

Healthcare Sector



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Industry Overview

The healthcare industry is responsible for an estimated \$2 trillion annually in the United States. Drug and medical device manufacturers, and other suppliers, with combined annual revenue of \$300 billion, provide goods to this highly segmented industry. Care providers (hospitals, clinics, doctors' offices, nursing homes) with combined annual revenue of \$1.5 trillion provide services. A bulk of the cost is funded by private health insurers with annual spending of \$700 billion, and government health insurance programs like Medicare and Medicaid, with combined annual payments of \$1 trillion.

Competitive Landscape

While most hospitals are run by nonprofit organizations, physicians' offices, nursing homes, insurers and manufacturers of medical products are typically for-profit entities. Healthcare is one of the few industries in the United States with large participation from the government, as a direct-care provider through the Department of Veterans Affairs and other hospitals and clinics, and as an operator of health insurance and other programs like Medicare and Medicaid.

Providers compete based on location and reputation, and to a lesser extent on service cost.

Health insurance providers compete, primarily, based on cost. Corporate customers pay a large chunk of the bill.

The last decade has seen scientific advances, allowing improved methods of diagnosing and treating illnesses and injuries. Healthcare costs increased rapidly in recent years as well.

Business Challenges

Rapidly Rising Healthcare Costs

Healthcare costs in the nation rose 90 percent between 1990 and 2000. Officials expect additional growth of over seven percent per annum through 2010; however, a higher growth seems probable. Healthcare costs in 2004 were equal to 16 percent of the US gross domestic product, and annual spending grew 7.9 percent to \$1.9 trillion, according to the CMS. Costs were up 9 percent for doctor services; 8.6 percent for hospital services; and 8.2 percent for prescription drugs.

Growing Importance of Government

In 1970, the government, via programs such as Medicare and Medicaid, paid for 38 percent of the country's healthcare bill. It paid 46 percent in 2004. Medicare, as the nation's largest healthcare program, has a hefty influence on





current medical practices. Emerging treatments – even those approved by the FDA and the medical community - have a limited market if Medicare does not approve them for reimbursement.

High Cost of Uninsured

An estimated 47 million Americans are uninsured, yet many still receive healthcare opting for emergency room visits. Urban hospitals are prone to absorb a large portion of these extra costs. To date, efforts to cover to the uninsured have failed out of concern for the cost to the government.

High Health Provider Insurance Costs - Skyrocketing general and professional liability insurance costs are a key concern for all healthcare providers. Many medical physicians pay in excess of \$400,000 per year to cover medical malpractice insurance expenses. Nursing homes face increased liability insurance costs due to an increase in the number of patient lawsuits and larger jury awards.

Healthcare Fraud Easy, Often Inadvertent - Healthcare providers can increase the reimbursement they receive from third-party payers like Medicare by submitting false invoices through a practice called "up coding" (charging for a higher level of service than was provided). The potential for fraud is built into a system where the consumer is not the direct payer for services.

Aging US Population

An ever-growing aging US population will strain the healthcare system over the next decade. Healthcare spending per person for those over 65 is about three times as much as the rest of the population. The number of Americans 65 or older will increase 55 percent from 2000 to 2020.

Trends

Health Service Use Constant

Americans per-monthly of healthcare services has remained remarkably consistent over the past 40 years, according to the Agency for Healthcare Research and Quality. In an average month, 800 of every 1,000 Americans experience health-related symptoms; 217 visit a doctor, and eight are hospitalized.

Medical Advertising

Drug manufacturers and healthcare providers are increasingly advertising products and services directly to consumers, even though doctors must still prescribe many products or services. Advertisers expect consumers to confer with doctors, who will in turn prescribe treatment.

Changing Nature of Medical Care

Average hospital stays are getting shorter. Likewise, the number of outpatient visits to hospitals and doctor offices is increasing. Doctors are treating patients more aggressively, but for shorter periods. Increasingly physicians are using powerful drugs more frequently, often preferring them to surgical treatments. Many hospitals are evolving into large clinics, providing diagnostic and treatment services rather than just inpatient care.

Care Standardization Improves Quality

A byproduct of meticulous record keeping associated with modern medical practice is that the quality of various approaches to treating disease can be objectively measured and recorded. Using "evidence-based practice," researchers can recommend these "best practices" to evaluate and treat medical conditions.