

THE FUTURE OF HEALTHCARE:
Forecasts, Implications and Responses

By Jeffrey C. Bauer, PhD



METEOROLOGY is a good metaphor for health futurists. Having been a weatherman before I became a medical economist, I think the climate is changing in healthcare, and weather patterns are going to be correspondingly different. We in healthcare are experiencing something akin to what happened in the Midwest in the 1930s when the natural prairie was ripped up, creating the conditions for something new, the dust bowl. The future of healthcare will be different because the climate has changed. We will experience some new kinds of “weather” over the next few years, events that did not occur in seasonal variations of the past.

As a weatherman, I was trained to make forecasts, not predictions. Forecasts are estimates of the probabilities of possibilities—meaning more than one outcome is possible. Contrary to predicting, forecasting assumes chaotic, unpredictable relationships between variables. It estimates the relative chances of different future outcomes, such as less/same/more or worse/no change/better. Consequently, I believe that forecasting is the appropriate tool for looking ahead at healthcare because several outcomes are possible—even simultaneously.

Now is an exciting time to be a leader in healthcare. With no clearly predestined outcomes, healthcare leaders can be excited about the possibilities and work to maximize the probability for outcomes they like and to minimize the forces that would create undesired outcomes. With this range of opportunities in mind, my look into the crystal ball suggests that healthcare will change more in the next 10 years than it did in the last 40.

THE HEALTHCARE FORECAST

My current summary forecast is stormy and unsettled. I do not see clear, blue skies for healthcare executives, but I think storms can be weathered and changes can be good. Here is the what, when, where and why of my forecast.

What?

I foresee explosive, unprecedented progress in science and technology, which will cause diversity to become the key characteristic of American healthcare. Due to the growing number of ways in which healthcare can be delivered, no single delivery system, business model or payment mechanism will emerge as the solution for more, better or cheaper healthcare. Be wary of any health futurist who confidently tells you it is all going to be one way, such as adopting a single-payor system by 2010.

When?

When will this diversification take place? Unevenly over the next decade. Healthcare organizations that successfully transform sooner rather than later will pursue carefully selected goals from the diverse range of options. They

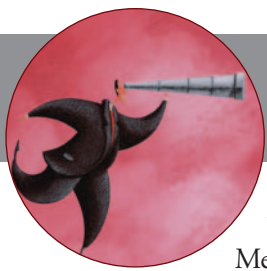
will follow strategies that are visionary, flexible, market specific, efficient (eliminating waste) and effective (using best practices).

Where?

Hospitals and health systems also will have an expanded vision of where healthcare can be offered in the future, imagining both the physical structures (bricks and mortar) and virtual environments (Web sites and portals) that are designed, constructed and operated in response to the changing functional needs of medical science, stakeholders' expectations and economic opportunities.

Why?

Finally, why am I confident that the climate of healthcare is changing and allowing us future possibilities that are different from our past and current directions? We have exhausted all the other possibilities. We tried regulation under President Nixon. It did not solve the problem of skyrocketing costs, so we deregulated and tried competition under President Reagan in the 1980s. Competition did not work either, giving rise to managed care under



the Clinton administration.

Medicare's ongoing problems suggest that the private, consumer choice approach currently underway is not working well. In each era, the next big idea to solve the healthcare crisis has not lasted. So what is next?

TRENDS AND THEIR IMPLICATIONS

As an economist, I believe healthcare can learn from other industries that were forced to solve problems of cost and quality. My forecast is based on a conclusion that, after exhausting all the other possibilities, healthcare will discover the necessity of digital transformation and information services. I cannot think of anything else to try, and I see all sorts of signs from other industries that a good future can come from embracing the science and technology of information. Digital transformation of healthcare is already changing the climate for a good future.

Revolution in Medical Sciences

The most powerful trend for healthcare is a revolution in medical science that is made possible by networked computers. It is reshaping concepts of diagnosis and treatment, causing 21st century healthcare to be very different from all previous approaches to illness and injury.

Thanks to tools developed for the Human Genome Project, medical scientists now are able to look at health problems in unprecedented detail. The resulting knowledge is producing personalized, predictive medicine at the level of molecules and genes. One-size-fits-all medicine, based on the assumption that we and our health problems are all the same, is disappearing. Medical literature and leading press reports suggest that personalized medicine is inevitable and currently present in medical care delivery. Psychiatrists at the Mayo Clinic are already using genetic tests to decide which drugs to prescribe, and companies are beginning to sell these tests directly to consumers.

This shift in clinical paradigms will bring changes every bit as big as dust bowls in Oklahoma, but with potential for good outcomes instead of poor.

The result of all these advances will translate into everyday clinical practice through decision-support tools that enable safe and best practices by teams of clinicians. A growing number of studies show results like the one detailed in *Health Management Technology* (February 2006), indicating that physicians, nurses and pharmacists working together can improve care in 15 percent of cases when a good clinical information system is used. New medical science will generate more than half the changes we will experience in healthcare over the next decade.

Digital Transformation and Virtual Care

Trends in technology also will bring many changes through new tools, all with the potential to be beneficial if properly managed. Integrated networks of computers are the magic behind almost all the other trends, thanks to universal connectivity, multiple platforms, improved and intelligent interfaces, and multimedia information. Through the amazing principles of asynchronous communications, digital transformation is creating exciting possibilities for virtual care through applications of telemedicine that liberate caregivers and patients from the traditional constraints of place and time and through e-health methods that dramatically enhance exchange transactions across the continuum of care.

Dramatic Restructuring of the U.S. Population

Another trend is the restructuring of the U.S. population. Growth of the predominantly Anglo population historically treated by hospitals and health systems—people born in the United States before 1970 and their children—is starting to decline. Moving forward, all the net addition to a baseline population of approximately 245 million indigenous Americans will come from residents born abroad since 1970 and their descendants—a group that is already one in nine people within our borders. Studies show that the resulting ethnic, cultural and racial diversification will mean very different rates of major illnesses and the appearance of many diseases that are unfamiliar to American caregivers but common in other countries. Rapid cultural diversification and globalization will mean significant shifts in the types of diseases we are called



LaSalle Bank

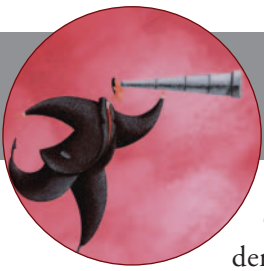
ABN AMRO



OUR MISSION: CLEANSING THE WORLD OF LEASE SURPRISES. We won't stop until your equipment lease is completely free of those insidious asterisks. From the beginning, we have you talking to someone who is authorized to make a deal and understands the special needs of the healthcare industry. No leasing sales guys changing the terms after they've talked to their "people." No last-minute caveats when you're ready to sign the papers. And we imagine that's how you, like so many other hospitals and physician groups, would prefer to work. For more information, call 888-760-8900. No Surprises.

LaSalle Bank N.A. Member FDIC. ©2006 LaSalle Bank Corporation.

LaSalle National Leasing Corporation



on to treat. We will start to see more demands lumped under the general heading of “lifestyle” medicine because research shows that roughly half of what ails us results not from our genes but from the things we do to ourselves in the ways we live. For this reason, disease management has a great future.

New Relationships Within the Delivery System

The evolution of new relationships within the delivery system is an additional trend. We are in the final stages of a shift from merging assets and capturing market share (and, presumably, economies of scale) to developing virtual and strategic partnerships focused on core business needs. As a result of this shift from getting big for bigness’ sake to enhancing performance, I see a bright future for outsourcing. Providers will learn they can leverage their dollar more effectively by working with an expert intermediary to share the capital costs of today’s essential technologies. Providers also will develop partnerships that restructure the supply chain, going far beyond the 1990s model of group purchasing organizations. Transparency and accountability will become critical success factors, not strategic options. Report cards, ratings and pay for performance will be the inevitable signs of increasing competition among providers and practitioners. Contradictory as it may seem, knowing how to embrace competition while building “win-win” partnerships with suppliers and competitors increasingly will be a skill set of the best healthcare executives.

New Market Dynamics in Payment for Care

Finally, the climate of healthcare will be changed by new market dynamics in the payment for care. We will learn to stop looking to the federal government for solutions to our problems because we will realize that defederalization is the wave of the foreseeable future. States like Florida and Maine are being given exemptions from federal rules to try new models with private sector participation.

In addition, payment for care is shifting away from employers and third-party intermediaries more rapidly.

Hence, responsibility for paying for healthcare is being shifted to employees.

Data show that employers save an average of just less than \$2,000 per employee every year when they shift from traditional coverage to high-deductible consumer-directed health plans (CDHPs). For this reason, CDHPs will likely grow dramatically. The data also show that the money in health savings accounts is drawing banks and money managers into healthcare—another unprecedented change in the climate, not just the weather.

CAUTIONARY VIEW:

WILDCARDS AND EXCLUDED FACTORS

I am excluding three factors that are included in most other futurists’ forecasts. First, I do not think we will see a single-payor system. I am convinced that the government has neither the money nor the vision to move us in this direction. Besides, the Medicare drug plan is anything but a promising first step toward single-payor insurance. Second, I do not believe baby boomers are a disruptive force that will make any climate-changing difference in healthcare over the next few years. Older Americans are now more prosperous, better educated and healthier than previous generations of seniors. The purported graying of America is likewise not a problem. The number of seniors is larger than ever before, but the number of babies is growing in even greater proportion. Finally, I do not factor the liability crisis into my forecast. It is undeniably a problem in some states and a waste of resources everywhere, but it accounts for a minuscule portion of healthcare costs compared to meeting the needs of a diversifying population with the latest technologies in competitive markets where spending decisions are rapidly being shifted to consumers who are not accustomed to paying very much for healthcare.

Wildcards are forces so subject to chance that they cannot be factored into the forecast. First, healthcare could be affected dramatically by a major problem in national or international economic conditions. Second, international competition in healthcare (e.g., medical tourism) could

mature to the point that it would affect our futures. The final wildcard is another cataclysmic event like 9/11, hurricanes Katrina and Rita or the anticipated devastating earthquake on the West Coast. A couple hundred billion dollars can be diverted from other budget priorities, including healthcare, in a matter of minutes.

STRATEGIES FOR SUCCESS IN THE NEW CLIMATE

Clearly healthcare executives must better prepare for the healthcare equivalent of global warming, but we can purposefully pursue strategies for success in the new climate. Here is my list of silver linings behind the big black clouds.

Reduce Waste

First, reduce waste in all operations. Learn the lessons of carefully targeted cost cutting from leaders in retail, banking, transportation and other industries. Your counterparts in these other industries had to become efficient or die as their climate changed in the 1980s and 1990s. Study how they used customer service to regain ground lost to low-cost competitors. Look carefully at how they created robust IT infrastructures to collect, analyze and apply business process data that allowed them to increase margins and reduce prices.

With just as much vigor, seek to understand standardized processes that improve quality, safety and efficiency—with a special focus on error reduction that is built on a culture of safety, not blame. Note how leaders in other industries applied Six Sigma, lean principles and other tools of management engineering. Look for input substitution opportunities, like using telecommunications to replace costly face-to-face interactions and taking full advantage of qualified nonphysician practitioners who can perform many doctors' tasks at lower cost with equal or better outcomes. Develop a managerial understanding of modern performance improvement tools, including business process redesign, clinical transformation

management, supply chain management, and standardization and integration of operating systems. Finally, use focused financial systems, including revenue cycle management and contract and remittance management, to ensure timely collection of money that is due.

Align Incentives With the Medical Staff

Pay close attention to the experts who have useful stories to tell about aligning incentives with the medical staff. Gain sharing in cost reductions and quality improvements has helped many hospitals solve the relationship problem, as has preparing physicians for top-level management. Indeed, some of my executive heroes are physicians who have moved into the CEO role; they can be great leaders who see the big picture. Of course, hospitals also need lots of good doctors who treat patients, so look for service lines where savings can be the foundation of a win-win relationship. For example, learn about the development of perioperative medicine as a promising solution in surgery. Also worth exploring is diagnostic convergence, the creation of a single service line through the merger of radiology and pathology. Although employing physicians did not go well in the 1990s, I think it will be a key to success in the new climate of healthcare. If nothing else, employment increasingly will mean paying doctors for the many "voluntary" services they are expected to provide for hospitals. This idea grates on many executives who feel that committee work and weekend call coverage are fair exchange for a free place to work, but the climate for physicians has changed, too. Finally, joint ventures are gaining momentum as new clinical paradigms raise the ante for accessing technologies of molecular medicine and information management.

Prepare for New Consumer Responsibility for Payment

Prepare for the new climate of consumer responsibility for payment. Gathering correct and necessary payment information will be more important than ever because a growing number of consumers are being expected to pay a lot more up front for medical services. Collecting



THE FUTURE OF HEALTHCARE:

Forecasts, Implications and Responses

deductibles and coinsurance becomes critical when the amount is \$2,500, not \$250. To prepare for the coming storm of CDHP, make sure that your patient account managers are prepared to facilitate payment with financial options like hospital-branded credit cards and bank loans. An even bigger challenge in the CDHP climate is developing a rational billing process. Consumers being asked to pay with their own money will not happily try to decode the labyrinth of confusing, often contradictory statements that typify hospital billing. Spend some time seriously thinking about your hospital's bills from your consumers' new point of view. Make sure your hospital's billing is rational: simple and understandable, accurate and fair. Also, cooperate creatively with the employers and health plans that are still paying part of your bills because they are serious about value-based purchasing and pay for performance.

CONCLUSION

My forecast is obviously based on the premise that the climate is changing—which means you should expect unfamiliar patterns in the weather of healthcare. Reinventing healthcare in an environment that can fairly be described as chaotic is a challenge we must conquer; it truly is an exciting time in healthcare.

Jeffrey C. Bauer, PhD, is a partner in Management Consulting—Futures Practice at ACS Healthcare Solutions based in Dearborn, Mich. He may be reached at jeff.bauer@acs-hcs.com.

This article is based on Dr. Bauer's Opening Session address given on March 27 at the 2006 Congress on Healthcare Leadership.



Balance. We restore it everyday.

B. E. Smith is the comprehensive solution for filling key vacant executive leadership positions in your hospital. We'll conduct a national search for a permanent leader while providing the right interim professional to fill your immediate needs. The result? Better search outcomes, continuity of care, and cost-effective answers to your executive and management search needs.

Call us today, and let our healthcare experts help *stabilize* your organization.

Willis Bultje, MBA, FACHE, CASC
Vice President, Senior Executive Search
wbultje@besmith.com



800.401.6739 www.besmith.com



IT'S THE NETWORKSM

that lets you go back to caring about patients, not paperwork.

Introducing Verizon Wireless Field Force Manager.

Field Force Manager is a new and better way to manage your mobile healthcare workforce wirelessly. With its powerful Web portal combined with a real-time handset application, it helps you and your workers be more productive by simplifying logistic processing for your whole organization.

- **Job Dispatch** – Gives you an automated way to manage customer service requests, dispatch field personnel and track job progress.
- **Location and Tracking** – Get rich mapping, showing the location of staff in the field and when they start and complete jobs. Staff can also generate turn-by-turn directions on their handset.
- **Electronic Timecard** – Simplify payroll processing by letting employees capture time right on their wireless phone.

For more information on Field Force Manager, call 1.800.VZW.4BIZ or visit verizonwireless.com.

