

Healthcare Reform and Innovation: Get Ready for Change

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Healthcare Reform is underway in the United States. The pace promises to be rapid and the economic and societal trends are complex. Ultimately, the overhaul will change how healthcare insurance products are designed, marketed and sold in the US and how healthcare providers deliver services to the public. The only certain thing in this reform movement is uncertainty; uncertainty in the ultimate timing, extent and nature of the changes the industry will undergo. Surviving these changes will require a hard, honest assessment of current core competencies and barriers. To survive, healthcare organizations must increase focus and investment in strategic agility, organizational innovation and core product development competencies.

Healthcare Reform Drivers

The US Federal Government has created a roadmap for reform of the nation's care delivery systems culminating in 2014 with state or regional Healthcare Market Exchanges (HMEs) and individual mandates to maintain healthcare coverage. So the first major driver is time, and there's not a lot of it.

Market Power Drivers –

- **Large, self-insured employers** – In 2008, 55 percent of workers with health insurance were covered by a self-insured plan offered by their employer*. This trend gives these employers more power to demand healthcare cost reduction and quality improvements. As a result, these employers are looking for innovative ways to reduce usage, drive transparency and accountability for healthcare choices and improve workforce health and wellness.
- **Federal government** – Government agencies use clout and market buying power with Medicare and Medicaid to drive market reform through mandated cost decreases, quality improvement and restructuring 'accountability for care' outcomes. These actions support existing trends towards lower cost delivery models, with resulting impacts on legacy providers. As new delivery models develop, the impacts will spill over to health plan designs.

Care Delivery Model Drivers –

- **Emerging business models** – These include retail clinics, which can deliver formulaic acute care in a more cost effective and responsive manner than traditional physician offices or facilities. Other models include Accountable Care Organizations (ACOs), which have been called for by Medicare under reform, and medical tourism, where the patient travels to lower cost settings.
- **Technology enablers** – This includes the emergence of readily available cost and quality information, as well as web or email-based access to physicians and other caregivers. Technology has the potential to change the way Americans think of and access healthcare, simultaneously changing the economics of care delivery and how caregivers are paid.

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Consumer Accountability Drivers – Through the emergence and continued uptake of Health Savings Account (HSA) compliant Consumer Driven Health Plans (CDHPs), the industry has attempted to address consumer accountability. These efforts likely represent the first step in a much longer trend of increased consumer accountability and visibility to costs.

Reimbursement Drivers – In an effort better to align the financial objectives of providers with care outcome and reduced costs, payors and providers are shifting from traditional contracts to alternative reimbursement terms. New strategies, including pay for outcome, centers of excellence and ACOs, will require closer relationships between payors and providers and an alignment of goals for efficacy and efficiency.

Top it all off with the growing need and efforts to reduce the cost of healthcare to the American system, which is estimated at more than \$2.5 trillion annually as of 2009 (17.6 percent of GDP), and growing at six percent a year**. Huge changes are required to trim a half trillion (or more) out of the overall costs.

Where to Focus for Success

In short, “the genie is out of the bottle” in the healthcare market. We don’t yet know which drivers will need to be addressed and when, and we don’t know the extent the industry will need to go to. But it is clear that the market must improve its ability to innovate in response to, or in anticipation of, market change. Will payors have the focus and capabilities to withstand the tidal shift in the market and emerge successfully?

Payor executives should assess capabilities and competencies in the following areas:

- **Innovation Management** – This is increasingly critical as the sources of innovation and product change requirements become more diverse with shorter lead times and span payor organizations that are traditionally siloed. Alignment with emerging corporate and Line of Business strategies and go to market plans will be most important.
- **Portfolio Management** – Organizations that monitor plan performance and alignment to current market dynamics can more easily choose which plans to pull, change, extend or continue. Getting better here will make it easier to innovate even when capacity and systems are constrained.
- **Pipeline Management** – It is critical to improve the management of in-flight development projects through stage gates to ensure on-time delivery and clear resource requirements.
- **Product Data Management (PDM)** – Existing methods of PDM – traditionally redlined Word documents - won’t be able to absorb the pace and extent of product change requirements. Organizations that invest in architecting common plan components and implement the tools to manage these components will improve time-to-market and the ability to implement plan designs into downstream systems.
- **Product as a Strategic Partner** – Don’t be just an order taker. All the above capabilities imply a need to reevaluate product’s organizational placement, structure, governance, mandate and ability to drive value.



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In summary

Payors will need to be more innovative as the healthcare market goes through reform, especially since major consumers of healthcare services (self-insured businesses and government) are dissatisfied with the status quo and the industry is developing alternative delivery models. Payors and providers with misaligned product development competencies, and internal barriers to innovation and implementation will struggle to address the need for innovation.

Key themes to focus on for success include:

- Managing organizational innovation across market and business model changes
- Aligning product innovation and development to corporate strategy
- Improving the ability to adjust course as corporate outlook and strategy change
- Developing strong internal competencies, processes and supporting infrastructure for product development

Payors that focus on agility, innovation and product development competencies will emerge in stronger position, relative to their peers that do not.

What's Your View?

What do you think are the most important trends in healthcare innovation? What are your current abilities to address those trends? How do you plan to close the gap?

Let us know by participating in this brief survey –
<http://www.surveymonkey.com/s/K5XLXDK>



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