At KPMG we believe that healthcare payers, providers and life sciences companies should be thinking beyond transformation and focus more on healthcare ‘convergence’ and the broader implications of operating in a more collaborative and integrated U.S. healthcare delivery model. While transformation of current operations is likely going to be a business requirement, the real question for forward looking organizations is what role they plan to play in a new and more converged health system.

These days, it seems everyone is talking about healthcare transformation. However ‘transformation’ really only focuses on a subset of what is currently happening in the U.S. healthcare ecosystem and does not adequately address what is happening more broadly at a systemic level.
The trend towards industry convergence is not a new phenomenon: most leading health and life sciences organizations have been working together more collaboratively for some time now. This trend has been driven, in part, by the recognition that U.S. market forces are fundamentally changing the business of healthcare into an ‘outcomes-based’ system that compensates organizations based on the effectiveness of a product or service rather than simply the consumption of it.

A key implication of these alternative payment and reimbursement models – bundled payments, value-based payments and the like – is that health and life sciences organizations in the U.S. have been forced to seek out new approaches to better define their value and deliver profitable growth in a market that is rapidly shifting.

Providers, for example, are looking for ways to increase the size of the populations they serve (and thus increase their potential revenue pools) by snapping up physician networks and smaller hospital groups as well as fending off competition from new market entrants such as retail pharmacies who are adding clinics to their traditional store footprints. At the same time, payers are looking for opportunities to implement new contracting approaches such as risk-based or performance-based reimbursement models to more directly link payments to outcomes.

For life sciences, the challenge is twofold – while they also need to develop product and services strategies to position themselves competitively based on outcome and value, they also need to adapt internal operating models to adjust to the changes occurring in their customer base. As a result everyone from pharmaceutical powerhouses to medical device manufacturers are partnering with providers and payers to create new, value-added revenue streams based on connected health and shared risk concepts that are less reliant on individual product sales.

While it is difficult to accurately predict what collaborative operating models will emerge as the new way of working in a more converged health system, it is clear that there will be a period of rapid consolidation that – according to some pundits – may see the number of U.S. market participants fall by as much as 95 percent over the next decade as smaller entities are acquired and less efficient and innovative organizations fail. And while few expect to be on the bottom, the reality is that there will be many more sellers than buyers during the next round of consolidation.

For the patient, this evolving system will bring about massive benefits and – until the dust settles on a new and more effective system – some complexity. On the one hand, patients will find themselves with much more power to decide how and where their health dollars are spent. But they will also have less choice in the market, either due to services having been consolidated with one provider or because payer incentives drive patients towards more cost-effective options.

At the same time, the rapid explosion and digitization of data and information within the health system will utterly revolutionize the way we source, deliver and pay for our health services. As the field of data and analytics matures within the health sector – and more activities are moved onto smart devices – payers, providers and life sciences organizations will see further shifts in business models.

Consider, for example, the influence that the iPod has had on business models since it was first introduced in 2001. At that time, record stores and boom-box manufacturers went out of business en masse, but the introduction of the iPod also revolutionized everything around it. Mobile computing, media distribution, education, advertising and even politics have all been fundamentally altered by the whirlwind of change that this disruptive technology sparked. Much the same can be said for data and analytics in today’s healthcare system; those who see the change coming and adapt will thrive in the new environment while the rest will go the way of retail record stores.

“We will cut away the complexity and shine a light on the emerging strategies for payers, providers and life sciences organizations; dispel the myths and misconceptions currently shrouding the debate; and bring to the table new models and ideas to help catalyze our journey towards a new system.”
Executives in the health and life sciences sectors should be concerned: less revenues, disruptive new market entrants, aggressive competition and rapidly shifting regulation are all creating new pressures on the old business models. And with few tried and tested new models for success, the task of setting a new course for health and life sciences organizations seems daunting.

When we tackle this issue with our clients – who include some of the country’s leading and emerging health and life sciences organizations – we focus on helping them develop the right environment for change rather than force-engineering the change itself.

So, for example, we work with clients to create more agility in their organizations by looking at standardized processes and shared services. We help focus on creating better cost flexibility to meet the needs of an unpredictable future. We help develop the organization’s capacity for partnering and work with organizations to model their capabilities against different market options – whether it’s creating an ACO or selling the business to a larger purchaser – to understand the implications of each option facing an organization.

At KPMG, we believe that convergence in the health and life sciences sector will ultimately create a more effective, accountable and efficient system for providers, payers, manufacturers and patients. But we also understand that convergence is a rapidly-changing and highly-complex topic that will create ripples across the system and challenges for today’s players.

That is why we are proud to be launching our new thought leadership series focused on this critical emerging trend. Over the coming months, leading subject matter experts from across KPMG’s U.S. practice will dive into a range of convergence topics – from regulation and tax through to technology and culture change – to deliver practical and actionable advice for those operating in this brave new world.

We will cut away the complexity and shine a light on the emerging strategies for payers, providers and life sciences organizations; dispel the myths and misconceptions currently shrouding the debate; and bring to the table new models and ideas to help catalyze our journey towards a new system.

On behalf of KPMG’s U.S. Healthcare & Life Sciences practice, we encourage you to sign up to receive these regular updates and insights and welcome you to contact your local KPMG office to learn more about the opportunities that convergence will bring your organization.

**Contact Us:**

**Ed Giniat**
U.S. National Sector Leader, Healthcare & Life Sciences
312 665 2073

**Liam Walsh**
U.S. National Advisory Leader, Healthcare & Life Sciences
312 665 3066

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**About KPMG LLP**

KPMG LLP is a leader in healthcare convergence, assisting organizations across the Healthcare & Life Science ecosystem to work together in new ways to transform the business of healthcare. With more than 1,500 U.S. partners and professionals supported by a global network in 150 countries, we offer a market leading portfolio of tools and services focused on helping our clients adapt to regulatory change; design and implement new business models; and leverage technology, data and analytics to guide them on their path to convergence.