The distribution of market share and profitability across 13 healthcare sectors will change dramatically over the next decade, reveals Accenture analysis of healthcare profit pools. Some traditional sectors will see market share fall by 60 percent, and new profit opportunities will emerge in others for companies that can quickly capitalize on them.
SHIFTING PROFIT POOLS

The US healthcare market will face unprecedented disruption over the next 10 years, as long-brewing forces unleash extensive change. The combined momentum from rising consumer expectations, value-based care regulation, recent technology advancements and mounting political pressure for reform is already reshaping the market.

Companies will need to make targeted investments to navigate this massive change. Leaders will have to make tough judgments about which areas of the healthcare value chain will succeed, and which will suffer. A deep dive into healthcare profit pools—the relationship between a sector’s market share and its profitability—provides insight for companies to do this well.¹

All healthcare sectors are not created equal in future opportunities. Sector margins will fluctuate significantly over the next 10 years. Some sectors will grow even while profits erode. A select few will improve both market share and profitability. By far, the biggest future winners in tomorrow’s healthcare landscape will be software and IT companies and outpatient providers. Pharmacy benefits managers (PBM), distributors and wholesalers, and payers will lose big in a landscape that will be unrecognizable (Figure 1). As profit pools increasingly shift from traditional parts of the value chain toward sectors oriented around technology, incumbents need new ways to defend against disruption and maximize business value. The old rules simply no longer apply.

Profit pools reflect the relationship between a sector’s market share and its profitability.

¹ See Methodology for information on Accenture’s analysis of healthcare profit pools.
FIGURE 1. A comparison of profit pools across healthcare sectors: 2016 vs. 2026

2016 Profit Pools

2016 Sum of Revenues Across 13 Sectors: $4.6 Trillion

2026 Profit Pools

2026 Sum of Revenues Across 13 Sectors: $7.3 Trillion

Y-axis: Sector operating margin
X-axis: Healthcare revenues (Parentheses contain percent healthcare market captured by sector)

Source: Accenture analysis
CHANGE IS NOT BY CHANCE

Three pervasive market trends will set the new rules in healthcare, driving a significant shift in profit pools that will determine healthcare’s future winners and losers.

1) BLURRED LINES

The healthcare industry no longer exists in neat little boxes. Rigid boundaries between healthcare verticals are blurring fast. Vertical consolidation across outpatient care, health plans, drug retail and PBMs signals an active M&A landscape that includes affiliations between industry heavy hitters. These companies are desperate to diversify the business and deliver new sources of value to avoid extinction.

Healthcare is a magnet for disruption from the outside too. Unusual suspects from industries like high tech, banking and retail have entered the mix. But technology players are the ultimate healthcare disruptors. Digital technology is upending everything from health payer labor models to the efficacy of products and therapies to patient-provider interactions. Digital is in demand. It can solve for more effective, efficient and affordable healthcare at scale.

This combination of problems to solve and rewards for scale is a siren song for technology players, which will continue to gravitate toward healthcare. Already, for example, large technology companies are investing in consumer-owned electronic medical records and medical supply distribution. And over the next decade, healthcare’s software and IT sector is expected to grow by more than 15 percent annually.

The software and IT sector is expected to grow by more than 15 percent annually.
Digital technology is fueling commoditization in healthcare. Over the next several years, the industry can expect the steady flow of profits attributed to transaction-based businesses to disappear. In essence, middlemen are being replaced by highly-scalable digital counterparts like robotic process automation and artificial intelligence.

This shift will leave industry middlemen next to nowhere when it comes to profit pools, unless they can evolve their business models. Take PBMs for example. This sector is projected to shrink nearly 8 percent annually through 2026, with operating margins falling from 5 percent in 2016 to 3 percent in 2026. PBMs have historically brought value as middlemen through their scale. But today, PBMs are struggling to assert a differentiated value proposition, and must connect more directly with healthcare consumers to remain relevant. At the same time, falling drug prices are squeezing profits from the other side.

Distributors and wholesalers are also feeling the burn of falling drug prices. What’s more, their clients have developed more efficient ways to realize economies of scale such as group purchasing organizations and widespread provider consolidation. Distributors and wholesalers will see their sector fall off over 4 percent annually, with operating margins shrinking from 2 percent in 2016 to -2 percent by 2026. Large US medical distributors looking to avoid this fate have already begun investing in software and IT services companies to diversify their businesses.

Lastly, while changes to payer market share will be limited, their margins will be significantly reduced, falling from 7 percent today to 3 percent in 2026. Payers are already being disintermediated as large employers reduce their function from risk managers to administrative service providers. While payers have tried to engage consumers with new service models, this is an uphill battle. The risk for payers is that employers, providers and new technology entrants will build out digital customer service capabilities themselves, cutting into a potential point of differentiation for payers’ current business.

The PBM sector will shrink nearly 8 percent annually, with operating margins falling from 5 percent to 3 percent.

The distributor and wholesaler sector will shrink over 4 percent annually, with operating margins falling from 2 percent to -2 percent.

Healthcare businesses that zero-in on consumers—building positive relationships and sticky customer experiences—are best positioned for long-term sustainable value. This is because consumers are more than just kings in the future of healthcare, they are the road to profitability.

With its focus on direct patient care, convenience and access, the outpatient provider sector is consumer-focused by nature. Growth here is expected through 2026. The sector will expand nearly 13 percent annually, with operating margins increasing slightly from 2 percent in 2016 to 3 percent in 2026. Advances in technology and clinical care protocols are shifting the setting of care for many procedures from hospitals to outpatient clinics. This along with value-based reimbursement models is creating new growth for providers in this sector. In fact, the volume of outpatient procedures is expected to grow by roughly 17 percent over the next decade. The industry will need to monitor the durability of future profit pools here as payment policies are likely to impact some of what is driving this market expansion.

Even sectors that do not interface directly with consumers—or that historically have done a poor job of it—need to center their businesses around consumers to win in the future. For example, payers are known for lagging Net Promoter Scores. Yet many are recognizing the importance of improving the customer experience in a market that is quickly becoming more competitive, digital and consumer-driven.

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3 Truven Health Analytics Market Expert Dataset, 2017. Data for use in this publication were supplied by Truven Health Analytics, IBM Watson Health. Any analysis, interpretation, or conclusion based on these data is solely that of the authors, and Truven Health Analytics, IBM Watson Health disclaims responsibility for any such analysis, interpretation or conclusion.

4 Net Promoter, Net Promoter System, Net Promoter Score, NPS and the NPS-related emoticons are registered trademarks of Bain & Company, Inc., Fred Reichheld and Satmetrix Systems, Inc.

BET BIG ON TECHNOLOGY

Technology as a disruptor will shape the future healthcare market. As profitability centers more on the application of technology and less on traditional parts of the value chain, winners will leverage technology to reinvent the value they provide. There will also be huge rewards for rapid growth and consolidation due to the economies of scale integral to technology solutions. As such, leaders should look to increase the pace of growth, both organically and inorganically. Finally, large technology companies will make healthcare plays across the value chain that traditional players need to anticipate to protect their businesses.

In tomorrow's healthcare landscape, current businesses will disappear, commoditization will reduce margins, and new sectors will offer new profit opportunities. Staying ahead of this change means starting today with investments in areas with both long-term revenue opportunities and durable profit pools.
METHODOLOGY

Accenture divided the US healthcare industry into 13 distinct sectors: novel pharma, generic pharma, medical devices, software and IT, equipment and supplies, provider inpatient, provider outpatient, payer, distributors and wholesalers, laboratory and diagnostics, drug retail, pharmacy benefit managers, and health and wellness. Each sector was analyzed to understand its size (percentage of total healthcare market revenues) and profitability (operating margin) and the relationship between the two (profit pools). Comparing 2016 and 2026 profit pools revealed the sectors with the greatest future growth opportunities.

The total sum of the healthcare market segments in this analysis varies from other well-known healthcare market size estimates such as Health Affairs’ National Health Expenditure (NHE) projections, due to differences in health sectors that comprise the aggregate number. Sectors in this analysis but not in Health Affairs’ NHE include: pharma, software & IT, distributors and wholesalers, and PBMs. Sectors included in Health Affairs’ NHE but not this analysis include: dental services, “other professional services,” nursing home facilities and home healthcare, and investment in noncommercial research and structures & equipment.

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