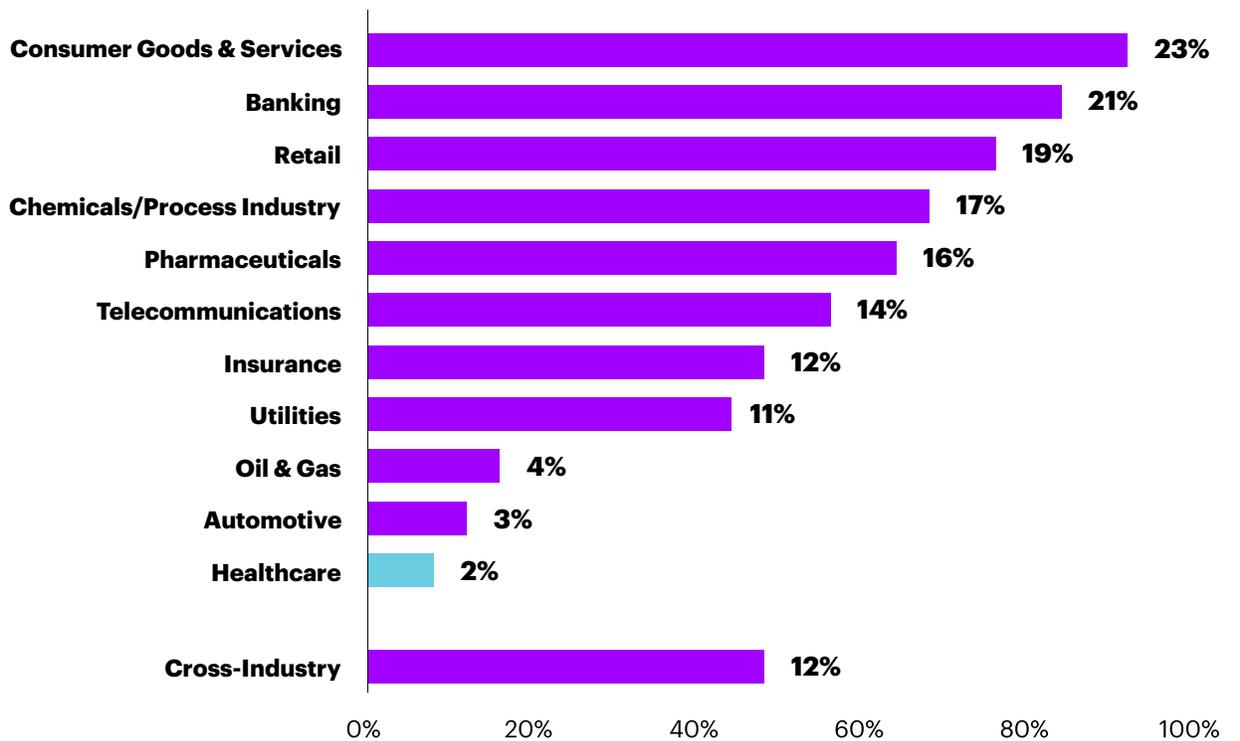
⁷ Sangeet Paul Choudary, *Platform Scale*, 2015.

FIGURE 2 Healthcare companies most likely to invest in platforms in the future



Source: Accenture 2017 Healthcare CSO Survey and Accenture 2016 Global CSO Survey

FIGURE 3 Healthcare companies are not benefitting from platform investments



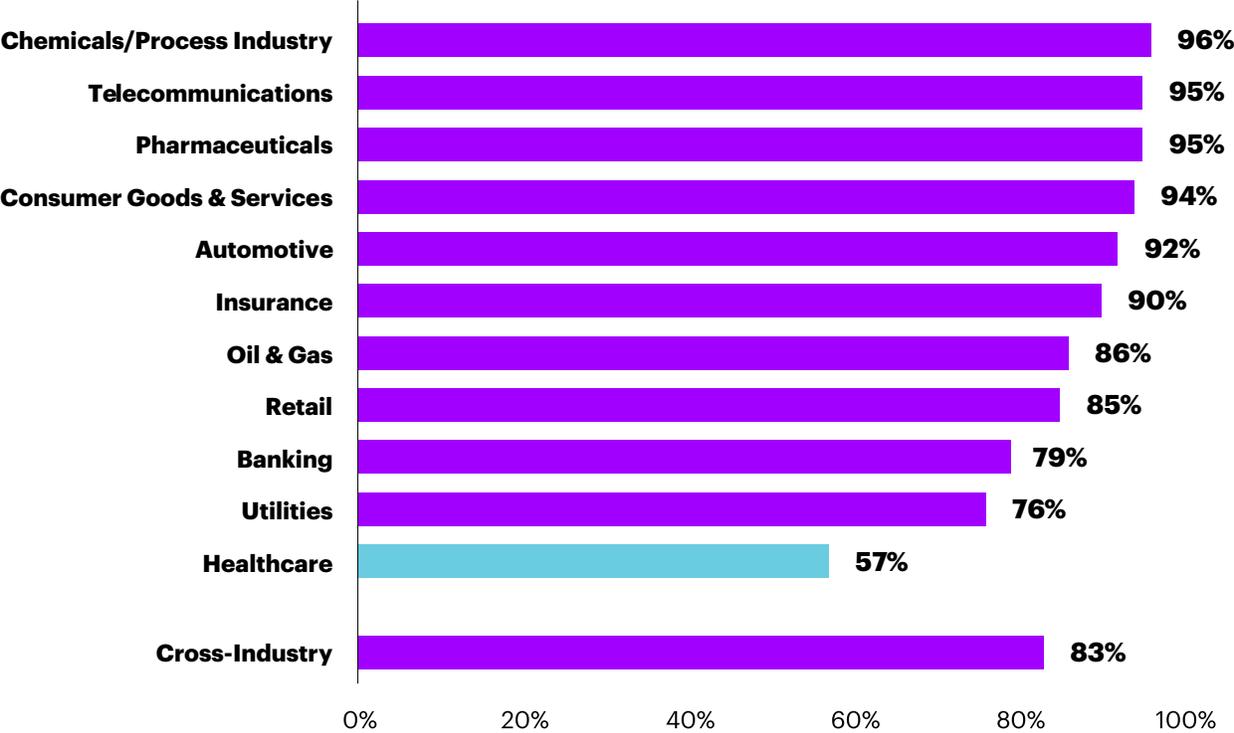
Source: Accenture 2017 Healthcare CSO Survey and Accenture 2016 Global CSO Survey

This perceived gap between investments and benefits in healthcare reinforces the importance of going beyond solely investing in technology platforms to get results. Companies need to take additional actions to build platform-based business models such as shifting focus from industry to ecosystem, developing partnerships to deliver integrated solutions, and operating with openness to make collaboration easy and routine.

EXPLORE THE UNCHARTED

Healthcare companies have been slow to focus outside of traditional ecosystem strategies. Just 57 percent of disruption-ready healthcare CSOs report high engagement in this space. In contrast, cross-industry leaders including pharmaceuticals (95 percent), telecommunications (95 percent) and chemicals (96 percent) are largely committed to rethinking business models to match ecosystem strategies (Figure 4).

FIGURE 4 Healthcare companies are not keeping pace with broader ecosystem strategies



Source: Accenture 2017 Healthcare CSO Survey and Accenture 2016 Global CSO Survey

Among disruption-ready companies, those in the healthcare industry are the least likely to focus on “uncharted” activities outside their core business.⁸ Just 59 percent of healthcare CSOs report doing this. Yet 96 to 100 percent of disruption-ready companies across pharmaceuticals, chemicals and consumer goods are “rotating to the new” by looking beyond core activities for new sources of value.

It is not easy to balance identifying new investments and focusing on the core business. However, protecting existing profit streams while creating new ones is a critical line of defense against change. It takes the courage to pivot wisely outside of the comfort zone. Healthcare companies cannot be truly disruption-ready without strategies that include some exploration and investment in the non-traditional.

HOW TO THRIVE ON DISRUPTION

Disruption is not all gloom and doom. With the right strategy, it can be as much of an opportunity for healthcare incumbents as it is a threat. These actions can help companies take control:

1. DON'T FACE DISRUPTION ALONE

Deepen and broaden alliances with a diverse array of companies in and beyond the healthcare industry to become a part of the ecosystems that customers are engaging in. Strategic partnerships are key in avoiding the risk of being out of sight—and out of mind.

2. MAKE THE COMPANY INDISPENSABLE

Have the courage to move beyond “how things are always done” to become a critical part of the integrated solutions that today’s customers demand. Tap into customer data insight so customer needs and behaviors influence solution development.

3. EMBRACE OPERATIONAL FLEXIBILITY

Consider what organizational changes are needed for the company to be more collaborative and open. This requires an objective and no-holds-barred assessment of people, processes and technologies across the organization.

Healthcare companies—and the CSOs responsible for tomorrow’s competitive strategies—do not have to stand aside and watch the industry get reinvented around them. But there’s no time to waste in moving from awareness to action. Disruption waits for no one.

⁸ Accenture, Digital Health Technology Vision 2017, <https://www.accenture.com/us-en/insight-digital-health-digital-economy-innovation>

FOR MORE INFORMATION



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ABOUT THE ACCENTURE 2017 HEALTHCARE CHIEF STRATEGY OFFICER SURVEY

Accenture surveyed 75 healthcare payer and 75 healthcare provider chief strategy officers (CSOs) to explore their attitudes toward disruption in healthcare services in the United States. Participating CSOs represented organizations with annual revenues of more than \$1 billion, with 30 percent reporting revenues over \$10 billion. The survey was conducted between June and August 2017. Cross-industry trends come from comparing the results of this survey to the US results of Accenture's global CSO survey across 11 industries, which was conducted between December 2015 and February 2016.

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