

## Predicts 2004: Healthcare

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Market challenges and increasing volatility have resulted in a floundering and troubled U.S. healthcare industry. However, there are glimmers of hope for 2004.

## ANALYSIS

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The U.S. healthcare industry is besieged with nearly constant changes that affect healthcare funding, treatments, delivery, administration and, ultimately, outcomes. Market dynamics add to the difficulty in managing a complex mix of factors, including:

- Increasing healthcare costs and malpractice insurance premiums
- Double-digit inflation of health insurance premiums for employers
- More than 43 million uninsured citizens
- Added pressure on branded drug manufacturers from generic manufacturers

Among the key developments dominating the healthcare industry are efforts to respond to legislative regulations, increase process efficiencies, improve the quality of care, manage consumer demands for better service and contain rising medical costs. Combined, these forces represent an unprecedented opportunity for disruption in the healthcare industry. Healthcare organizations (HCOs) must not only manage their businesses, but transform them. The key question for all HCOs is, "How do we position ourselves for success in a volatile industry?"

### Responding to Challenges in the Healthcare Industry

The list of challenges within the U.S. healthcare system has not changed much during the past 10 years. We've seen it all before, and, despite its challenges, the healthcare system has survived. As we enter 2004, the differentiating factor is that never before have all the pressures reached a heightened level at the same time. To manage market dynamics and overcome organizational and financial challenges, today's HCOs must determine what they can do to prepare for 2004 and beyond. To help HCOs position themselves for future success, this Spotlight will highlight predictions for 2004 for each healthcare market (healthcare payer organizations, care delivery organizations and life science firms), emerging and underlying technologies, and healthcare executives and business strategists.

### Healthcare Payer Organizations

Healthcare payer organizations (payers) are surrounded by a growing number of IT, business and market forces that demand more-efficient business practices and more-responsive, flexible products and services. In the midst of these broad and compelling forces, payers must also grapple with significant and urgent business requirements, including increasing merger and acquisition activity, consumer demands for excellent service and the increasing need for improved access to information for stakeholder decision making.

In 2004, the combined impact of these challenges demands that payers embrace the consumer to increase satisfaction and manage costs, adopt new business and organizational models, and plan for market disruption and heterogeneity. Some of the major keys to success include a deepened commitment to customer relationship management, the creation of financial incentives, increased outsourcing and business partnership relationships, and the transition to a new role of information manager.

### Care Delivery Organizations

Change for care delivery organizations (CDOs) is accelerating at a pace in which CDOs cannot afford to wait to transform their business. Quality improvements, driven by efficient service delivery, will be required to survive. Investments to incrementally improve critical business

processes and the ability to go beyond administrative simplification to defining standards for clinical patient data are keys to success.

In 2004, the focus for CDOs will include the ability to exploit the current capabilities of a computer-based patient record (CPR) system to begin practicing evidence-based medicine, studying the implications of the U.K. National Health Service's National Programme for regional or national IT implications, evaluating the need to deploy ambulatory patient record solutions, managing the supply chain to reduce costs, revamping the revenue cycle to improve financial stability and profitability, and creating an overall enterprise imaging strategy, including the implementation of picture archiving and communication systems. These initiatives and IT investments will enable the CDO to directly affect the quality and efficiency of administrative and clinical functions.

### **Life Science Firms**

Life science firms are facing several disruptions that threaten to undermine their business models, such as scientific advances, the move to real-time business models and an engaged, aware consumer market. The complex regulatory environment in the pharmaceutical industry places additional burdens on life science companies. The recent pressure to revive sagging profits has forced life science companies to take a new look at technologies that can enhance process efficiency and speed to market. The ability to extract value from voluminous and disparate data sources will be an essential ingredient in business performance in 2004.

### **Emerging and Underlying Technologies**

HCOs must create a fused business/IT strategy that delivers an operations infrastructure that supports healthcare delivery and administrative-process flexibility. The underlying technologies available in healthcare can help support the necessary infrastructure to succeed. In addition, these technologies will support more-flexible, automated business processes and increase business efficiency. In 2004, wireless technology will be a dominant theme. Other areas of focus for HCOs will include speech recognition, tablet PCs and electronic patient diaries.

### **Healthcare Executives and Business Strategists**

Healthcare organization executives continue to grapple with regulatory pressures, limited IT resources and a perception that previous IT investments have yielded minimal value. In 2004, HCO executives will focus on the business value that can be obtained from IT investments that can be tightly aligned with business processes and strategies. Incremental and demonstrable improvements to business processes will be a key area of focus.

### **Features**

"Healthcare Payer Organization Predictions for 2004" — Healthcare payers will need to find ways of cutting costs, improving care, adopting new information-based business models, and managing market disruption and heterogeneity. **By Joanne Galimi, Cynthia Burghard and Janice Young**

"Predictions for the Healthcare Provider Market in 2004" — The maturation of knowledge management capabilities will have the most-profound impact on the delivery of clinical care in 2004. **By Barry R. Hieb, M.D., Michael W. Davis, Thomas J. Handler, M.D., Barbara A. Kelly and Jonathan Edwards**

"Life Science Firms Will Struggle With Sluggish Economy" — Life science firms will need to focus on IT investments that improve operational effectiveness, provide an infrastructure for information access for internal and external constituencies, and offer a manageable approach for regulatory compliance. **By Carol Rozwell, Geraldine Cruz and Dale Hagemeyer**

"Life Sciences Must Focus on Recovery and Transformation" — Life science enterprises will engage in scenario thinking to understand what measures they should take, based on when they think an economic recovery will have an impact on them. **By Carol Rozwell, Geraldine Cruz and Dale Hagemeyer**

"Underlying Information Technologies in Healthcare in 2004" — The underlying information technologies in healthcare will create the "infostructure" for healthcare organizations and will provide important building blocks for healthcare applications. **By Wes Rishel and Jim Klein**

"Predictions for Healthcare Management Strategies in 2004" — As healthcare organizations wrestle with new clinical initiatives, cost controls will be imperative and new projects will need to be more convincing. **By Jim Gabler**

This research is part of a set of related research pieces. See "Predictions for 2004 in Healthcare and Life Sciences" for an overview.

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