EXECUTIVE INSIGHTS

Looking Ahead: The US Healthcare Provider Landscape in 2035

Part 2: Traditional 'Swim Lanes' Are Breaking Down

What does the erosion of traditional healthcare 'swim lanes' mean for providers?

L.E.K. Consulting and the World Economic Forum recently released a special report[1] on the outlook for global health and healthcare through the year 2035. This series builds on those findings and focuses on the implications for the U.S. provider landscape.

In the first Executive Insights in this series,[2] we forecast the trajectory of U.S. healthcare spending through 2035. Our analysis suggests that 30 potential spend-reducing initiatives may only reduce total healthcare spending by approximately $75 billion — a modest figure relative to about $8 trillion in total healthcare spend estimated for 2035.

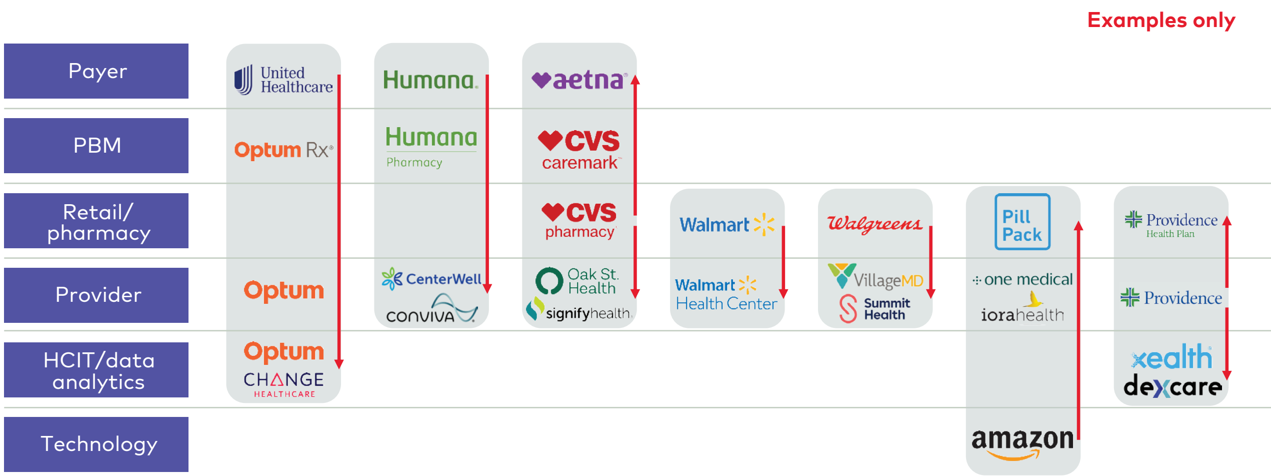
Continued growth in U.S. healthcare spending will attract innovation and investment, heightening competition but creating new opportunities for provider organizations.

In truth, this has already begun. While for decades healthcare organizations could be organized into "swim lanes" — payers, providers and vendors, as examples — many organizations are now ignoring these boundaries. Organizations are entering areas outside their historical cores in search of growth and a greater impact on the healthcare "quadruple aim."

We expect that these traditional swim lanes will continue to break down and efforts to shift into care delivery will accelerate by 2035 (see Figure 1).

This trend is undoubtedly a risk to traditional provider organizations, as large organizations are entering the provider market intending to innovate and break the status quo, and they have the capital available to fail and try again repeatedly. But while many focus on the threat this poses, we see significant opportunities for provider organizations to reinforce their position by participating in these evolutions proactively and decisively.

Figure 1
Examples of “swim lane” evolutions in healthcare



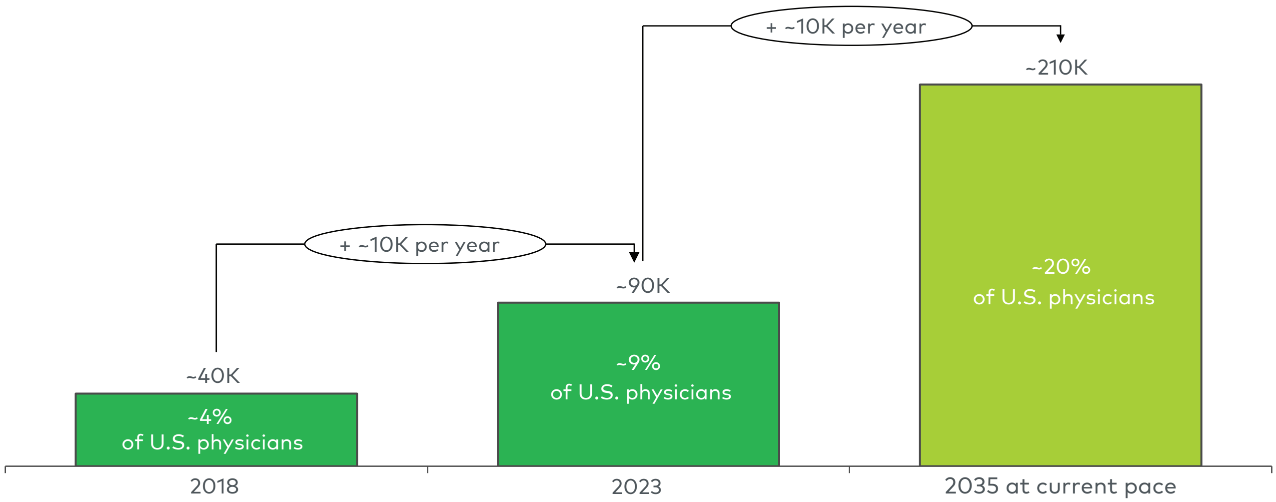
Note: PBM=pharmacy benefit manager; HCIT=healthcare information technology
Source: L.E.K. research and analysis

L.E.K.’s predictions for 2035

Payer-owned provider consolidation machines lose steam

Payers are taking an increasingly active role in healthcare delivery. As an example, UnitedHealth Group’s OptumCare is the largest employer of U.S. physicians, with around 90,000 employed or affiliated physicians.[3] On average, Optum has added roughly 10,000 physicians[4] to this total each year since 2018, and if this were to continue to 2035, OptumCare would be closely affiliated with about 20% of all U.S. physicians[5] (see Figure 2). Humana, CVS Aetna and other payers are pursuing similar strategies, creating the potential for a significant shift in the care delivery landscape.

Figure 2
Approximate number of OptumCare-employed or -affiliated physicians



Source: L.E.K. research and analysis

We believe that payer-owned provider consolidation machines will lose steam well before 2035 and that we may even see a reversal in this trend over the next 10 years due to:

- Sustained competition (from private equity (PE), retailers, etc.) for scaled provider group acquisitions
- Growing regulatory attention/pressure
- The increasing availability and penetration of technology-enabled managed services organization (MSO) models that provide a more capital-efficient way for payers to align incentives with providers

But Wall Street has come to expect revenue and profit growth from the M&A strategies of large payers, including provider acquisitions, and regional payers are looking for opportunities to compete with these increasingly vertically integrated national competitors. That means that over the next 10 years, payers will be hungry to develop clear win-win partnerships with leading provider organizations. These could include:

- Co-development of local risk-bearing entities and MSO-like physician enablement tools
- Co-branded insurance plan products and narrow network offerings
- Co-development of preferred sites of care and direct-to-employer offerings
- Risk-based contracting arrangements to better align incentives and promote data sharing

In an increasingly consolidated payer market, there are only so many of these fruitful partnerships that can develop in each local market. Those that develop and demonstrate their value to local payer partners and proactively seek opportunities to build deeper relationships with payers may see the greatest opportunity.

Retailers and tech companies bring big aspirations but need help

To meet growing consumer demand and engagement with fewer and fewer physicians and nurses per capita, U.S. healthcare must become more consumer-centric and technology-enabled.

In practice, this will mean increasing access to healthcare services at convenient and consumer-friendly retail sites, blending home care with home delivery services, more digital care options and digitally guided in-person care experiences, and greater penetration of artificial intelligence and analytics to focus provider time where it is most needed.

Given healthcare will represent more than 20% of GDP in 2035,[6] big box retailers and tech companies (many of which see limited headroom for growth in their core markets) want to play a significant role in healthcare. Many have already tried, failed and tried again to make a splash in healthcare delivery.

These efforts will not stop. Investors expect these companies to find ways to succeed in healthcare, and they have the balance sheets to support continued experimentation. As they jump in the pool, they will be unlikely to adhere to traditional swim lanes.

But we do not believe they can truly succeed alone. Care delivery is complex and far removed from these companies' core businesses. We expect that retailers and technology companies will look to partner with leading provider organizations to "rescue" their healthcare delivery strategies.

We believe, traditional providers should welcome — and seek out — these partnership opportunities with retailers and technology companies. While provider organizations possess the deep expertise in healthcare delivery that these players lack, they lack the consumer centricity that retail and technology companies possess. There is great opportunity for those that can harness these relationships to differentiate and grow.

PE's 'smart money' brings continued change

Despite recent negative coverage of PE investment in healthcare, we expect that PE will continue to play a significant role in the care delivery landscape through 2035.

PE-driven investment in provider organizations and healthcare technology accelerates innovation and allows more efficient dissemination of new innovations than would be possible in a fragmented landscape. PE investors also bring discipline in building and growing financially sustainable businesses, and health systems and conventional provider organizations can benefit from this discipline in pursuing these ventures.

Our conventional provider clients often see PE activity in their local market as an existential threat — "smart money" is in our backyard and looking to eat our lunch, what should we do?

PE activity in care delivery is undoubtedly a risk for the complacent. But we also see significant opportunities for conventional provider organizations to partner with PE firms for mutual benefit. For example:

- Partnerships that help health systems extend into new sites of care
- Partnerships with primary or specialty groups facilitated by PE investment
- Partnerships to develop and deploy new care models, driving affiliation via MSO services or joint ventures with local specialty groups
- Partnerships in which health systems and provider organizations help PE-owned technology companies hone their offerings and drive greater differentiation

We expect that growth in PE-backed physician groups will continue through 2035 and that PE firms and leading health systems will jointly own and operate a range of new healthcare delivery entities.

Geographic boundaries bend but do not break

Cross-regional hospital and health system M&A represents an overlooked form of swim-lane hopping. Healthcare delivery was historically hyperlocal, but we have seen an increasing number of cross-regional health system mergers in recent years.

An increase in cross-regional mergers could appear to point toward a future with a small number of national health systems in 2035. But we do not believe that this will be the case. Cross-regional health system mergers have generally failed to meet the synergy improvements that underpin them, and these difficulties give others pause.

Instead, we believe there will be a greater number of cross-regional partnerships between leading health systems, bringing capabilities from one system to the market of another for mutual gain. This could include:

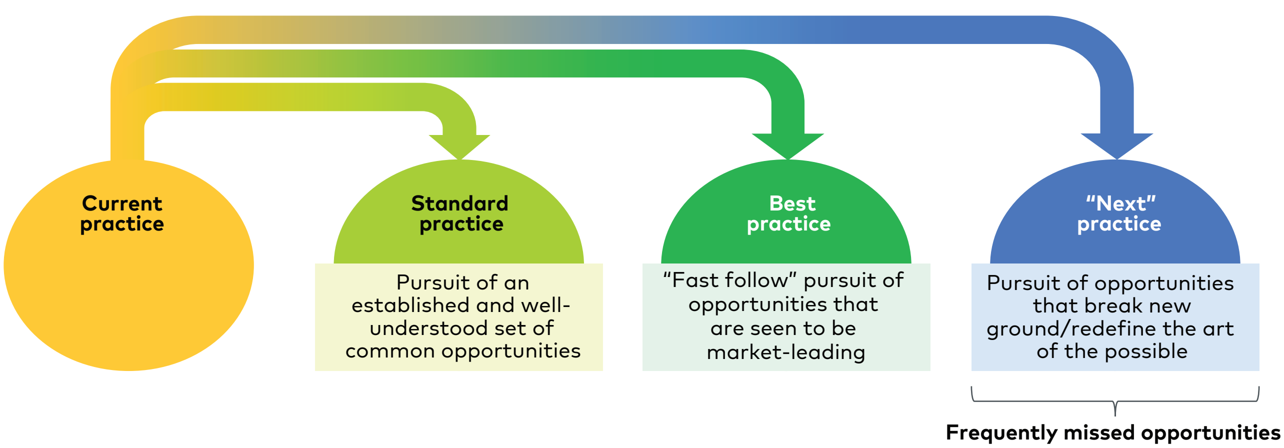
- Co-branded service lines
- Consolidated back-office services
- Other cross-regional technology partnerships (e.g., the commercialization of a new innovation)

L.E.K. helps leading provider organizations take decisive action

To manage these risks and capitalize on the underlying opportunities, conventional provider organizations must be proactive and decisive in their actions and deployment of resources and capital. They must focus and evolve from a mindset of competing with the health system down the street on "everything" to competing with everyone on the things that offer the clearest long-term advantage.

In our experience, provider organizations that can develop a culture and processes that focus on "next" practices are the most successful in forging partnerships that create a step change (see Figure 3).

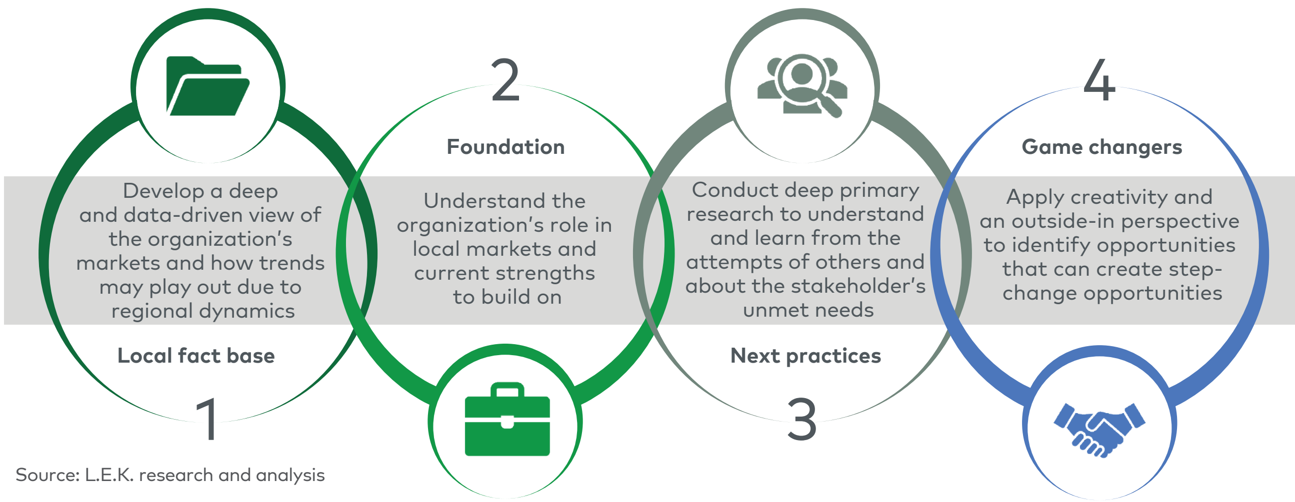
Figure 3
Strategic partnership approaches



Source: L.E.K. research and analysis

We help our clients take an art-and-science approach to defining a long-term strategy and identifying the risks and opportunities that are the most tangible given their local market dynamics. Figure 4 outlines the steps in this approach:

Figure 4
Our approach to defining strategy



Source: L.E.K. research and analysis

We would welcome the opportunity to discuss the trends outlined in this article, your organization's current position and local market context, and the strategic frameworks and approaches we use to help our clients pursue next practice opportunities with confidence.

For more information, please contact **strategy@lek.com**.

Endnotes

[1] Lek.com, "Global Health and Healthcare Strategic Outlook: A Shared Vision for 2035." https://www.lek.com/insights/hea/global/sr/global-health-and-healthcare-strategic-outlook-2023

[2] Lek.com, "Looking Ahead: The US Healthcare Provider Landscape in 2035, Part 1: Pressure is mounting, but will the cost curve bend?" https://www.lek.com/insights/hea/us/ei/looking-ahead-us-healthcare-provider-landscape-2035

[3] Beckersasc.com, "Optum's 90,000 physicians: What consolidation could mean for medicine." https://www.beckersasc.com/asc-transactions-and-valuation-issues/optum-employs-10-of-physicians-what-consolidation-could-mean-for-medicine.html#:~:text=UnitedHealth%20Group%2C%20parent%20company%20of,three%20major%20physician%20group%20acquisitions

[4] Beckershospitalreview.com, "Optum didn't build hospitals — it hired their employees." https://www.beckershospitalreview.com/finance/optum-didnt-build-hospitals-it-hired-their-employees.html

[5] Data.hrsa.gov, "Data Downloads: Workforce Projections." https://data.hrsa.gov/data/download?data=WorkforceProjections#WorkforceProjections

[6] Cms.org, "National health expenditure data: Projected." https://www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/projected

About the Authors

Kevin Grabenstatter
Kevin Grabenstatter is a Managing Director in L.E.K. Consulting's San Francisco office. Kevin focuses on strategy and growth for health systems, physician practices and other providers, and value-based care delivery as well as emerging technologies/healthcare IT. He advises clients on critical strategic issues across the healthcare value chain.

Frazer Dorey
Frazer Dorey is a Managing Director and Partner in L.E.K. Consulting's New York office and a member of the firm's Healthcare practice. Frazer advises healthcare clients on a range of strategic and operational issues, with a focus on growth strategy, market opportunity assessment and operational change for healthcare provider organizations. He has broad experience with healthcare provider organizations across a range of specialties and engagement types.

Rozy Vig
Rozy Vig is a Managing Director in L.E.K. Consulting's San Francisco office and a member of the firm's Healthcare practice. Rozy's work spans corporate strategy and M&A support with a focus on the provider care continuum, including health systems, post-acute and long-term care, at-home care, primary and urgent care, and specialty care. She also has experience at the intersection of payer, provider and healthcare IT, having completed projects on value-based care strategy, staffing solutions, precision medicine enablement and workflow automation.

Jennifer Henry
Jennifer Henry is an Engagement Manager in L.E.K. Consulting's New York office and a member of the firm's Healthcare practice. Jennifer has extensive experience supporting clients in growth strategy, operational transformation, post-merger integration and due diligence.

About L.E.K. Consulting
We're L.E.K. Consulting, a global strategy consultancy working with business leaders to seize competitive advantage and amplify growth. Our insights are catalysts that reshape the trajectory of our clients' businesses, uncovering opportunities and empowering them to master their moments of truth. Since 1983, our worldwide practice — spanning the Americas, Asia-Pacific and Europe — has guided leaders across all industries, from global corporations to emerging entrepreneurial businesses and private equity investors. Looking for more? Visit **www. lek.com**.