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The Great Reassembly

How the health care industry is radically evolving:

The necessary transformations to solve today's challenges and prepare for the next wave of industry reassembly

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Setting the stage

The health care industry is presently undergoing a series of specific, rapid, sector-level transformations that will fundamentally change the basis of competition and drive the continued “Great Reassembly” of the industry. These transformations come after a series of widespread, debilitating financial losses from the COVID-19 pandemic and the restructuring of supply and demand in its aftermath. Three years later, hospital margins are down 52% since 2019, and approximately half of hospitals finished 2022 with negative margins, with a 2022 average operating margin of approximately -1.3%. Meanwhile, national hospital expenses are up as much as 19% since 2019. Labor expenses make up the bulk of this increase in costs, experiencing an increase of 23% over this three year period, with contract labor expenses remaining nearly 500% higher than pre-pandemic levels.¹

Stepping back to view these changes over a 10-to-20-year time horizon, one sees a Future of Health characterized by [industry convergence](#), an empowered consumer and tailored, personalized interventions focused on maintaining and restoring health and wellness—a future fueled by unprecedented access to data and the insights this data delivers. However, when viewed on a short time horizon in which health care organizations are under extreme earnings, workforce, and investment pressures, it can be difficult to plot a course and invest in a future that culminates in a portfolio of modernizing transformations that address affordability, experience, quality, and equity imperatives.

We are witnessing five radical industry transformations in progress today that are demanding new mindsets, capabilities, and investments to ensure long term sustainability and relevance. The actions taken over the next one to three years will determine how well positioned both industry incumbents and new market players are for this inevitable industry reassembly. In this paper, we discuss the transformation portfolio in detail and articulate a set of imperatives for health care executives in the near term.

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By 2030, **42%** of Medicare beneficiaries will spend **20%** of their income on health care costs.

The Transformation Portfolio

- Emerging care delivery ecosystem
- Data and insights-driven models and interventions
- Consumer empowerment
- Wellness revolution
- Health equity imperative

Health Care Imperatives

- Plan and organize for large scale organizational change
 - Build a 21st century technology organization
 - Become a data-fueled, insights-driven organization
 - Embrace the paradigm shift to a consumer-driven organization focused on health and wellness
 - Reimagine the care delivery ecosystem – services, participants, and platform business models
 - Embed health equity into core business operations
 - Manage and execute the transformation portfolio
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Individual players are responding to opportunities and challenges differently. New market entrants seek to capture a share of the market, including digital-native companies focused on building the patient-provider relationship in a virtual environment, and those filling market offering gaps, such as FemTech companies providing unique offerings to women and families. There has been a refocus on the patient/customer experience, supported by new digital engagement models. Health insurers are vertically integrating into the provider and pharmacy space to better manage care and costs, and disrupters, such as Amazon, are continuing efforts to build their health care businesses, aligning these investments with out-of-industry leading capabilities such as supply chain, customer insights, and the ability to bring together a diverse set of businesses via a platform business model.

Most health systems and payers believe innovations such as virtual care and digital engagement will persist well beyond current economic and competitive headwinds and are investing in these areas. Yet, many are doubling down on actions with immediate impact, such as postponing “nonessential” investments, activating balance sheets to absorb operating losses, and driving middle managers to squeeze every bit of performance they can from their already short-staffed operations.

In some cases, this laser focus on the present has manifested itself as multiple initiatives lacking an integrated, long-term strategic vision and acknowledgment of the underlying business changes underway. There is too frequently a focus on near-term paybacks and a missed opportunity to drive significant, long-term strategic benefits from investments that have great transformative potential.

However, decisions and investments made today will provide the necessary scaffolding upon which an organization’s Future of Health vision will be designed and executed as the industry reconfigures.

Despite some shorter-term actions, we are seeing evidence of significant shifts in business models, capabilities, and focus that are driving a complete industry reassembly. Five radical transformations in progress today, and rapidly accelerating, are providing the momentum for this monumental shift. Organizations should contemplate the impact and seize opportunities now to chart a path forward.

Securing key foundational capabilities in the next few years and orchestrating a well-designed roadmap of initiatives and investments can create opportunities for accelerated growth and market relevance.

- **Emerging care delivery ecosystem:** Emergence of new delivery models (e.g., hospital at home, virtual health, retail health) operating within emerging platform models characterized by end-to-end patient care and engagement, ubiquitous interoperability, and a growing network of partners.
- **Data and insights-driven models and interventions:** Development of sophisticated data infrastructure and insight engines to support advanced analytic capabilities and use cases to radically improve both administrative and clinical outcomes.
- **Consumer empowerment:** Creation of tools, assets, and programs to empower consumers to manage and direct their health journey; leverage consumer insights to personalize engagement; and reduce friction in both clinical and administrative tasks.
- **Wellness revolution:** Rise of new products, markets, and business models that both refocus and augment the health care system to achieve health and well-being at population scale.
- **Health equity imperative:** Reevaluation and redesign of the health care system to ensure a fair and just opportunity for everyone to fulfill their human potential in all aspects of health and well-being.



Health care industry transformations

Emerging care delivery ecosystem

Health care leaders face difficult choices on where to prioritize efforts across the care delivery spectrum. Unit cost reduction at the hospital level as the single-largest profit center is no longer adequate to meet cost, quality, capacity, workforce wellness, and patient health objectives.

Innovation in health care delivery and use of alternative delivery models has accelerated to address this gap. Virtual care is expected to grow to a \$43 billion market by 2026 and has evolved to a holistic set of often billable services such as hospital at home and remote patient monitoring (RPM).² Likewise, expansion of behavioral telehealth models has improved access and remains the top service category among four in 10 Medicaid beneficiaries experiencing behavioral health challenges.³ Models such as tele-ICU, supported by clinical command centers, are a powerful way to augment limited resources in rural and underserved communities most affected by the workforce shortage. These models will continue to evolve as regulatory and technological advancements drive connectivity, reliability, and data-sharing across providers.

New market entrants are identifying opportunities to enhance the relationship with consumers and increase customer lifetime value. In turn, this loyalty can be translated to smarter referrals to higher-performing, lower-cost providers and modalities as well as an overall reduction in the cost of care. Oak Street Health and Village MD are two examples of organizations that have demonstrated a flywheel of growth in Medicare Advantage, taking financial risk for those patients' care, reducing the cost of care, enhancing provider experience and financial upside, and fundamentally disrupting the largest profit center—the hospital.

Amazon, a platform business, has entered the health care market through a series of acquisitions (e.g., PillPack, One Medical), a \$12 monthly subscription service for prescriptions,⁴ and a virtual storefront that mirrors the success of its e-commerce platform. Amazon's deep experience in curating a robust marketplace of products and services, along with its low-friction customer engagement model and ability to personalize recommendations, positions Amazon uniquely to succeed in the emerging care delivery ecosystem characterized by its diversity of offerings and aim to be more consumer-centric.

Health care providers and payers must begin to build foundational capabilities to compete in this new digital world and not over-invest in legacy technology systems that don't enable new care models. The 21st century technology organization must be agile, interoperable, and not laden with technical debt. The emerging care delivery ecosystem is an opportunity to convene, curate, and incubate new models that may include non-native health care companies playing critical roles, and health care players must embrace and prepare for these new relationships. The ability to either create or participate in emerging platform business models will require investments in technology, product, and service design as well as new payment models.

Data and insights-driven models and interventions

The ability to translate data from inside and outside the health care system into insights and actions will be the cornerstone of industry transformation. Leveraging data for the development of new products and services has the potential to unleash growth for many organizations. With health care generating 30% of the world's data at a 36% compound annual growth rate (CAGR),⁵ organizations must act quickly and boldly to have a cogent data and analytics strategy, including foundational investments in systems and capabilities.

Many health care organizations are investing in technology to drive the efficiency of administrative and operational teams (e.g., finance, HR, supply chain) and alleviate administrative burden. Applying advanced analytics, including artificial intelligence (AI), to solve operational problems can demonstrate quicker returns and present less risk, making it easier to put new solutions into full-scale production. Focusing on these use cases can help an organization build muscle and justify investments in foundational systems.

More sophisticated clinical use cases include predictive models to understand rising risk, such as the risk of sepsis. In 2019, HCA, Inc. announced the launch of its Sepsis Prediction and Optimization of Therapy, or SPOT, technology to identify patients at risk of sepsis and estimated that it had helped save 8,000 lives.⁶ Data and advanced analytics use cases abound, ranging from consumer preferences to tailored outreach to interventions and addressing social issues that impact health, such as food and housing insecurity.

As they look to the future, health care organizations need to focus on building a solid data and analytics foundation that supports interoperability across a broad spectrum of stakeholders and considers equity across its algorithms. Strategic adoption of cloud-based systems is one such avenue. Enterprise resource planning, data, analytics, and electronic medical records (EMRs) are examples of systems that can be migrated to the cloud, which provides greater flexibility and interoperability and enables secure sharing of information, setting the organization up for agility and the ability to scale and connect data with other sources to derive insights. However, caution is warranted here; leaders under pressure to move quickly to close the financial gap “often prioritize the ‘lift and shift’ approach of moving workloads into the cloud without modifying them.”⁷ Jumping in too quickly without redesigning workflows and planning for the future is a flawed strategy that will not deliver transformative results and maximize opportunities for cost savings.

Consumer empowerment

Across many industries, consumers have become accustomed to convenience and near-immediate responsiveness, demanding greater engagement and ability to curate their experiences. Health care is no exception. Providers are being met with more informed patients immersed in their care journey. Ninety percent of patients indicate that they feel confident in medical information they find online,⁸ and 51% consider themselves very likely or extremely likely to vocalize disagreement with their doctors.⁹ A study conducted by the Pew Charitable Trust showed that 61% of respondents want access to their medical records, with 87% saying they want access to their treatment plans.¹⁰

Within this rapidly shifting landscape, leading organizations are harnessing digital tools to delight customers, reinvent their operations, and spark differentiated businesses. Most importantly, they are developing a relationship with their customers. According to The Commonwealth Fund, the average American visits the doctor 2.6 times per year.¹¹ In contrast, the average Amazon Prime member places an average of 24 orders per year.¹² While retail and health care differ considerably, consumer platforms can exponentially increase the type and degree of engagement, allow companies to learn more about their customers, and engender loyalty.

The potential for advanced analytics to transform consumer experiences is expansive, from facilitating personalization to allowing for 24/7 access to services. Chatbots and generative AI can resolve issues quickly and preserve clinicians’ time for more complex patient needs. Data mining can uncover pain points for consumers and provide near-real-time feedback, allowing for more rapid intervention; service recovery; and redesign of processes, workflows, and systems.

The consumer empowerment transformation requires both a shift in mindset and the development of new competencies. Both legacy and new entrants should prepare for patient ownership of their own data.

As consumers pursue their own wellness agendas, they will begin to demand ownership and control over their health information and in turn will give consent to those best positioned to satisfy their specific health needs.

Wellness revolution

Consumers are developing a greater proclivity toward sharing their health data to receive insights on their own wellness, although opinions vary. According to the Pew Research Center, one in five Americans use a smartwatch or fitness tracker.¹³ About four in 10 Americans (41%) say it is acceptable for makers of fitness trackers to share users’ data with medical researchers seeking to better understand the link between exercise and heart disease, however, a somewhat smaller share (35%) believes this is an unacceptable practice.¹⁴ This same Pew Research Center study showed vast differences by income, with only 12% of those whose annual household income falls below \$30,000 using these devices— an important reminder of the equity imperative as health care continues to transform.

A study conducted by Geisinger to understand the impact of wearable health technology on pain management showed a decrease in depression and prescribed pain medications.¹⁵ Apple is said to be working on including features that will help to detect and diagnose conditions including depression, anxiety, and cognitive decline using its Apple Health platform. By 2040, we expect 60% of spending will go toward improving health and well-being, compared to 80% of spending on treatment of disease today.¹⁶

Beyond consumer interest, other forces will propel the wellness revolution such as unsustainable health care costs and employer demand if they feel these types of benefits make their employees more productive and if it helps with recruitment and retention, especially in a continued competitive labor market.¹⁷

Look for a rise in health and wellness offerings as new entrants to the health care market capitalize on this “white space.” Genomics, digital twins, and AI are significant enablers of many of these direct-to-consumer (D2C) companies, which build in natural opportunities for regular, non-invasive, and ongoing engagement that can drive behavioral change. Health care companies will need to create their own “wellness equation” to build an understanding of how investments in this area reduce the total cost of care and positively impact on patient retention. Cooperation with new entrants rather than competition will be needed across the emerging ecosystem, as incumbent organizations cannot rely solely on their ability to create these new offerings.

Health equity imperative

Organizations have been confronted with the challenging and painful reality that health inequities persist across the health care system. COVID-19 shed a bright light on this. The death rate from COVID-19 for Black people is 1.6 times that for white people, and 1.7 times more for Latinos.¹⁸ Personal access to EHRs vary across racial and socioeconomic groups, with 64% of white people saying they have access, and only 58% and 47% of Black people and Latinos saying they do, respectively.¹⁹ Organizations are increasingly tasked with managing the health of populations that appear less frequently in their facilities and face barriers from factors outside the health care system, such as food and housing insecurity.

More progressive organizations are developing strategies to address social health issues. For example, Unite Us is a cross-sector collaboration platform that interfaces with health plans, providers, government, and community organizations, connecting patients to essential community services. To date, more than 33 million people

have been managed on the platform.²⁰ Leveraging technology to build connections with community-based organizations is becoming table stakes for health providers and payers. How that data is used will be both a point of positive differentiation and an area of scrutiny.

New tools and models have the potential to improve access and reduce health disparities. Social health issues, not widely documented in EMRs, are important health determinants, and AI can help shed light on them. The potential use cases are limitless, so prioritization and models that both support efforts to reduce health disparities and guard against bias will be key.

As an industry, we must guard against furthering health inequities through the proliferation of new care models. Of US adults with household incomes below \$30,000, 41% don't own a computer and 43% do not have broadband access, yet these technologies are nearly ubiquitous among adults with households earning more than \$100,000.²¹ Quality of broadband at home affects access to valuable tools, such as telehealth services. Industry players must come together to collectively solve for societal issues, such as digital equity.

Each area of investment within an organization's transformation portfolio will benefit from applying a health equity lens. These considerations should not be treated as an add-on, but rather integrated into transformation programs and core business operations to deepen impact. Continuing to quantify the impact of health inequities is an important step to building coalitions and driving lasting change; cross-sector opportunities to collaborate and share learnings should be encouraged.

The role of disruptive new entrants

Both unaddressed pain points and the opportunities for industry transformation make health care attractive to new market entrants. Private equity investment in health care reached a record \$151 billion in 2021, and the second-highest record in 2022 at \$90 billion, signaling a high level of interest, especially in telehealth and digital health.²² Significant deals, including Amazon's acquisition of primary care provider One Medical for \$3.9 billion, highlight the opportunities industry outsiders see in bringing new capabilities and solutions to a health care system that has been too expensive; was not built around consumer preferences; and has not fully leveraged digital, cloud, and other technologies to improve customer experience and administrative efficiency.

New players are entering the market without the burden of legacy infrastructure and bringing an abundance of tools and expertise, such as advanced data management and analytic capabilities and digital platforms. Some of these new entrants also have a deep familiarity with the consumer base and are adept at understanding and designing solutions to meet customer preferences. Still others bring expertise in supply chain and logistics, useful for new business models such as care in home. Large tech players, such as Amazon, present an opportunity for platform businesses to enter the health care market with their built-in capabilities to string together products and services from unrelated, diverse enterprises and then offer these in convenient ways to consumers. Digital-native companies are not encumbered with legacy systems that require either ongoing investment or total replacement.

Incumbent organizations possess their own competitive advantages, and they should capitalize on these as the industry transforms. Decades of EHR use has produced a treasure trove of longitudinal data across the care continuum. This data will enable future innovations in AI, undoubtedly a game changer as the industry transforms. Health care organizations bring expertise in contracting and supply chain, leveraging their size and market clout through such activities as volume purchasing. Incumbent advantages also include existing relationships, established consumer trust, and a familiarity with the cross-subsidization of risk required to balance an organization's financial and operational performance in the unique US health care system.

Both new players and incumbent organizations possess unique competitive advantages they can use to capitalize on the transformation of the health care industry.

Success will require a fundamental departure in business model. A platform model that enables health systems and health plans, along with new market entrants, to work with a diverse ecosystem of partners to enhance their capabilities will be key to unlocking value. New payment models will likely emerge to support new business models. Opportunities to collect and leverage data generated by platform participants will be key to designing consumer-centric models and curating personalized, value-based interventions.

Conclusion

The transformation of health care will occur through the contributions of both incumbent and new industry entrants. Key to this will be an openness to establish partnerships, business models that allow all players to benefit, and technology platforms that are interoperable to enable third-party partnerships with relative ease. The workforce will need to embrace impermanence and be willing to challenge orthodoxies. And, most important, there needs to be a clear and compelling value proposition in each transformational move, from improving quality and enhancing consumer/workforce experience to making health care more affordable and more equitable.

This “Great Reassembly” of health care will ultimately be defined by this fundamental shift from treatment of disease to promotion of health and the reorientation of the industry around the empowered consumer. The portfolio of transformations currently underway are mere enablers of this new health care system, and yet the importance of a thoughtful and deliberate set of near-term investments and initiatives will be a significant differentiator for years to come.

As a starting point, leaders should consider the following:

- **Plan for large scale organizational change**—Engage in leadership conversations about the Future of Health, how it will impact the organization, and areas of focus going forward. Create a transformation ambition unique to your organization.
- **Build a 21st century technology organization**—Assess legacy systems and technology and understand how they can or can't support the Future of Health vision. Take action to prepare for and embrace a transition to cloud. Consider how to best optimize application portfolios and reduce technical debt.
- **Become a data-fueled, insights-driven organization**—Plot a course for future investments in foundational capabilities, including digital and data and insight platforms.
- **Embrace the paradigm shift to a consumer-driven organization focused on health and wellness**—Reimagine products and services from the consumer's vantage point and develop capabilities to understand and engage consumers in their health journey.

- **Reimagine the care delivery ecosystem**—Embrace innovation and new care models being developed both inside and outside your core business. Find opportunities to integrate new models and build on your organization's existing loyalty and brand equity. Begin to develop your organization's platform business strategy to enable this integration and new business models.
- **Embed health equity into core business operations**—Rather than treat health equity as a stand-alone strategy, embed health equity into all aspects of care delivery and core operations. Develop tools and capabilities to measure, monitor and respond to health equity imperatives.
- **Manage and execute the transformation portfolio**—Develop a structure and process for driving and managing transformational initiatives, taking a portfolio approach to ensure use cases ladder up to meet Future of Health ambitions. Upskill the leadership team in areas such as AI and cloud to better identify the application to transformation execution.

The Great Reassembly of the health care industry is upon us. If there is one certainty during this very disruptive time, it is the need to act with clarity and conviction and without delay.

Contacts

Jodie Lesh

Managing director
Deloitte Consulting LLP
jlesh@deloitte.com

Bill Laughlin

Principal
Deloitte Consulting LLP
blaughlin@deloitte.com

Justine O'Neill

Senior manager
Deloitte Consulting LLP
jusoneill@deloitte.com

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