Healthcare Product Innovation: Key Trends and Success Factors

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In 2011, Kalypso conducted a survey assessing how market factors drive the need for healthcare payors and providers to innovate their products. We asked them to identify the most pressing market factors, assess innovation capability and identify barriers to bringing innovation to market. Respondents included product development professionals from twenty one companies ranging from single state payors to national carriers, and from small regional hospitals to national integrated care delivery companies.

The data collected indicate the following key take-aways:

- Healthcare companies are over-confident in their ability to improve their innovation capabilities over the next three years
- There are significant gaps between the opinions of healthcare leadership and front line staff on the major roadblocks to innovation improvement
- Organizations that focus on agility, strategic alignment and scalable product data capabilities will become the clear market leaders

Market Factors that Drive Product Innovation

Survey participants were presented with a list of market factors driving healthcare innovation and asked to identify their top three areas of concern for product development. The responses were categorized into three tiers.
Highlights of the top two factors include:

**Retail Exchanges**

Mandated by healthcare reform, retail exchanges will define base product designs for participating plans. This means more complexity for healthcare payors as they rush to meet mandated plan requirements from design, network and administrative standpoints. To alleviate retail exchange concerns, regional and single-state plans can compete by setting a development strategy based on:

1. Aligning their decision makers on the changing demographics and channel implications
2. Working with developing state or regional exchanges to define basic and premium product offerings
3. Designing product platforms to simplify administrative execution across multiple states / regions
4. Pursuing a structured development of plan offerings targeted at achieving certification by the mandated October 2012 date

**Accountable Care Organizations**

ACOs have the potential to radically alter the service delivery model for healthcare. By integrating the activities and financial compensation of all parties (Independent Physician Associations (IPAs), facilities, labs etc.) around a patient’s outcomes, ACOs have a tremendous potential to improve patient care as well as reduce costs.

To successfully address the potential and challenges of ACOs, payors will need to focus on:

1. Developing shared market targets, product concepts and supporting development roadmaps across internal constituents
2. Integrating the emerging potential of electronic health records
3. Remaining agile enough to adapt to new business models as they emerge from the provider community

**Innovation Maturity**

We then asked each company to assess its organizational maturity in six key areas of innovation capability, as well as where they anticipate needing to improve over the next three years to effectively address the market issues.

In general, responses reflected that healthcare companies plan to have “advanced” product development capabilities within the next two to three even though they currently have few formal product development capabilities in place. This is typical of other industries, where expectations of the rate of change often outpace organizational ability to execute and absorb change. In reality, building such capability is often a five to ten year process.

Technology is a major area targeted for improvement, where back end billing and customer care systems are roadblocks to innovation.
Barriers to Product Innovation
The data indicate a significant difference of opinion between healthcare leadership and front line staff as to where the major roadblocks to improvement will occur.

1. Leadership views resource availability and leadership capabilities to be the two major impediments to success, while staff sees them as minor irritants.
2. Staff views overall organizational and strategic alignment as significant impediments, while leadership believes these to be relative non-issues.

An important first step in increasing innovation maturity requires an agreement between both parties as to where the roadblocks exist. To move quickly in closing performance gaps, organizations will need to ensure agreement on which barriers to address, and when.

Agility is Key to Healthcare Product Innovation Success
A number of market factors drive an increased need to innovate in the healthcare marketplace. These factors, coupled with broad uncertainty of the scope and timing of mandated changes from the Healthcare Reform Act, have confirmed the need for payors to become more agile and intentional in harnessing their organizational potential for innovation.

Organizations will be well positioned for success by focusing on three key elements of strategic agility:

1. **Driving strategic alignment of corporate strategies with innovation strategies and activities** – ensuring that business strategies and their translation into innovation requirements and capabilities are understood and managed throughout the organization. Product portfolio management capabilities will be a key area of investment for healthcare companies that want to meet the rigors of the market.

2. **Building agile development capabilities** – as the pace and scope of market driven change increases, having well understood expectations, processes and organizational roles in delivering innovation will be increasingly important. Implementing a phased and gated approach to product development with standardized development approaches, team structures and communication will play a major role in organizations building this capability.

3. **Developing modular and scalable product data capabilities** – a critical success factor will be the ability to ensure that change requirements are quickly and accurately identifiable in and across products - and that regulatory, administrative and marketing documentation is readily producible. Product Data Management (PDM) systems that enable component level management of product data will increasingly be a “must have” for competitive healthcare companies.

In 2012 we look forward to conducting our second annual product innovation survey, and hope you will participate. In preparation for the survey, please take a moment to tell us the top market and industry factors that are driving your product innovation plans (click here).