

ARTICLE

When unsustainability meets innovation: How investment can change the future of healthcare

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If you had to point to a single phenomenon that typifies the state of the U.S. healthcare system, unsustainable, rising costs may be the first that comes to mind. We all know the numbers: Healthcare spending now makes up nearly 18% of gross domestic product, and it's projected to continue to increase by 5.4% annually through 2038.¹

18%

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But here's both the rub and the opportunity: Spending isn't the only feature of the system that's unsustainable. There's a whole symphony of forces acting on patients, providers, practices, health systems, and investors that underscore the need for an urgent and thorough reevaluation of how care is financed and delivered.

Fortunately, there's no shortage of ideas about how to move forward — and they don't rely solely on a strong balance sheet. Indeed, the most important thing for healthcare organizations and investors is arguably organizational culture. In other words, how willing are boards and executive teams to embrace change — to think outside of a hospital's four walls?

All Healthcare Is Local, Except When It Isn't

When I presented my thoughts about the future of healthcare investments as part of the 2021 Health Connect South conference, the context couldn't have been more fitting, since so much of the Southeast is dealing with its own unsustainable phenomena. Rural communities not only have to cope with greater physical distances between patients and medical offices; they also are up against persistent workforce shortages, high prescription drug costs, and record hospital closures.²

And that's just rural America. There are also operational and financial issues that plague just about every community nationwide. These include burgeoning mental health needs, relentless health inequities, and a profound need for population health management. Together, these forces put health systems, private practices, even device makers — pretty much everyone working in healthcare — at a crossroads going into 2022.

Don't Let the Pandemic Fool You

To add to the challenges facing the healthcare system as a whole, there's a very real risk that hospitals emerging from the crush of the COVID-19 pandemic will think they can soon return to their old ways of operating. Healthcare in the U.S. is, after all, a status-quo business.

But what boards and executive teams ought to be thinking is just the opposite. This is precisely the time to toss out their assumptions about the future and ask, "Hey, what if...?"

The reason is simple: Disruptors are waiting around every corner of the outpatient experience. As a case in point, some that are focused on the Centers for Medicare & Medicaid Services' Program of All-Inclusive Care for the Elderly (PACE) have already gone public. Just two years ago, however, almost no one had heard of PACE. That's how quickly things are changing.

Creating the Future Now

The good news for healthcare organizations — and there's a lot of it — is that innovations abound. This is thanks in part to robust funding from private equity (which currently has about \$2 trillion available to invest) and also to big investments by publicly traded companies, nonprofits, and the government.

\$2T

is available to innovative
companies through private
equity³

In fact, there are too many innovations to count. The federal government, through Medicare and Medicaid, has been notoriously reluctant to settle much of the ambiguity over the direction of investments. Historically, the government has dipped its toes into value-based care and utilization management. It has laid out a thesis, had a value proposition, put out a program, and attracted participants. But it has never scaled up its ideas. It has never forced the scale.

This again points to the need for healthcare companies to take the future in their own hands and position now for long-term sustainability and results.

Hospitals, for example, have traditionally focused on owning everything that goes on within their walls. These days, however, they should take a second look at each element of their operations that they assumed should be in house — maybe it's imaging, maybe it's dialysis, maybe it's their physician groups. And they should ask, "Is there someone out there who can operate this better than I can? Why do I need to own this?" Likewise, in the near term and further into the future, they might very well need capabilities that aren't easily situated in house. In those situations, they would do well to consider partnering with organizations that can do that work better or bring unique value to it.

Lest We Forget

As organizations enter this ambitious but ambiguous next chapter in the evolution of the healthcare system, there's another force they must never lose sight of, one that undergirds every move into or out of a space: their employees.

The pandemic has put unprecedented demands on physicians, nurses, technicians, front desk staff, and everybody else who supports care delivery, resulting in a worsening workforce shortage. Many have left their jobs well before they had planned to do so — and they are not easily replaceable.

So as boards and executive teams look at reinventing their business models, they have to also figure out how to get their employees to pivot along with them. Change, in other words, is inevitable, but it has to be managed carefully. Because without employees, even the very best strategies become impossible to execute.

But let that not be an excuse for sticking with the status quo, because today's status quo is tomorrow's legacy cost. Instead, look to where healthcare delivery could go — in fact, must go — to become sustainable, and embrace the opportunity to invest in innovations that improve people's lives.

Sources

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