EXECUTIVE INSIGHTS

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How Three Healthcare Megatrends are Creating New Opportunities for Investment

As populations age and healthcare literacy increases, there is an urgent need to manage ballooning healthcare costs while meeting the needs and expectations of the population. L.E.K. Consulting reveals three megatrends affecting global healthcare markets.

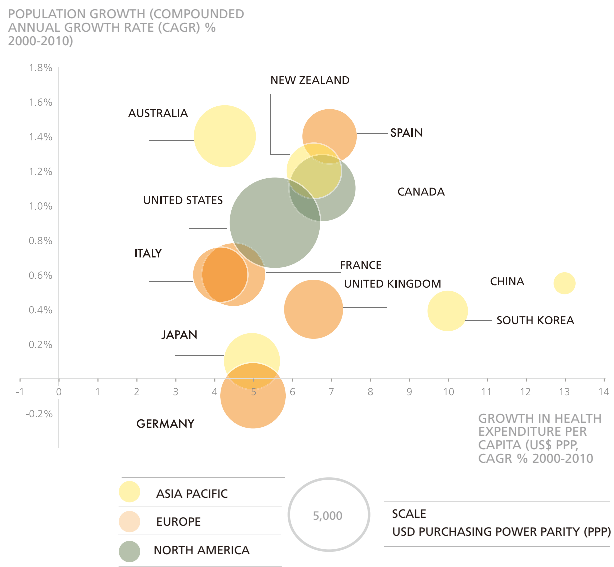
It's no secret: Developed economies across the globe have been grappling with their healthcare costs for some time. The fallout from the 2008 financial crisis, combined with the effects of local reimbursement and regulatory systems, have only compounded the financial pain.

Across most jurisdictions, a number of underlying trends continue their steady and inevitable march — and have profound implications for the future. Populations are aging, while standards of care are improving and health awareness and 'literacy' are growing. That means many economies are facing relentless growth in demand for healthcare as people live longer, with more co-morbidities and evermore complex healthcare management needs.

Australia offers a prime example. The country's total healthcare expenditure has grown at 8.4% annually over the past decade, reaching AUD$130billion (USD$121 billion) in the financial year of 2011. Overall population increases accounted for approximately 1.6% per annum of the growth, while increased utilisation per capita accounted for an estimated 2.5% per annum. Increasing costs of treatment accounted for the remaining growth of 4%[1] per annum. As things stand now in Australia, varying estimates show healthcare expenditure rising from 9.5% of GDP to over 12% by 2030. And Australia isn't unique — much of the developed world faces similar pressures. Emerging economies are not immune to this trend and also face growing healthcare budget pressures. For example, although China's healthcare expenditure per capita is only c.10% of Australia's, it has been growing rapidly at over 13% per annum for the past decade, with strong growth momentum expected going forward.

Figure 1

Drivers of Health Expenditure Growth in Select Countries



Source: The Organisation for Economic Co-operation and Development (OECD)

[1] Australian Institute of Health and Welfare 2012. Health expenditure Australia 2010–11. Health and welfare expenditure series no. 47. Cat. no. HWE 56. Canberra: AIHW.

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Over the next two decades, socio-demographic trends will continue to evolve. For example, relative to prior generations, aging baby boomers – "high volume" healthcare users – will enter retirement with, on average, increased wealth. This means, of course, that they will have money to fund their needs and a stronger desire to maintain mobile, active lifestyles for longer – all while remaining connected to their homes, communities, and families.

Trends such as this present some interesting challenges and potential paradoxes:

- There will be an evermore urgent imperative to constrain and manage ballooning healthcare costs, while still meeting the healthcare needs of the increasing number of elderly members of the community
- At the same time, there will be an increasing number of health conscious and engaged retirees willing to pay for premium levels of service from healthcare providers

What is the Solution?

L.E.K.'s global healthcare practice identified a range of solutions being deployed across different markets (see Figure 2). Whereas traditional approaches may have focused simply on rationing supply to constrain healthcare cost growth, jurisdictions are experimenting with varied approaches to maintain and improve health outcomes while simultaneously optimising resource utilisation and minimising growth in total healthcare costs.

Figure 2
Observed Solutions to Managing Escalating Healthcare Demand and Costs

Solutions	
Optimizing efficiency & utilization	
Leveraging public-private partnerships	Taking advantage of private sector funding and expertise to produce cost-effective solutions for the public sector. Moving beyond traditional infrastructure partnerships and into: • Clinical service delivery • Managed service agreements • Outreach/screening programs
Implementing new reimbursement models	New approaches to reimbursement can share risk, incentivize new behaviors and manage costs. Examples include: • Risk sharing: Focus on 'pay for outcomes / pay for responders' • Activity-based funding and case payment models: Payment based on the activity or cases undertaken • Outcomes-based reimbursement models: Linked to specific health outcomes, performance, and benchmarks
Promoting accountability and best practices through performance benchmarking	More proactive approach to monitoring and reporting a range of key performance indicators, particularly for hospitals. Metrics include: • Costs • Productivity • Quality and safety
Investing in new care models, delivery, and coordination channels	New models leveraging technology platforms and collaboration to deliver health outcomes more cost effectively. Examples include: • Teleheath and digital healthcare • Multi-disciplinary care teams and processes • Preventative health and screening programs • Regional health alliances
Prevention	
Investing in chronic disease and care management capabilities	Coordinated and managed-care programs for patients with complex, long-term healthcare needs seek to engage patients more actively in their own healthcare management via a range of platforms and programs.
Unlocking insights from health informatics	Investing in electronic medical records and related platforms to enable more effective risk stratification and cohort targeting. This allows more effective population health management and screening.

Furthermore L.E.K. has identified three key megatrends that are shaping Australian and other developed healthcare systems. These trends will affect a range of healthcare subsectors and highlight opportunities across different jurisdictions over the medium to long term (see Figure 3).

Figure 3
Megatrends and Enabling Subsectors

MEGATRENDS

1
Care where and when the patient wants it: on location and at the convenience of the patient

2
More care for the cash: requiring cost-effective delivery models

3
Care before it's needed: focusing on "whole-of-patient" care management and prevention

HEALTHCARE SOLUTIONS

- Independent living units and retirement living
- Residential aged care

- Community and home-based care delivery channels
- Assistive technologies

- Telemedicine and digital healthcare platforms
- Specialty and outpatient clinics

- Healthcare IT and informatics
- Disease and care-management platforms

Clearly the abilities of different jurisdictions to experiment with and deploy more innovative strategies are highly dependent on the local regulatory, reimbursement and supplier contexts. For example, while some are trying various undertakings in Australia, many programs are still in their pilot stage. As would be expected, there are still critical barriers to overcome before the potential can be realised.

One such barrier is the fragmentation and often siloed nature of funding and reimbursement. This acts as a brake on innovation and investment in new models of care. The federal-state divide between primary and acute care, the fragmentation of aged and disability care programs, and private health insurers' constraints on funding certain services make it almost impossible for any one funder to take a "total cost of care" perspective.

Another barrier is the fragmentation of providers across the continuum, which presents challenges to the effective coordination of patient care. The different roles of state and federal departments, small and medium enterprises (SMEs) and corporations involved in care delivery mean that there is no consistent "single view" of patient-care needs and medical history. This results in some degree of over-reliance on the more expensive channels for care delivery and relatively under-developed outpatient, community, and home-based clinical care delivery alternatives.

The situation is similar in China, if not more difficult. One specific barrier comes from the public healthcare system, which currently dominates the top-notch medical resources in China. The implementation of many of these innovative healthcare solutions will rely heavily on cooperation from these public hospitals, which are typically conservative and can be slower in relinquishing control of their patients. In Japan, the immaturity of current home care resources and infrastructure is a recognised constraint on expansion of this important care channel.

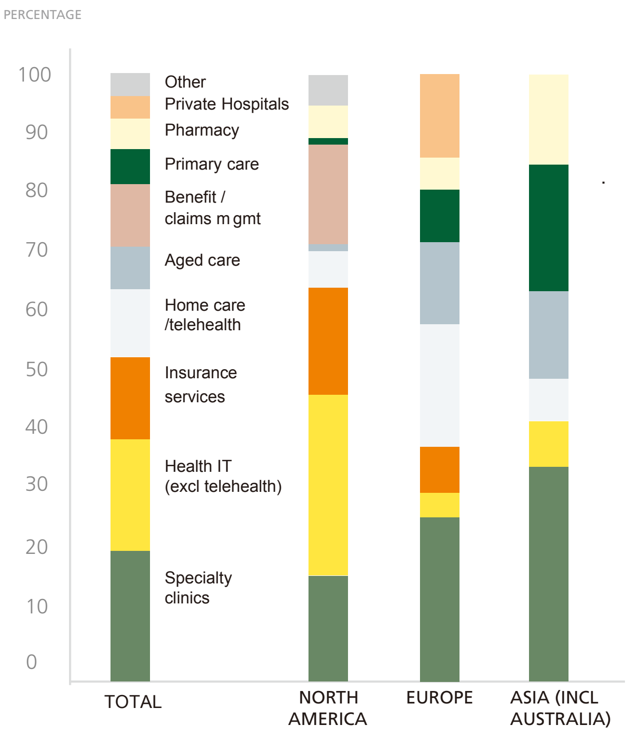
Many healthcare reform initiatives seek to address these barriers; however, the road ahead remains long and arduous.

Opportunities for Investment

The challenges ahead are substantial, but they also present a range of potential investment opportunities for both financial sponsors and domestic and international corporations in developed and developing healthcare economies.

L.E.K.'s recent global healthcare transaction experience highlights some intriguing insights into opportunities across the healthcare value chain in different geographies (See Figure 4).

Figure 4
Global Healthcare M&A Activity by Subsector



Source: L.E.K. Consulting Global Healthcare Practice 2013

While specialty clinics and home care related assets have enjoyed reasonable degrees of merger and acquisition (M&A) activity in all three regions, residential aged care and primary care investment activity has been much more prominent in the European and Asian – including Australian – markets. Given the US healthcare system's specific dynamics, that region has seen high levels of M&A activity in healthcare IT and informatics, health insurance services and benefit / claims-management platforms.

The current scale, maturity, investment and risk profile vary significantly across these regions. Indeed, the emergence of some of the more nascent sub-sectors in different jurisdictions will first require regulatory or reimbursement reforms.

As with any healthcare investment, potential acquirers will need to focus their diligence efforts on a number of core jurisdiction-specific issues, including:

- The level of exposure to reimbursement policy and reform, either as an opportunity or a risk
- The ability or need to engage healthcare professionals as vital partners in delivering winning and sustainable commercial models
- The changing role of consumer preference and choice in the provider decision
- The ability to create increased value through economies of scale at a regional or national level

The three mega-trends are clear: Systems will be asked to deliver more care for their healthcare dollar; to deliver it where the patient wants it; and to deliver it before it's needed. These systemic changes, combined with demographic and population pressures, mean developed and emerging economies' healthcare sectors will be increasingly challenged. These changes will also mean new and exciting opportunities for savvy investors.

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