

A large, stylized orange chevron graphic pointing to the right, serving as a background for the text.

High performance. Delivered.

Insight Driven Health

Healthcare's Big Bang Disruption: Knowing What's Next in the Era of Gradual, Then Sudden Change

“How did you go bankrupt?” asks one character in Ernest Hemingway's novel, *The Sun Also Rises*. “Two ways,” his friend replies. “Gradually and then suddenly.”



Digital is driving change across industries, from shopping to entertainment to travel. **The convergence of "exponential technologies"** (see Figure 1) has increased the pace and scale of industry change to a level greater than that experienced ever before.¹ Transformations driven by other exponential technologies, like electric power, automobiles and telephone, took more than 40 years to reshape industries. Even the impact of the Internet took over 10 years to drive change.²

Today, these exponential technologies are the platforms enabling innovators to rapidly launch products and services that are **Big Bang Disruptions**—innovations which are simultaneously better, cheaper and more customized than current offers—and they're putting major players out of business.³ Since 2000, 52 percent of companies in the Fortune 500 have either gone bankrupt, been acquired or ceased to exist.⁴ In addition, **the life of a Fortune 500 company keeps shortening** from 75 years to less than 15 years today.⁵

Figure 1: Exponential technologies are driving Big Bang disruption



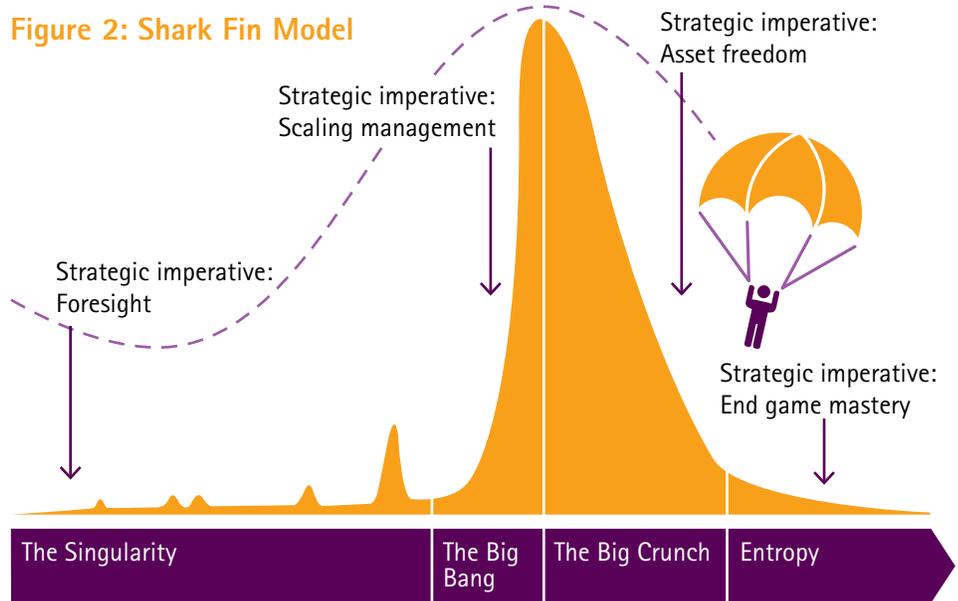
Source: Accenture analysis

The current wave of exponential technologies has contributed to two macro forces—digitization of everything and liquid customer expectations—which make it possible for new technologies to be combined to deliver new layers of connected intelligence, changing our ability to create exciting and indispensable **living services**.⁶ These macro forces are bringing change to the fore in healthcare. A new model of industry transformation, the Shark Fin Model (see Figure 2), is needed to inform strategy in the age of gradual—and then sudden—industry change. This era of Big Bang disruption requires businesses to rethink their strategy, marketing and innovation.

Too much heat for there not to be fire

The healthcare industry has historically remained unaffected by the transformative impacts of exponential technologies, given heavy regulation and reliance on expert labor.⁷ However, even the most regulated industries

Figure 2: Shark Fin Model



Source: *Big Bang Disruption: Strategy in the Age of Devastating Innovation*, <http://www.accenture.com/bigbangdisruption>

¹ The Economist; "The third great wave," October 4, 2014; <http://www.economist.com/news/special-report/21621156-first-two-industrial-revolutions-inflicted-plenty-pain-ultimately-benefited>

² The Economist; "The revolution to come," April 13, 2012; <http://www.economist.com/blogs/freemove/2012/04/general-purpose-technologies>

³ *Big Bang Disruption: Strategy in the Age of Devastating Disruption*, <https://www.accenture.com/bigbangdisruption>

⁴ Constellation Research; "Research Summary: Sneak Peeks From Constellation's Futurist Framework And 2014 Outlook On Digital Disruption," <https://www.constellationr.com/content/research-summary-sneak-peeks-constellations-futurist-framework-and-2014-outlook-digital>

⁵ AEI; "Fortune 500 firms in 1955 vs. 2014; 88% are gone, and we're all better off because of that dynamic 'creative destruction,'" <http://www.aei.org/publication/fortune-500-firms-in-1955-vs-2014-89-are-gone-and-were-all-better-off-because-of-that-dynamic-creative-destruction/>

⁶ Fjord, *The Era of Living Services*, <https://livingservices.fjordnet.com>

⁷ The New England Journal of Medicine; "Rethinking Health Care Labor," October 13, 2011; <http://www.nejm.org/doi/full/10.1056/NEJMp1109649>

are vulnerable to the effects of Big Bang disruption. In fact, US business and IT executives believe the healthcare industry will be one of the top two industries to face the most digital disruption in the next three years based on Accenture's 2016 Technology Vision survey.⁸

In healthcare, Big Bang disruption will happen on a market-by-market basis, versus at a national scale. It will also initially present itself in pockets across parts of the healthcare value chain as new ecosystems form.

Get ready for healthcare's transformation

The healthcare industry is in the Singularity phase of the Shark Fin Model. In the Singularity, entrepreneurs, often from outside the industry, apply pressure to healthcare incumbents by providing consumers new offers that are better, cheaper and more customized than existing products. Many of these new entrants will fail, causing incumbents to ignore them as "distractions." However, the reality is that they signal the big change that will come when the right new product offer is combined with the right business model and regulatory environment.

Change is already impacting parts of the healthcare value chain in different ways, making it difficult to detect major disruption. Eighty-one percent of healthcare executives surveyed by Accenture say industry boundaries are being erased and new paradigms are emerging, but only 28 percent believe that digital transformation has settled in the industry.⁸

The following signals indicate that the healthcare industry is in the early stage of industry transformation, characterized by the Singularity phase of the Shark Fin Model.

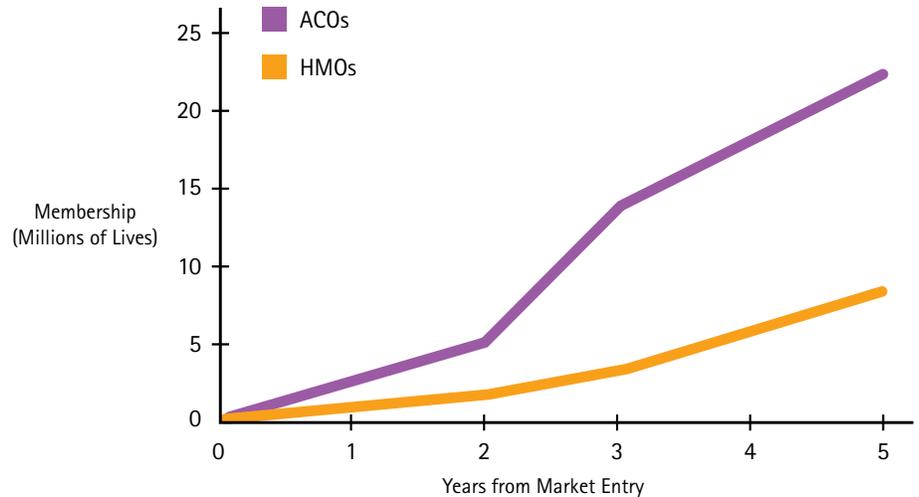
Market experiments are on the rise

Seemingly unrelated market experiments are on the rise, but collectively, they signal impending industry change. There is parallel experimentation going on in healthcare based on open, user-funded, crowdsourced tools and techniques that have become the norm for high-tech products and services.⁹ Increasingly, it is consumers who are demanding innovations and more open approaches in healthcare.

- **Uptick in startup funding.** Accenture research estimates that digital health funding will double in the next three years, growing to

Figure 3: Payment model reform signals disruption

Comparative Diffusion of HMO and ACO Models



Sources: RAND; "The Rise of HMOs," http://www.rand.org/pubs/rgs_dissertations/RGSD172.html
Health Affairs Blog; "Accountable Care Growth In 2014: A Look Ahead," <http://healthaffairs.org/blog/2014/01/29/accountable-care-growth-in-2014-a-look-ahead/>

\$6.5 billion by 2017.⁹ The continued increase in digital health funding is fueling a high volume of market experiments aimed at the heart of healthcare incumbent businesses.

- **Zombie startups.** A majority of the market experiments funded by the increasing digital health investment will fail causing incumbents to ignore them as "distractions." Accenture research estimates that more than half of digital health companies funded between 2008 and 2013 are not likely to survive, creating opportunities for incumbents to swoop in and give these investments new life.¹⁰
- **More mergers and acquisitions.** A tidal wave of mergers and acquisitions (M&A) is fundamentally reshaping the US healthcare landscape, reaching the highest year-to-date volume—ever. As traditional hospital acquisitions shrink, non-acute and digital acquisitions are on the rise with digital acquisitions projected to expand by a multiple of 8—from 1 percent overall acquisition volume in 2014, to 8 percent by 2018.¹¹

Pace is quickening

Payment model reform is one example of change happening at increasing speed. For example, the Accountable Care Organization (ACO)—a model of delivery and payment organized around value and outcomes—is being adopted more rapidly than health industry innovations of the past.

ACOs have two times the membership that HMOs had at four years from market entry, exhibiting characteristics of unencumbered growth common to Big Bang disruptions (see Figure 3).

The pace and scale of health industry change is expected to continue to accelerate, especially given recent commitments from Medicare to move 50 percent of total spending in the coming years to new payment models that reward value rather than volume,¹² and similar commitments from the private sector health insurers.¹³

Scale is at a tipping point

New digital health innovators are entering the healthcare industry with better, cheaper and more customized solutions that are eroding the profits of industry incumbents in focused areas of the value chain. For example, mobile nutrition and activity tracking apps are skyrocketing in popularity, starving traditional weight loss programs of profits.

One major weight loss program saw its stock price drop from \$80 per share in early 2012 to \$4 per share in mid-2015, while membership in a similar program delivered digitally gained millions of members. In response, the weight loss program has recently used Big Bang wisdom approaches to strategy, marketing and innovation to reclaim value lost.¹⁴

⁸ Accenture; "Technology Vision 2016: People First," techtrends.accenture.com

⁹ Accenture; "Fueled by Healthcare IT Start-Up Funding, Digital Disruption is Knocking," <https://www.accenture.com/us-en/insight-healthcare-it-start-up-funding-fueling-digital-disruption.aspx>

¹⁰ Accenture; "Healthcare IT: Zombie Start-ups and Vulture Capital," <https://www.accenture.com/us-en/insight-zombie-start-ups-vulture-capital-healthcare.aspx>

¹¹ Accenture; "Healthcare M&A: Mastering the 3-D Chessboard," <https://www.accenture.com/us-en/insight-provider-healthcare-MA.aspx>

¹² HHS; "Better, Smarter, Healthier: In historic announcement, HHS sets clear goals and timeline for shifting Medicare reimbursements from volume to value," <http://www.hhs.gov/about/news/2015/01/26/better-smarter-healthier-in-historic-announcement-hhs-sets-clear-goals-and-timeline-for-shifting-medicare-reimbursements-from-volume-to-value.html>

¹³ Modern Healthcare; "Major providers, insurers plan aggressive push to new payment models," <http://www.modernhealthcare.com/article/20150128/NEWS/301289934>

¹⁴ Mobihealthnews; "What did Weight Watchers do this year to shore up against free apps?," <http://mobihealthnews.com/48840/what-did-weight-watchers-do-this-year-to-shore-up-against-free-apps>

Surviving healthcare's Big Bang disruption

The way to prepare for the change in motion is to establish foresight to anticipate where markets are heading. Here's how:

Open innovation. Just as the industry disruptors do, healthcare companies must explore new pathways to innovation. This may mean creating innovation labs that encourage employees or collaborators outside of the organization to contribute ideas and insights. [Connect with the outside world through open innovation](#) to explore new models and create better, more cost-effective healthcare technologies or new value linkages.¹⁵

Mergers and acquisitions. Use an investment portfolio manager's mindset to evaluate mergers and acquisitions. Assess strategic growth opportunities holistically across three dimensions—horizontally, vertically and digitally—to determine how to best diversify and differentiate.

Corporate venturing. Bet on a portfolio of experiments and do so early enough to own a significant piece of the eventual winner. Another option is to work with enough of the experimenters to become the preferred—or even exclusive supplier—for products and services that take off.

Platform experimentation: Identify parts of the business that are most vulnerable to attack by disruption from new platform-based business models from incumbents and startups inside and outside the healthcare industry.

Ecosystem collaboration. Identify potential digital platform partners and ecosystem scenarios in three categories: existing business partners becoming digital platform partners, new digital partners within your industry, and new digital partners outside of your industry. Plan and launch a pilot to either join, partner or build a digital platform ecosystem.

Gradual change may be harder to detect, but it's impossible to ignore. All signs point to a big disruption of the healthcare industry. Those health incumbents who heed the warning signals and build the foresight to anticipate where markets are heading will be among the survivors throughout the transformation.

¹⁵ Accenture, "Harnessing the Power of Entrepreneurs to Open Innovation," <http://www.accenture.com/us-en/insight-b20-digital-collaboration.aspx>

For more information:

Brian Kalis
brian.p.kalis@accenture.com

Jill Dailey
jill.s.dailey@accenture.com

Nathaniel Trulsen
nathaniel.c.trulsen@accenture.com

Follow us on Twitter:
 @AccentureHealth

About Accenture Insight Driven Health

Insight driven health is the foundation of more effective, efficient and affordable healthcare. That's why the world's leading healthcare providers and health plans choose Accenture for a wide range of insight driven health services that help them use knowledge in new ways—from the back office to the doctor's office. Our committed professionals combine real-world experience, business and clinical insights and innovative technologies to deliver the power of insight. www.accenture.com/insightdrivenhealth

About Accenture

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world's largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With approximately 373,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.