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2019 Healthcare IT Demand Survey

Digital and AI are top priorities in 2019, EHR systems continue to dominate IT spend

The changing landscape and blurring lines of capabilities and competition in Healthcare IT 2019

Paddy Padmanabhan
CEO, Damo Consulting Inc
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In our 3rd annual survey on the healthcare IT demand environment, we find that the more things change, the more they stay the same. As we have seen in previous years, technology vendors face continued struggles with long sales cycles. For the second year in a row, the rise of non-traditional players such as Amazon and Google is seen as having a strong impact on the competitive environment among technology vendors.

This year, we also included healthcare enterprise executives to our respondent pool and they share many of the same observations as the technology vendors. For this group, the main IT priorities for 2019 are accelerating digital health initiatives and investing in advanced analytics and artificial intelligence. This aligns with the vendor view on the top spending priorities for healthcare IT in 2019. Healthcare executives are also more upbeat about overall IT spend growth than their vendors.

However, while technology vendors are aggressively marketing "digital" and "AI", healthcare executives note that the currently available solutions in these areas are not very mature. They are confused by the buzz around "AI" and "digital", the changing landscape of who is playing what role and the blurred lines of capabilities and competition.

Health systems are firmly committed to their EHR vendors. Despite the many shortcomings, EHR systems appear to be the primary choice for digital initiatives among health systems at this stage.

Damo Consulting's annual survey continues to provide important insights into the demand environment for healthcare IT. For the first time, the report compares how technology vendors and healthcare executives see 2019 shaping up. I hope you find the report useful. As always, I would love to hear from you.

Sincerely,

Paddy Padmanabhan, CEO, Damo Consulting Inc.
paddy@damoconsulting.net
January 10, 2019

" I pay 1,000 per month for a PPO plan for me and my son. For most people this is not affordable. Affordability, while retaining quality care, seems key. "

— survey respondant

Introduction and Methodology

- This report showcases the results from our 3rd annual survey on the demand environment for healthcare IT. For this year's survey, we not only collected responses from technology and service provider executives, but also from healthcare enterprise executives.

- The survey examines a range of topics ranging from digital transformation and where that currently stands to how healthcare IT will look in 2019 to how spending will change or stay the same over the next year in the healthcare IT environment.

- In total, 64 executives responded to our survey with 40 who are technology and service provider executives and 24 who are healthcare enterprise executives. The survey responses were collected in October and November, 2018.

- Please note that due to rounding or multiple responses being allowed, percentages may not add up to 100%.

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Highlights

- The top spending priorities for healthcare executives are digital, advanced analytics and AI. EHR systems will dominate technology spending budgets, even as the focus turns to digital and analytics.

- IT budgets are expected to grow by 20% or more. Healthcare executives are more upbeat about IT spend growth than vendors.

- Healthcare executives say they are confused by the buzz around AI and digital. They are also struggling to make sense of the changing landscape of who is playing what role and the blurred lines of capabilities and competition.

- Cybersecurity issues are a challenge for 2019 in the healthcare sector, but not the biggest driver of technology spending or the top area of focus for health systems in 2019.

- The CIO remains the most important buyer for technology vendors, however IT budgets are now sitting with multiple stakeholders.

- The biggest challenge for technology vendors is long cycles, along with product/service differentiation and brand visibility.

- The rise of non-traditional players, such as Amazon, Apple and Google will have a strong impact on the competitive healthcare technology environment. Deeply entrenched EHR vendors such as Epic and Cerner will grow in dominance.

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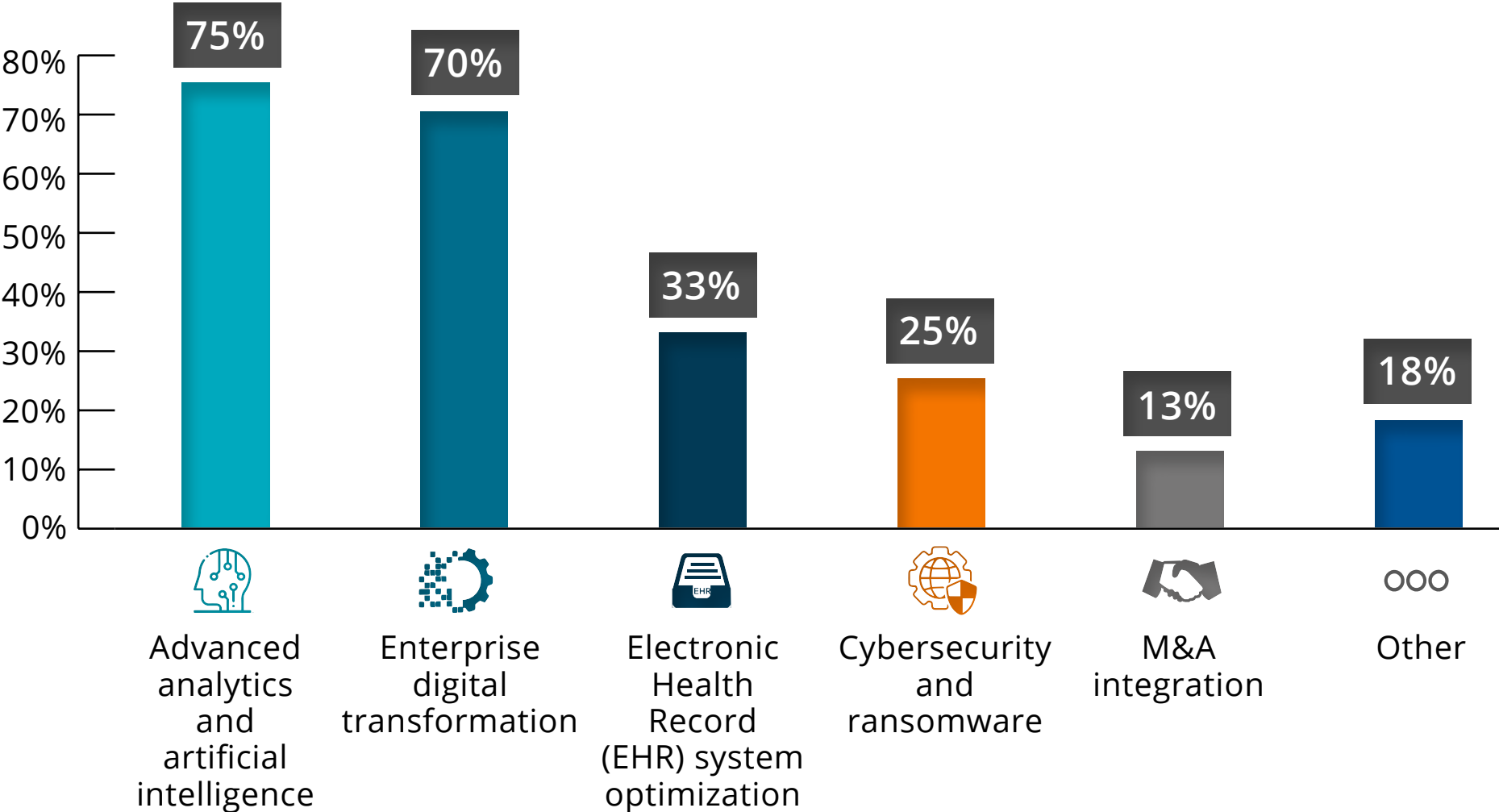The top spending priorities for healthcare executives are digital, advanced analytics and AI. Accelerating digital health initiatives is clearly the number one priority for healthcare, however modernizing IT infrastructure and optimizing EHR systems are also significant priorities.
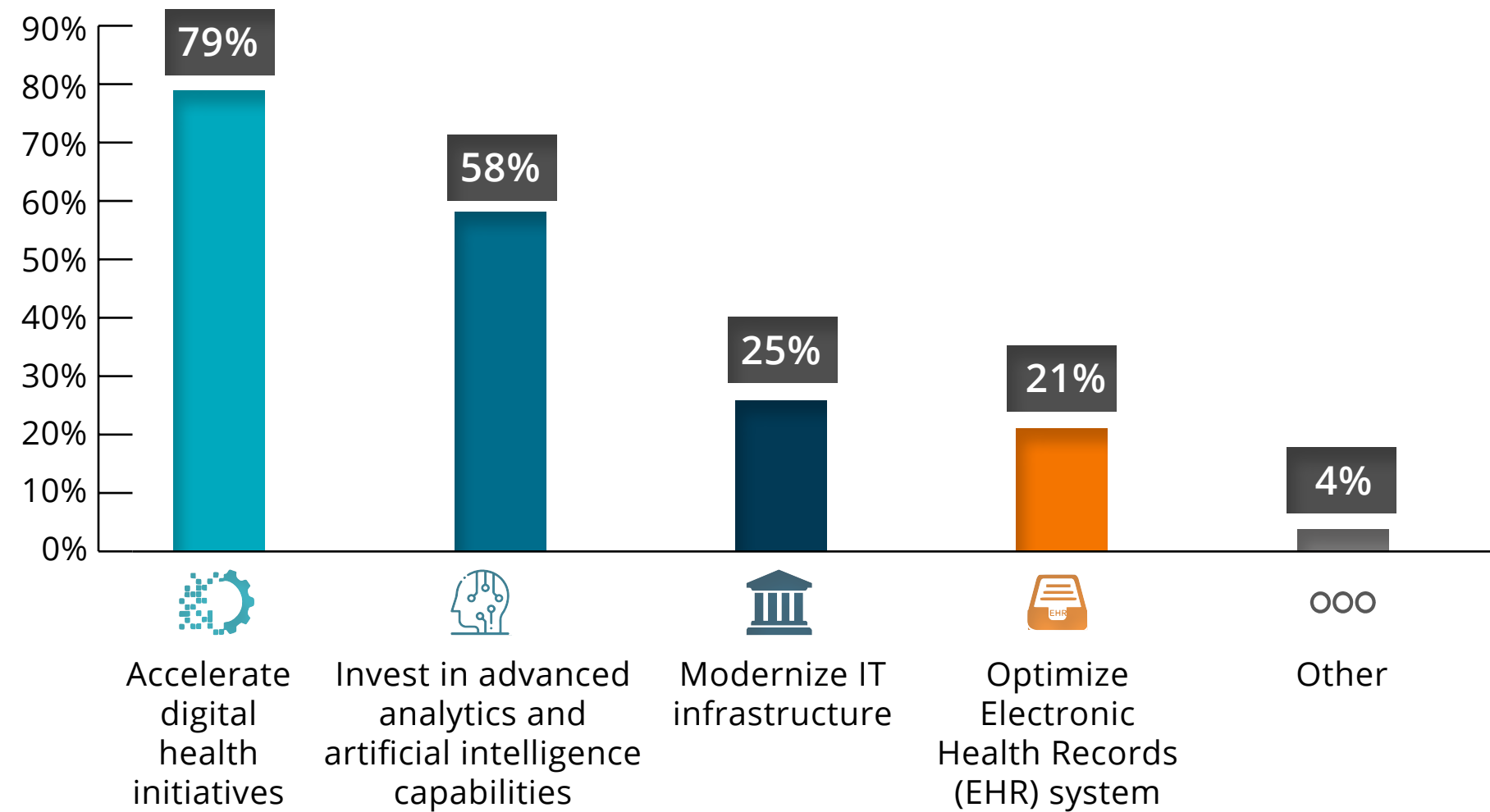
(the big challenge is) Dealing with Electronic Health Records.

Healthcare enterprises: What are your biggest IT priorities in 2019?

Technology vendors also see AI, advanced analytics and digital transformation as the top areas of focus for next year among companies.

Bar chart values:
- Advanced analytics and artificial intelligence: 75%
- Enterprise digital transformation: 70%
- Electronic Health Record (EHR) system optimization: 33%
- Cybersecurity and ransomware: 25%
- M&A integration: 13%
- Other: 18%

" The macro issues will remain the same but it's to be seen how many players effectively adopt and grow in the digital transformation journey. "

Technology & service providers: Which of the following are your company's top areas of focus in 2019?

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While vendors are overweight on digital and analytics, EHR system optimization and cyber security are seen as significant drivers of technology spend.

Bar chart data:
- Enterprise digital transformation: 60%
- Advanced analytics and artificial intelligence (AI): 60%
- Electronic health record (EHR) system optimization: 38%
- Cybersecurity and ransomware: 38%
- M&A integration: 23%
- Other: 8%
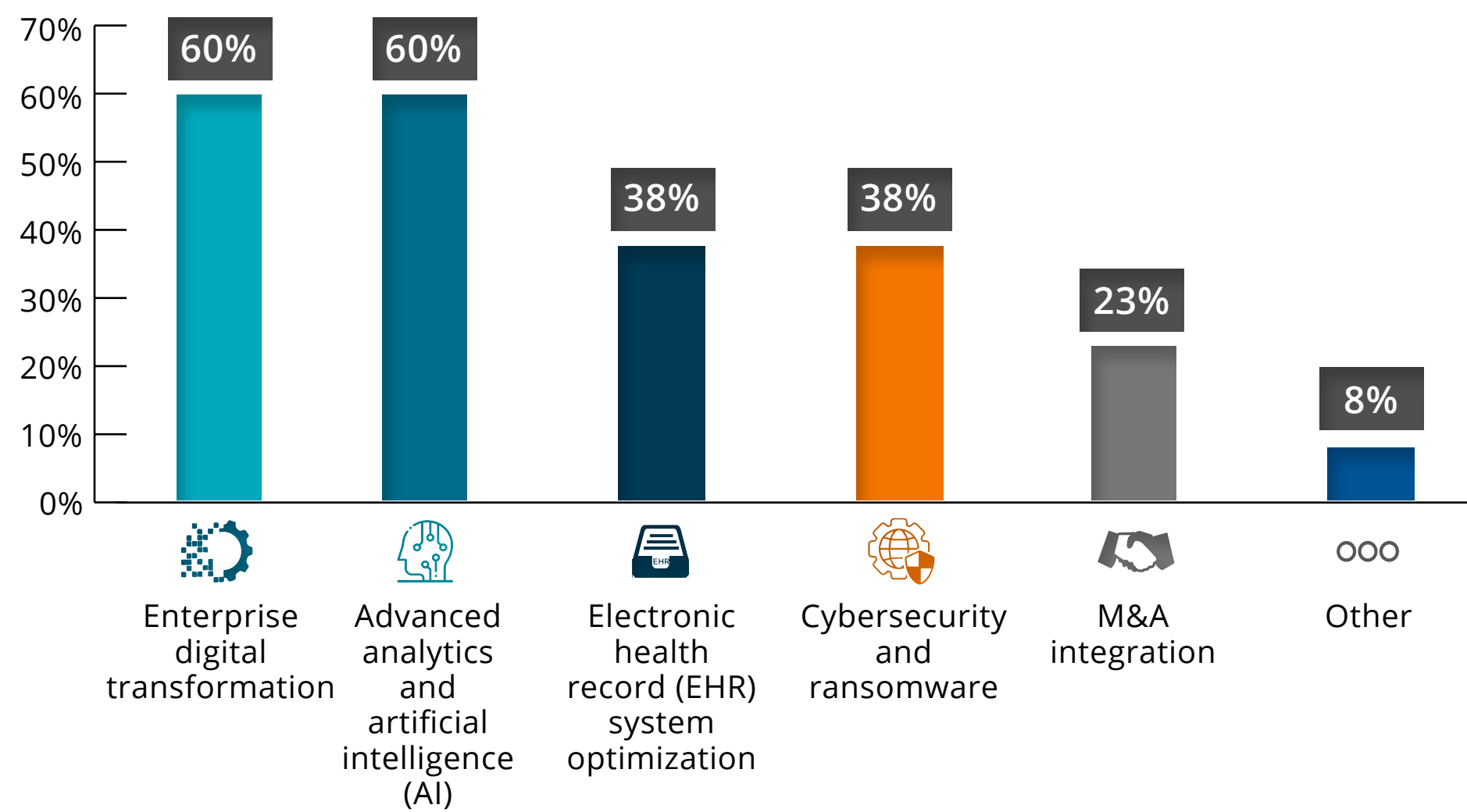
> " For best of breed solutions, (the challenge is) attracting enough mindshare and budget vs. EHR spends. "

Technology & service providers: Which of the following are the biggest drivers of technology spending in healthcare in 2019?

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Healthcare executives see digital transformation to be primarily about reimagining patient and caregiver experiences.

Bar chart values:
- Reimagining patient and caregiver experiences: 46%
- Analytics and artificial intelligence: 25%
- Automation: 17%
- Telehealth/telemedicine: 4%
- Other: 8%
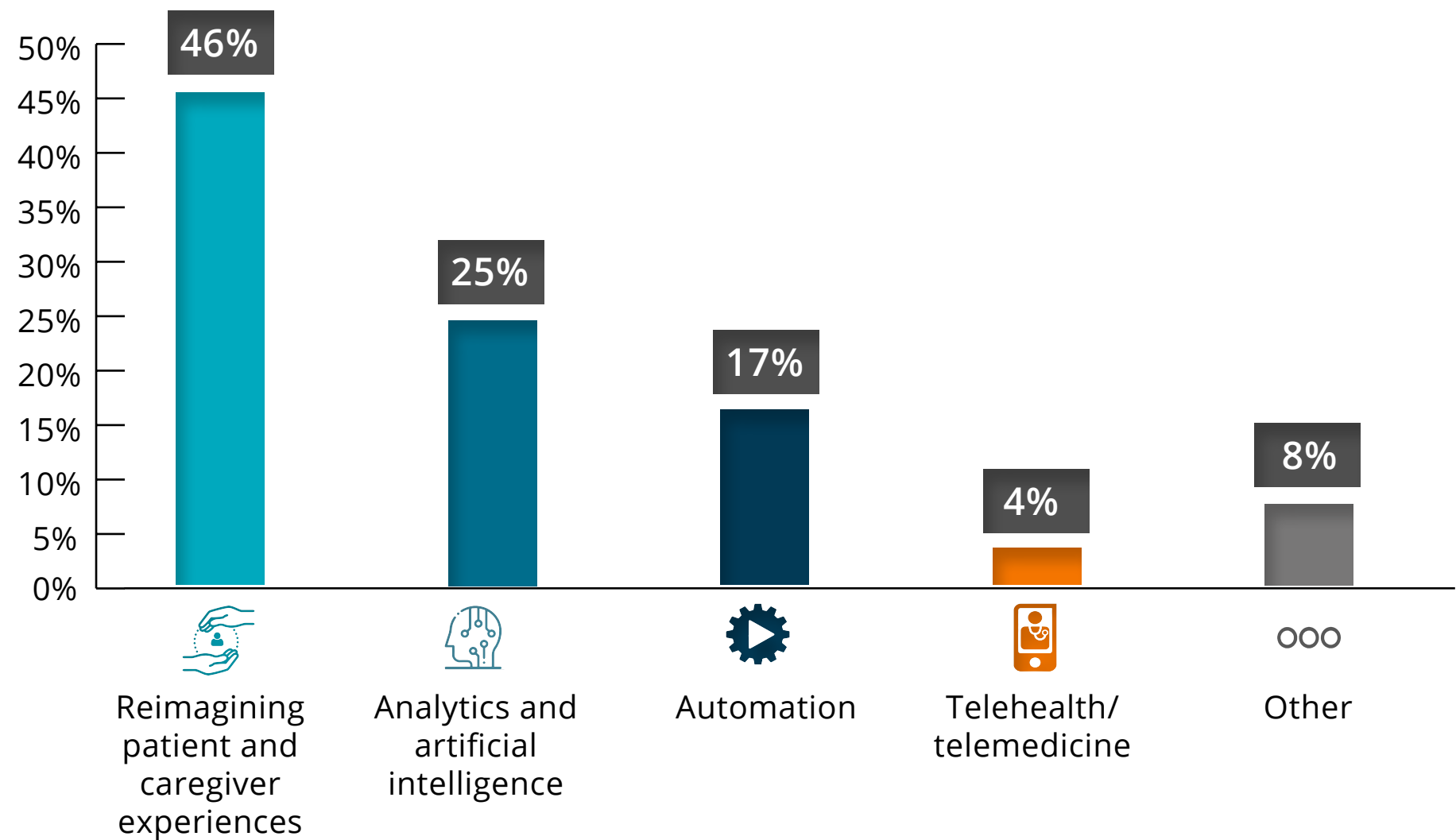
> "The biggest challenge for healthcare in 2019 will be navigating tightening margins and limited incentives to invest in care redesign."

Healthcare enterprises: What does the term digital transformation mean to you?

Healthcare executives are divided on whether digital is primarily an IT-led initiative. They are also divided on whether technology-led innovation is dependent on the startup ecosystem.

Statement	%
Data silos and lack of interoperability are the biggest challenges to digital transformation	79%
The fee-for-service reimbursement model will remain the dominant payment model for the foreseeable future	63%
Technology and innovation is not dependent on digital health startups	54%
Digital transformation is mainly an IT-led initiative in healthcare enterprises	50%
IT security and data breaches will not be a big threat in 2019	17%

% saying Strongly/ Somewhat agree

Healthcare enterprises: How strongly do you agree or disagree with the following statements?

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The good news for technology vendors is that digital transformation is gaining momentum in healthcare enterprises.

Digital transformation initiatives are gaining momentum in healthcare enterprises — **100%**

There will be a significant (greater than 20%) growth in healthcare IT spending in 2019 — **79%**

The rapid change in the healthcare IT landscape makes technology spending decisions harder — **75%**

Federal government policies have provided a boost to healthcare IT spend this past year — **71%**

There are plenty of viable and ready-to-deploy solutions available today in emerging technologies such as AI and digital health solutions — **58%**

% saying Strongly/ Somewhat agree

Healthcare enterprises: How strongly do you agree or disagree with the following statements?

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However, digital initiatives compete for limited budgets with multiple priorities within the enterprise.

Category	Value
Competing priorities for discretionary spend	46%
Margin pressures at enterprise level	17%
Lack of alignment around digital transformation roadmap	17%
Technical debt (funding priorities for modernizing IT infrastructure)	13%
Other	8%
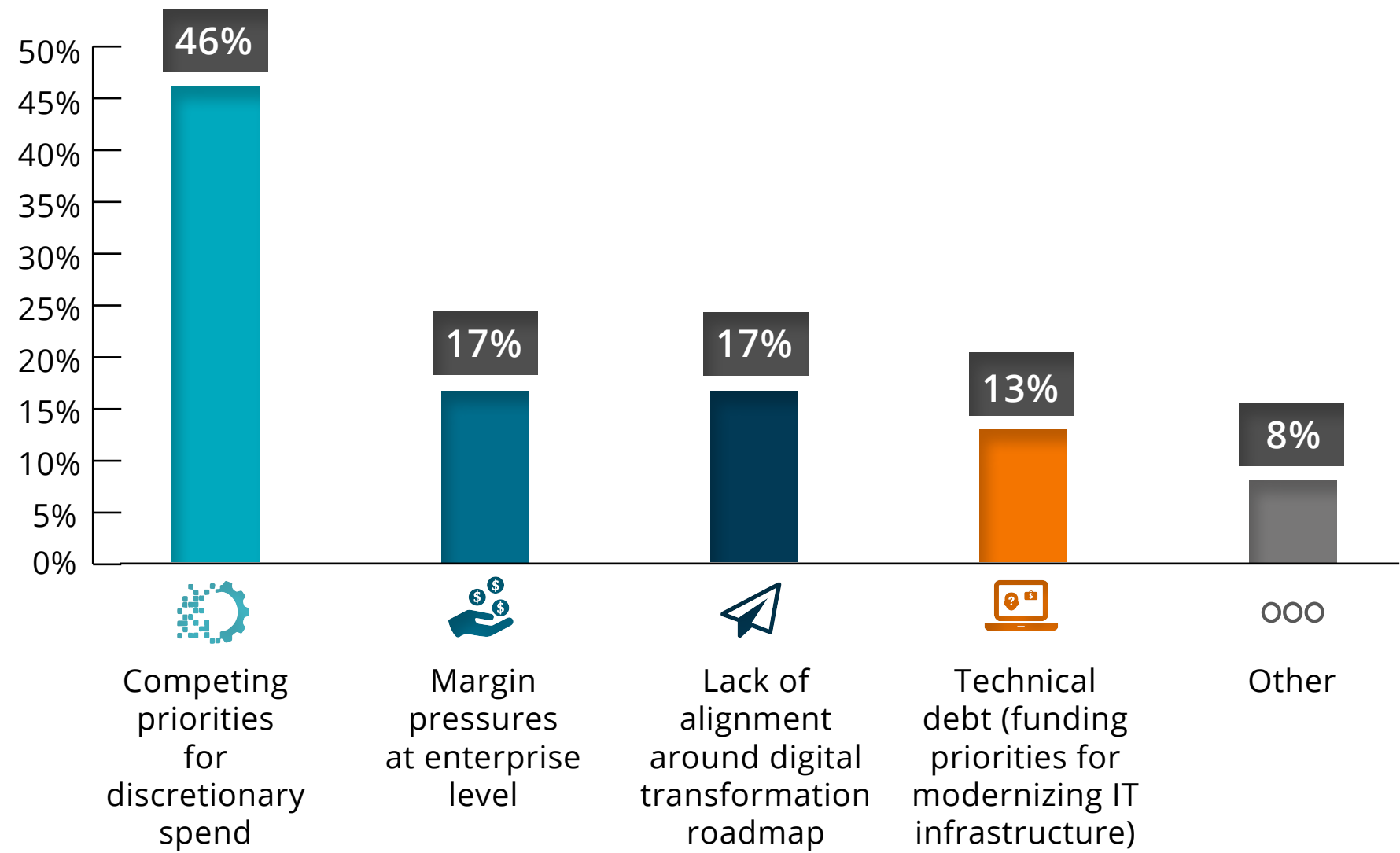
Cost optimization of healthcare, access to quality healthcare, data security (are the big challenges).

Healthcare enterprises: What is your biggest obstacle when it comes to getting your digital transformation spend budgets approved?
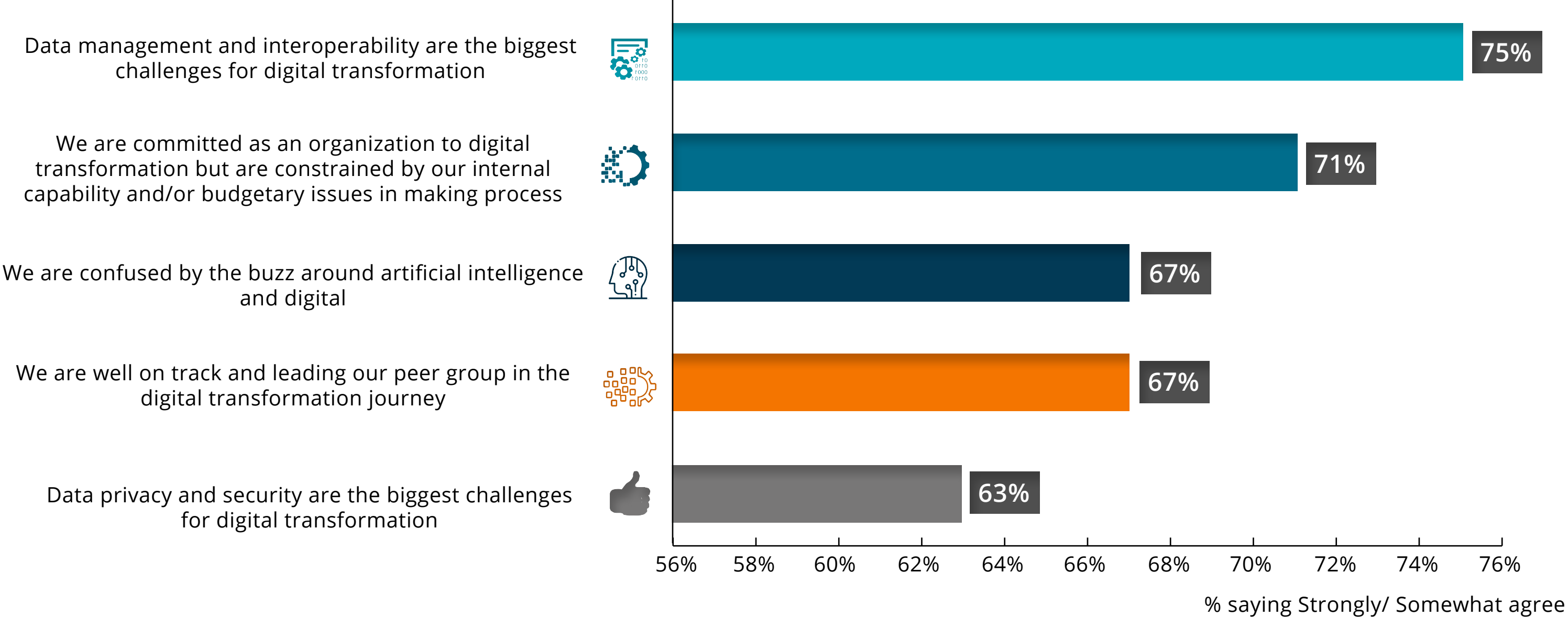
Healthcare executives perceive a lack of maturity in technology solution choices for digital initiatives.

Category	Percentage
Lack of maturity/risks associated with new technologies	50%
Lack of internal capabilities for managing digital transformation	42%
Data management and interoperability challenges	42%
Cyber security and data privacy concerns	21%
Other	4%

Healthcare enterprises: What are the biggest technical obstacles for digital transformation?
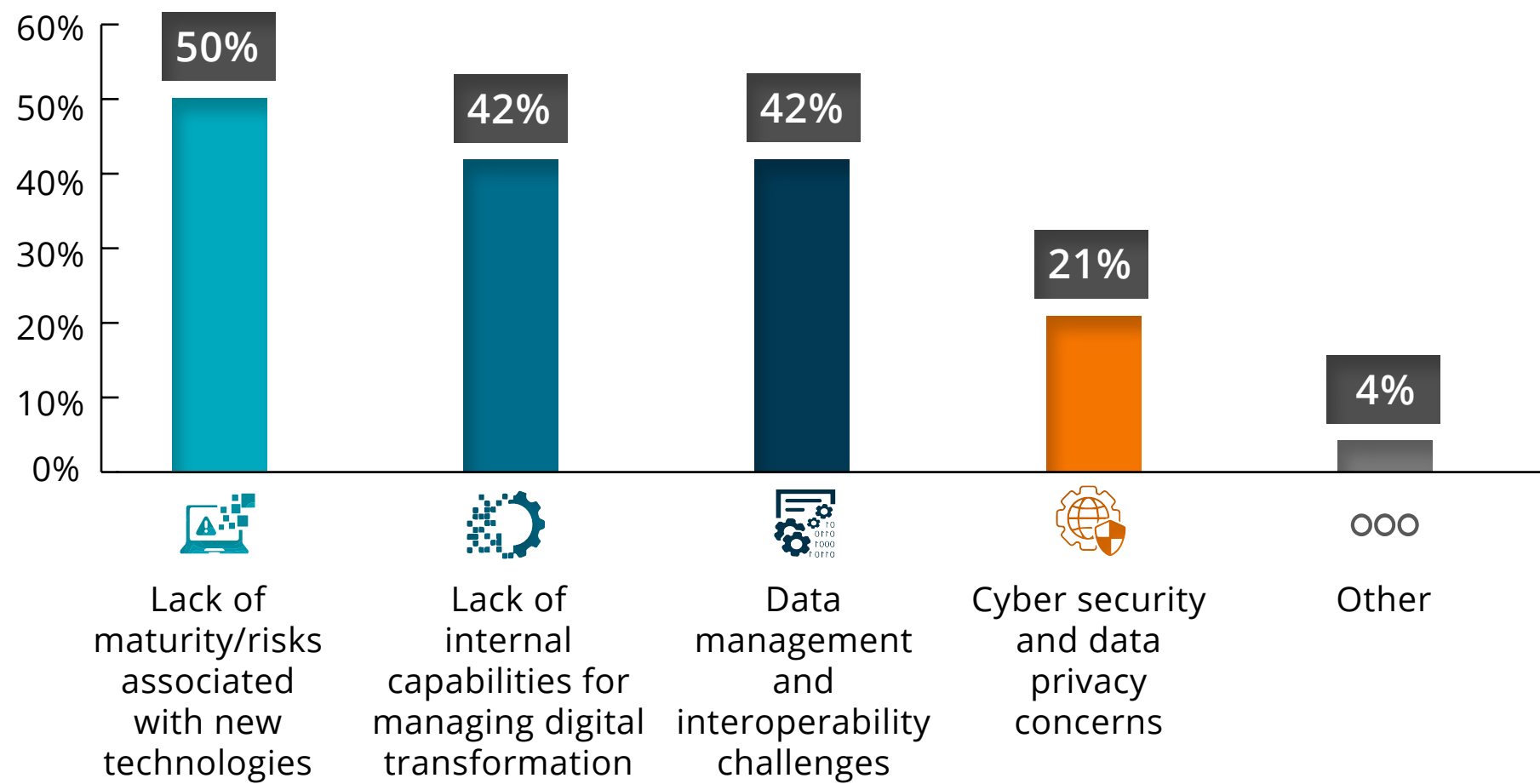
> *HIT architecture needs to substantially change from large monolithic code sets to an API driven environment with multiple competing apps.*
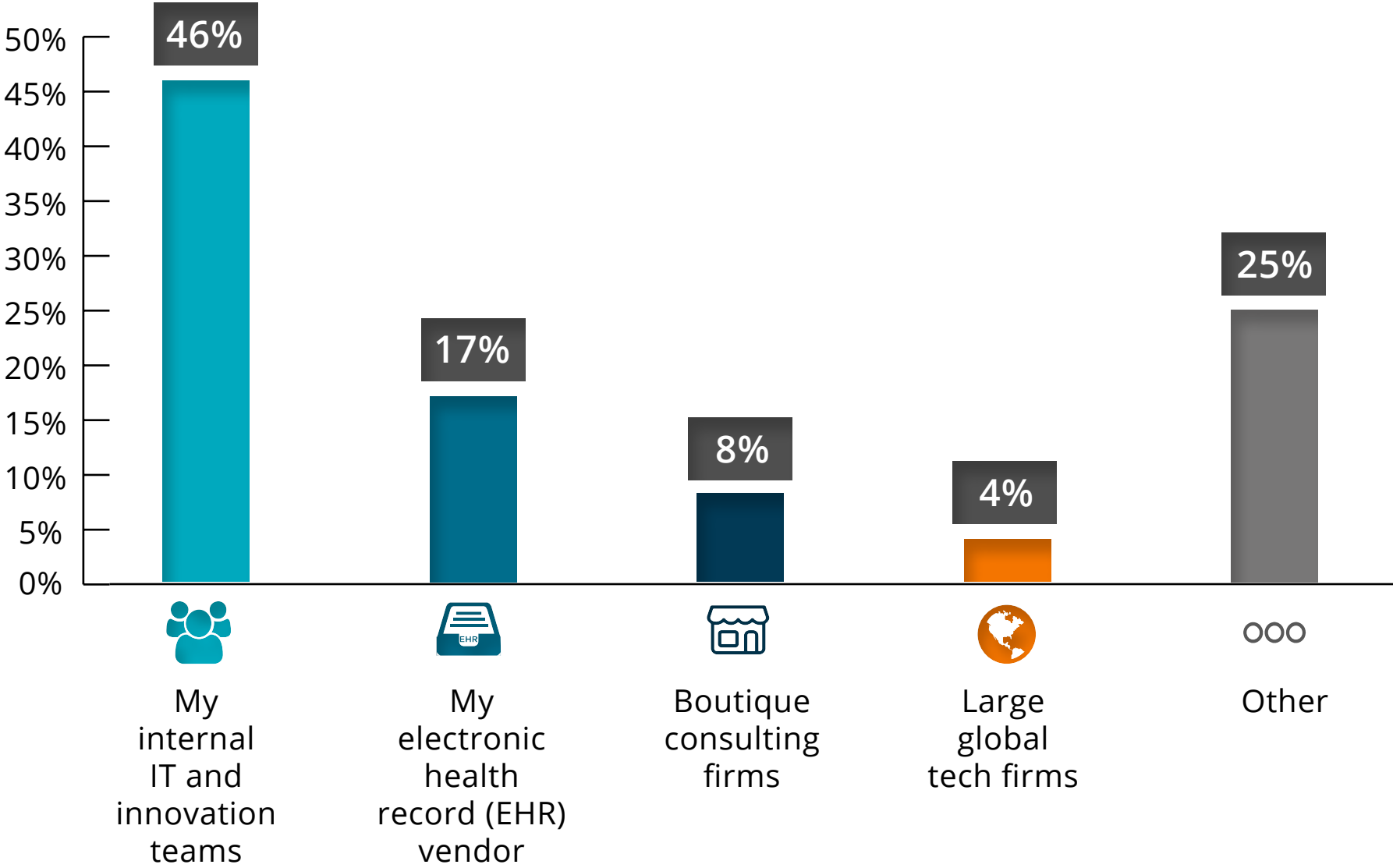
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Healthcare executives see data and interoperability as the biggest challenges to digital transformation. They also admit to being confused by the buzz around AI and digital in the marketplace.

Data management and interoperability are the biggest challenges for digital transformation — **75%**

We are committed as an organization to digital transformation but are constrained by our internal capability and/or budgetary issues in making process — **71%**

We are confused by the buzz around artificial intelligence and digital — **67%**

We are well on track and leading our peer group in the digital transformation journey — **67%**

Data privacy and security are the biggest challenges for digital transformation — **63%**

% saying Strongly/ Somewhat agree

Healthcare enterprises: How strongly do you agree or disagree with the following statements?

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Healthcare executives look first to their own internal teams for implementing digital transformation initiatives.

| | 46% | 17% | 8% | 4% | 25% |

My internal IT and innovation teams — 46%
My electronic health record (EHR) vendor — 17%
Boutique consulting firms — 8%
Large global tech firms — 4%
Other — 25%

> *(the challenge is understanding) The changing landscape of who is playing what role and the blurred lines of capabilities and competition.*

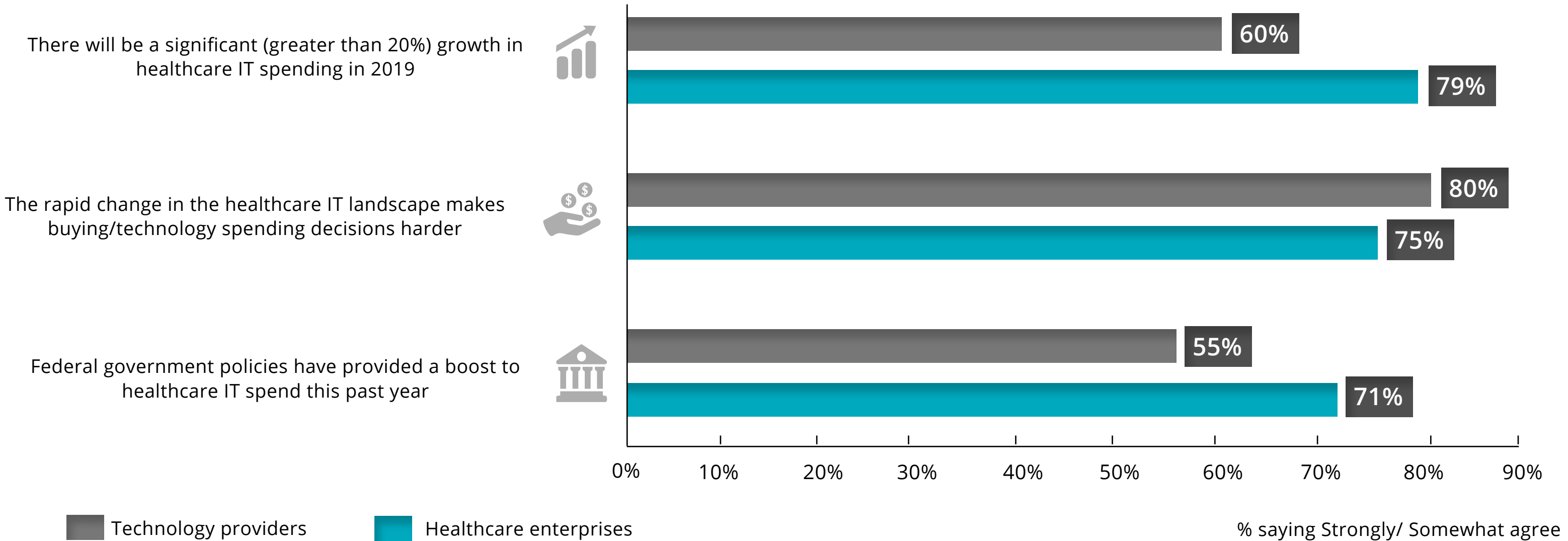Healthcare enterprises: Who is your primary choice when you look for potential partners to help you with digital transformation?

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Seven in ten healthcare executives say their healthcare IT spend for 2019 will grow, with three in ten saying it will grow more than 20%.
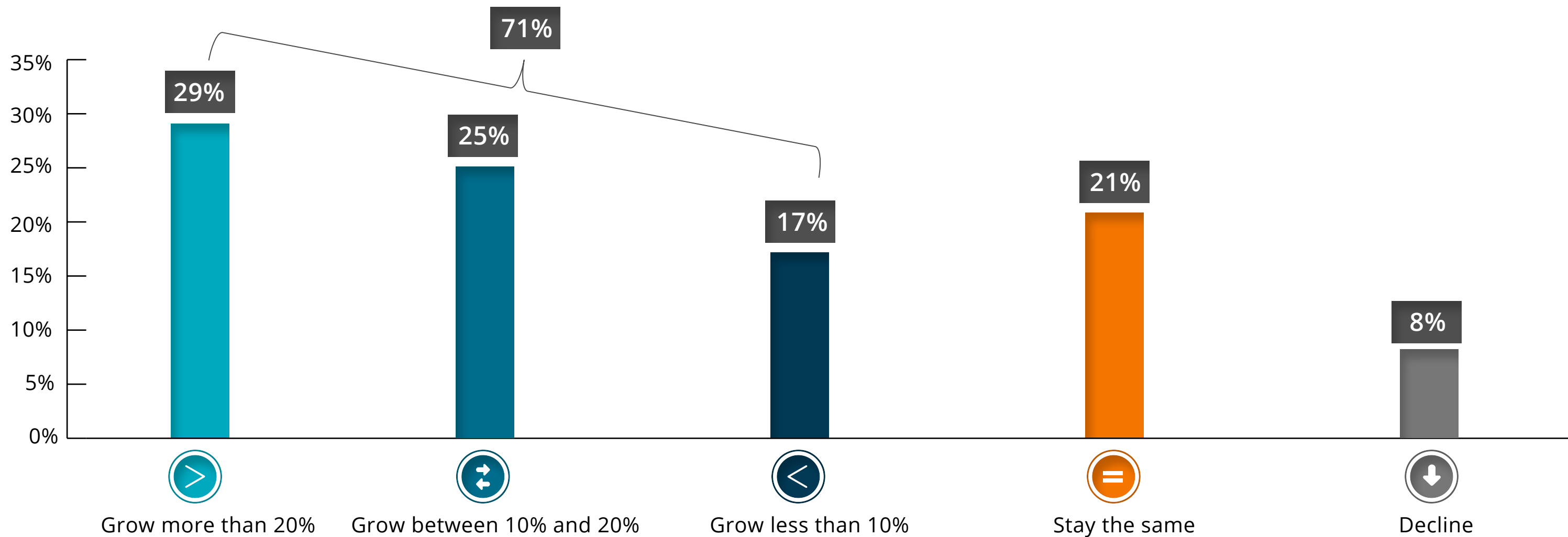


Healthcare enterprises: When you think about your healthcare IT spend for 2019, how will it change compared to your organization's spend this year?

Healthcare executives are more likely than vendors to say there will be a significant growth in healthcare IT spending next year.

There will be a significant (greater than 20%) growth in healthcare IT spending in 2019
- Technology providers: 60%
- Healthcare enterprises: 79%

The rapid change in the healthcare IT landscape makes buying/technology spending decisions harder
- Technology providers: 80%
- Healthcare enterprises: 75%

Federal government policies have provided a boost to healthcare IT spend this past year
- Technology providers: 55%
- Healthcare enterprises: 71%

0% 10% 20% 30% 40% 50% 60% 70% 80% 90%

■ Technology providers   ■ Healthcare enterprises

% saying Strongly/ Somewhat agree

How strongly do you agree or disagree with the following statements?

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The CIO remains the most important buyer for technology vendors, however IT budgets now also sit with multiple CXO stakeholders.
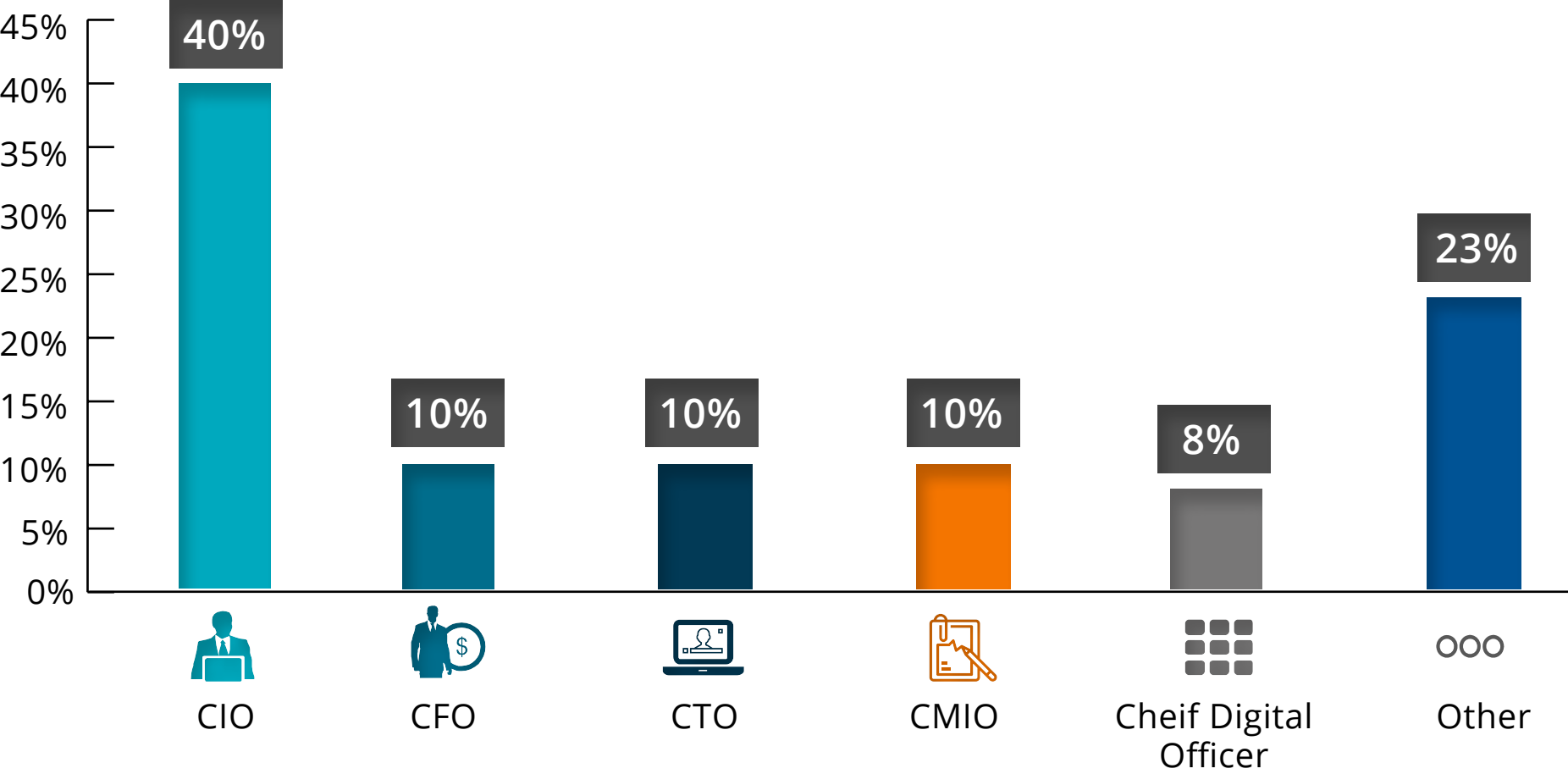

> *The need to reduce cost, meet higher demands and respond to increasing change and disruption from new payment models, M&A and new entrants (are the biggest challenges for healthcare for 2019).*

"Other" includes VP of marketing, business heads and ACO administrator.

Technology & service providers: Who is the primary decision maker for your solutions/services in your client organization?

The biggest challenge for technology vendors in achieving growth objectives is long sales cycles (same as last year).
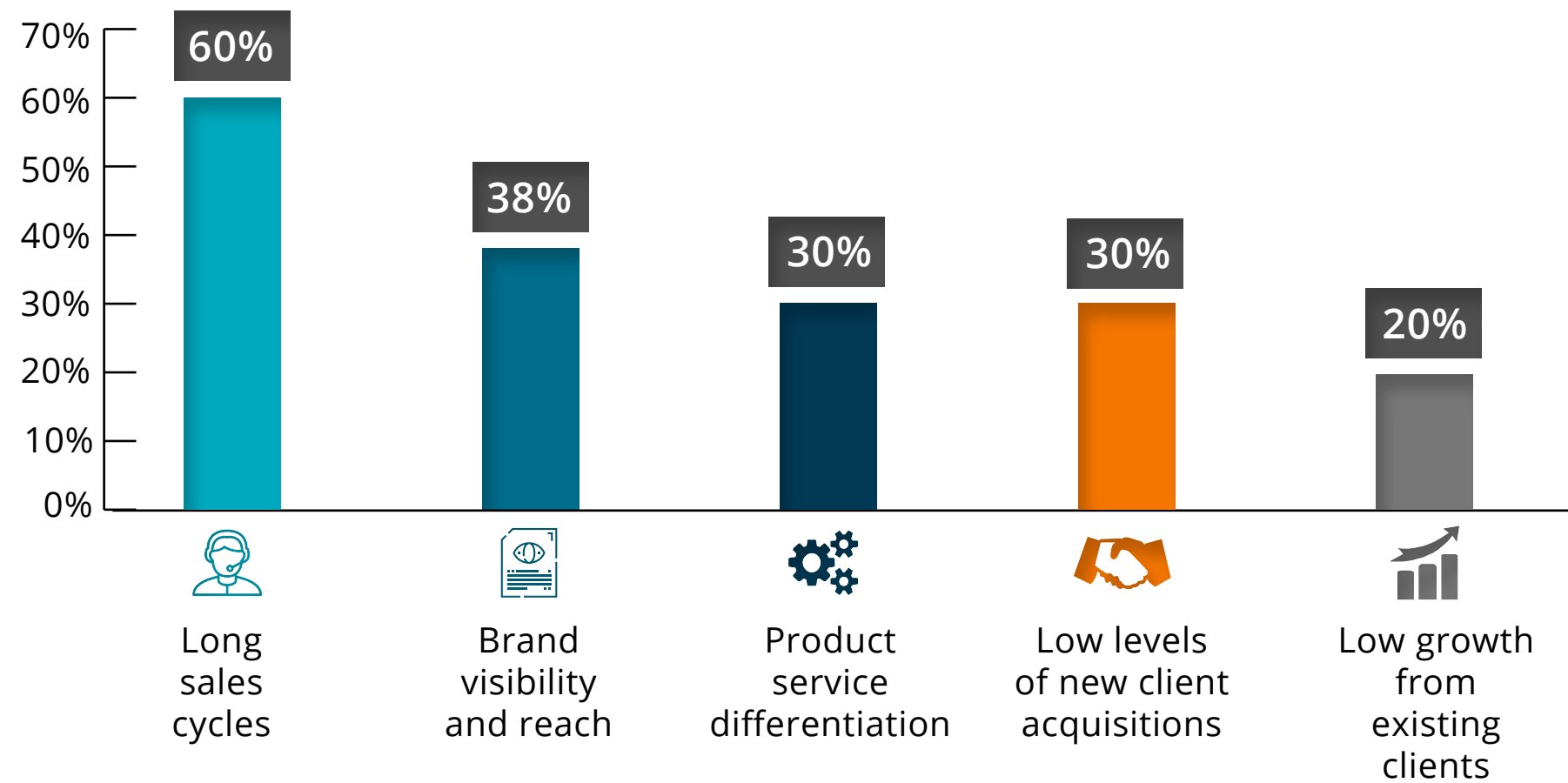
Challenge remains in lack of market understanding for future health data architectures.

Technology & service providers: What is your biggest challenge (s) in achieving your growth objectives in healthcare?
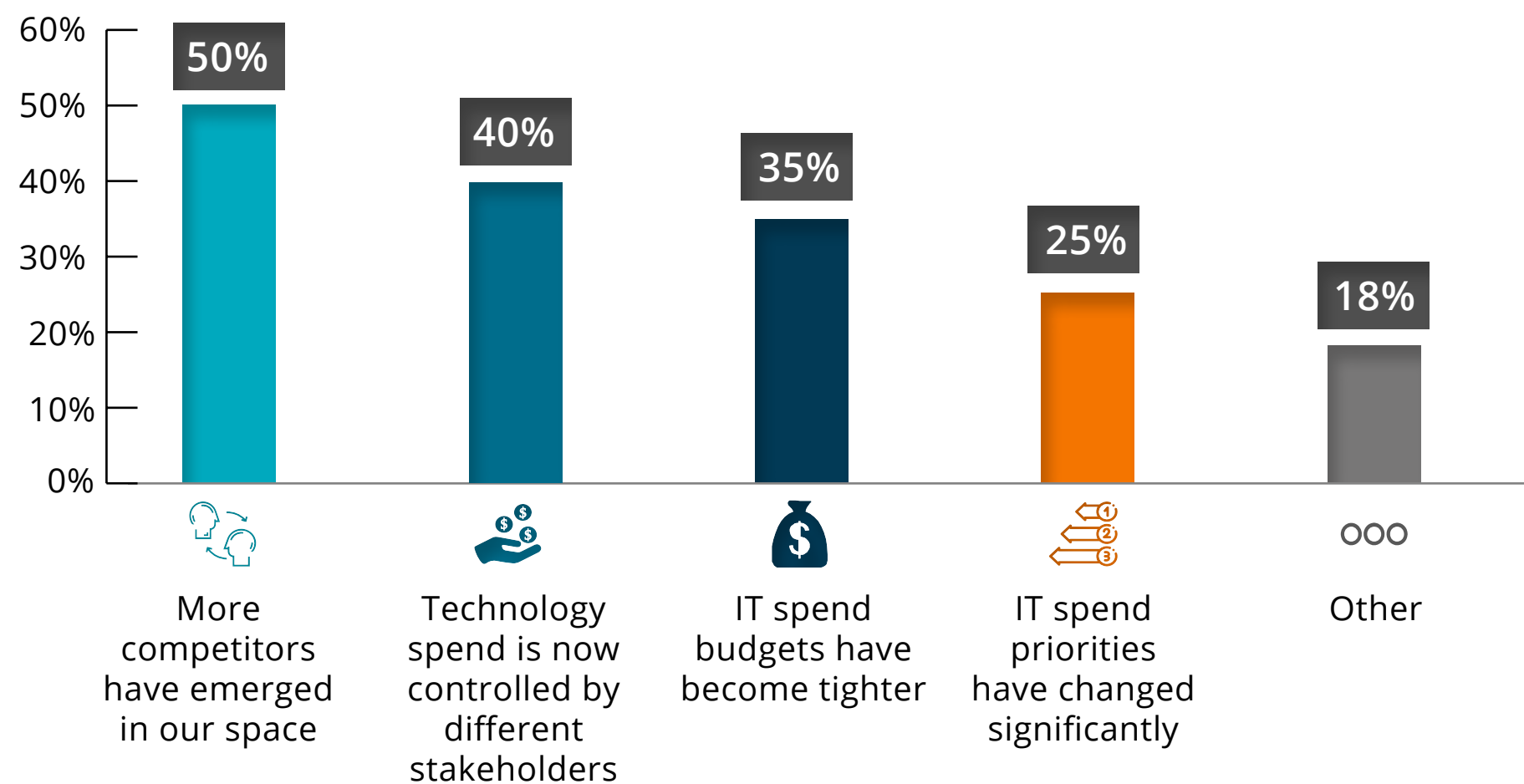
As in the previous year, technology vendors are investing in more branding and visibility. They are focusing on core competencies, building new solutions, and optimizing their demand generation and sales processes.
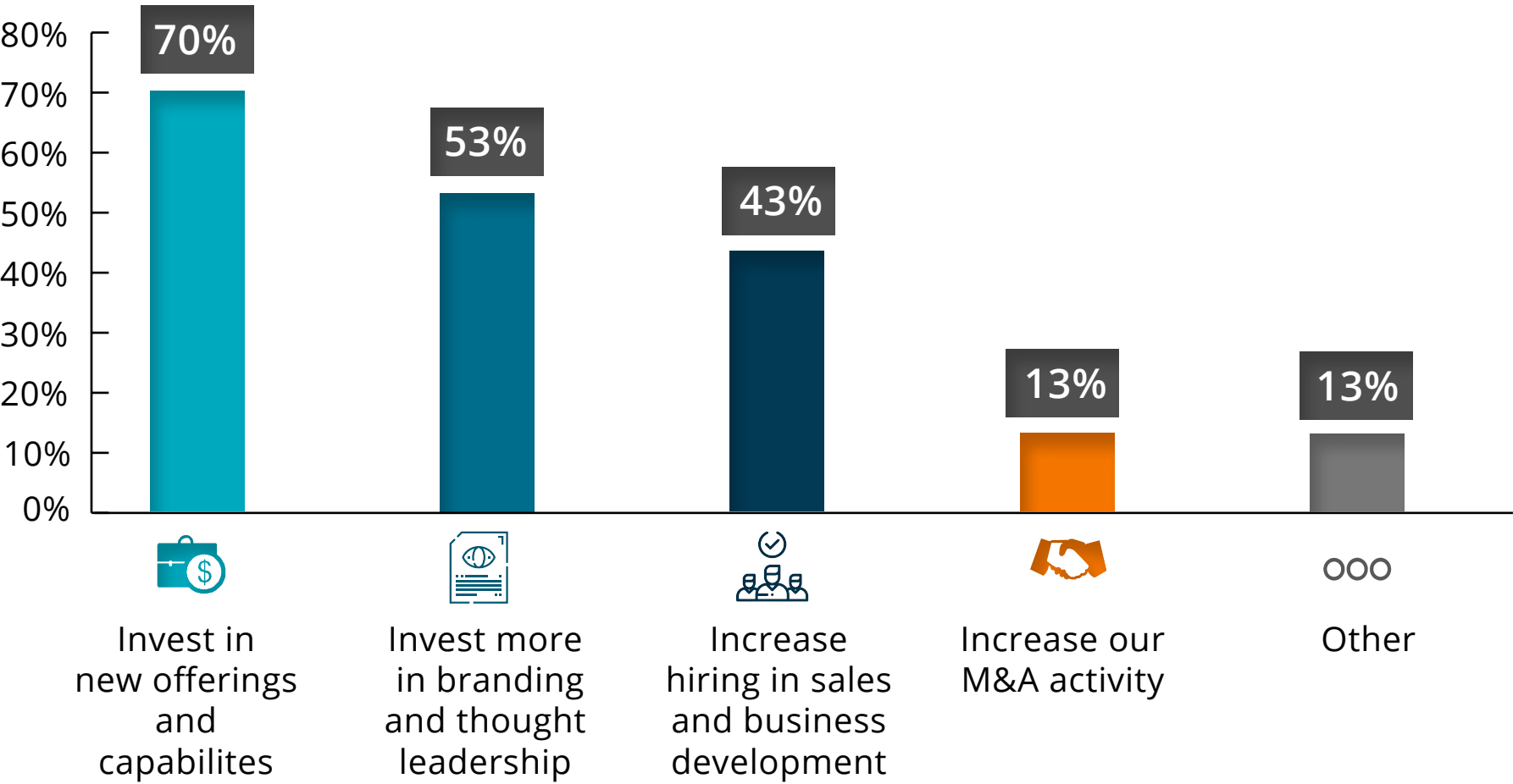
> *(technology vendor) Companies cannot rely on one product for all approach.*

Technology & service providers: What do you plan on doing differently in 2019? Please select all that apply.
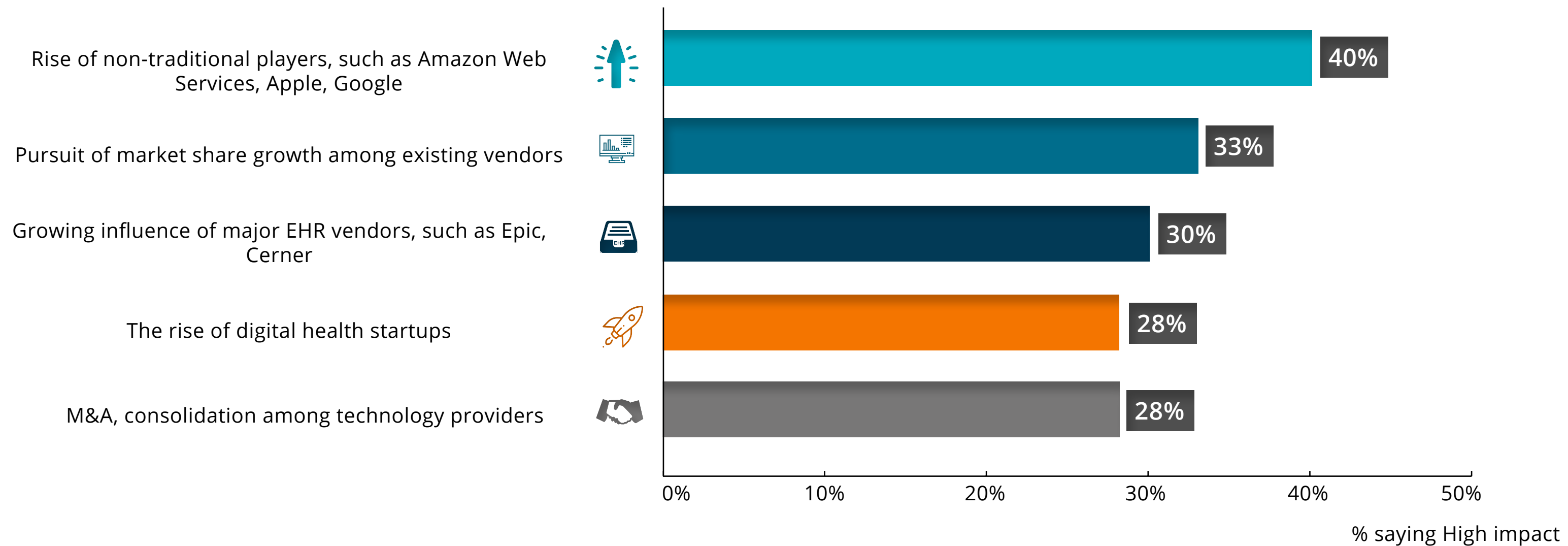
Over the past year the competitive landscape for technology vendors has become more challenging due to the emergence of new players.

Chart data:
- More competitors have emerged in our space: 50%
- Technology spend is now controlled by different stakeholders: 40%
- IT spend budgets have become tighter: 35%
- IT spend priorities have changed significantly: 25%
- Other: 18%

> *Cost and budgets, M&A and new models of healthcare, cybersecurity (are the big) issues.*

Technology & service providers: What has been the biggest change in your demand environment since last year?

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The emergence of Amazon, Google and Apple in healthcare is the biggest threat to the technology vendor community (same as last year). The influence of EHR vendors such as Epic and Cerner is expected to grow.


Rise of non-traditional players, such as Amazon Web Services, Apple, Google — 40%

Pursuit of market share growth among existing vendors — 33%

Growing influence of major EHR vendors, such as Epic, Cerner — 30%

The rise of digital health startups — 28%

M&A, consolidation among technology providers — 28%

% saying High impact

Technology & service providers: What is the level of impact of each of the options below on the competitive environment?

Appendix

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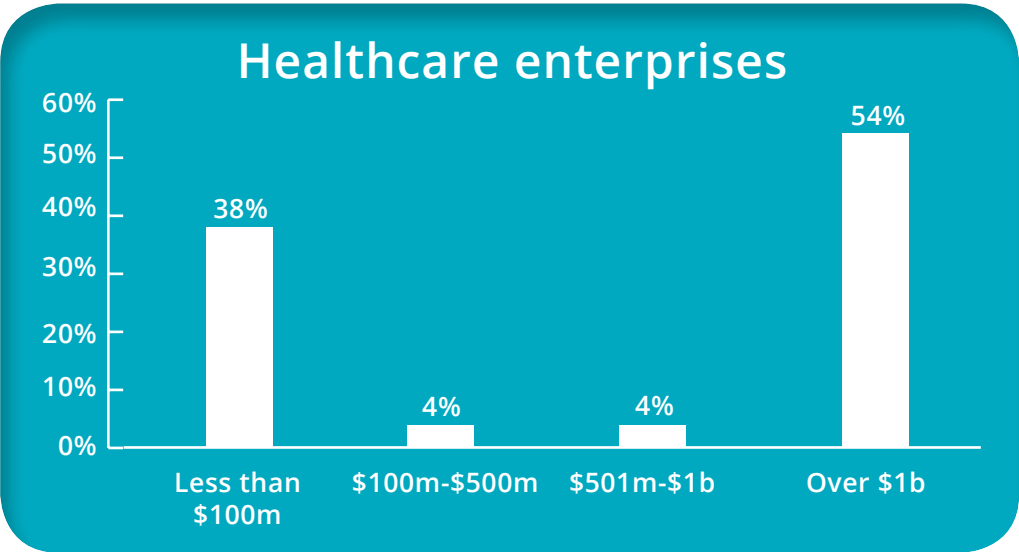# Respondents profile: Organization type, revenue, position
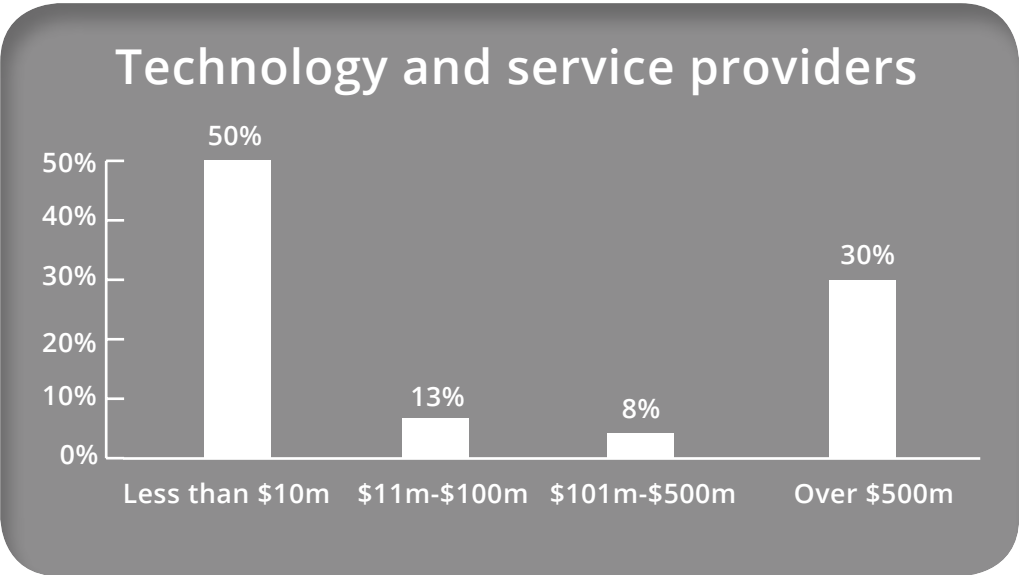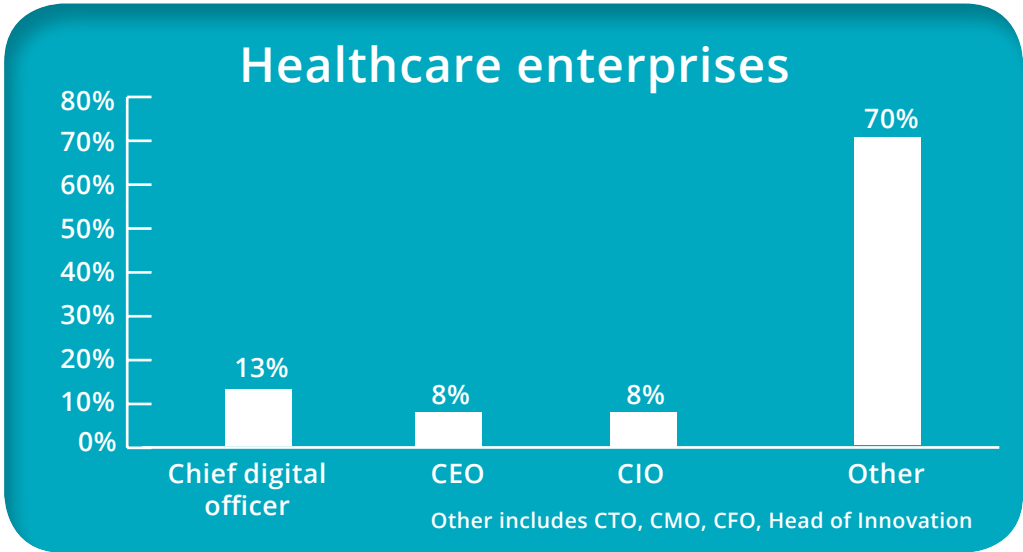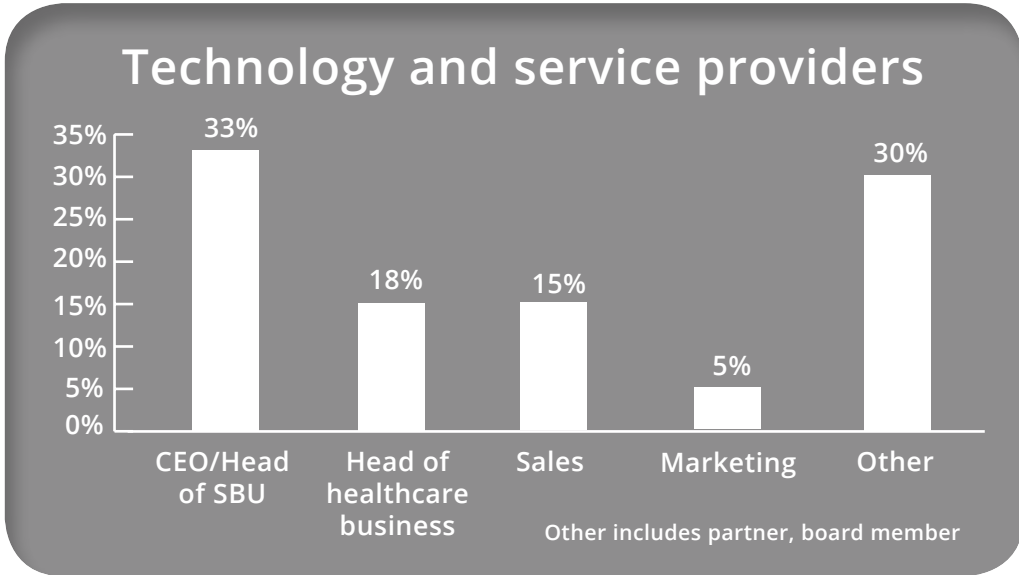
Type of respondents

62% / 38%
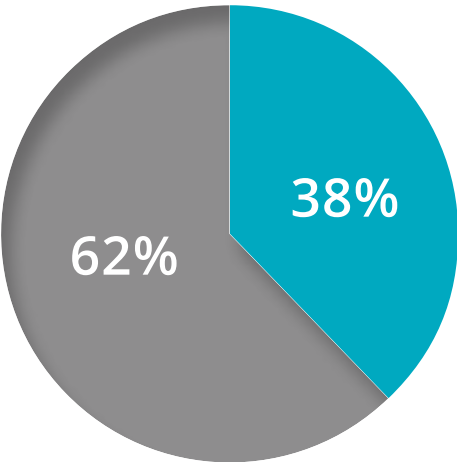
Total no. of respondents : 64

- ■ Technology or consulting firms
- ■ Healthcare enterprises- payer/ provider/life sciences/ pharma

Respondent organizations' revenue

Technology and service providers

- Less than $10m — 50%
- $11m-$100m — 13%
- $101m-$500m — 8%
- Over $500m — 30%

Healthcare enterprises

- Less than $100m — 38%
- $100m-$500m — 4%
- $501m-$1b — 4%
- Over $1b — 54%

Respondent's position

Technology and service providers

- CEO/Head of SBU — 33%
- Head of healthcare business — 18%
- Sales — 15%
- Marketing — 5%
- Other — 30%

Other includes partner, board member

Healthcare enterprises

- Chief digital officer — 13%
- CEO — 8%
- CIO — 8%
- Other — 70%

Other includes CTO, CMO, CFO, Head of Innovation

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Appendix I: Healthcare enterprise executives and digital transformation

	Agree (NET)	Strongly agree	Somewhat agree	Disagree (NET)	Somewhat disagree	Strongly disagree
	%	%	%	%	%	%
Data silos and lack of interoperability are the biggest challenges to digital transformation.	79	50	29	21	17	4
The fee-for-service reimbursement model will remain the dominant payment model for the foreseeable future.	63	33	29	37	33	4
Technology and innovation in healthcare is not dependent on digital health startups.	54	29	25	46	21	25
Digital transformation is mainly an IT led initiative in healthcare enterprises.	50	29	21	50	21	29
IT security and data breaches will not be a big threat in 2019.	17	8	8	83	38	46

Healthcare enterprises: How strongly do you agree or disagree with the following statements?

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Appendix II: Healthcare enterprise executives and spending in 2019

	Agree (NET)	Strongly agree	Somewhat agree	Disagree (NET)	Somewhat disagree	Strongly disagree
	%	%	%	%	%	%
Digital transformation initiatives are gaining momentum in healthcare enterprises.	100	67	33	0	0	0
There will be a significant (greater than 20%) growth in healthcare IT spending in 2019.	79	38	42	21	17	4
The rapid change in the healthcare IT landscape makes technology spending decisions harder.	75	38	38	25	21	4
Federal government policies have provided a boost to healthcare IT spend this past year.	71	29	42	29	25	4
There are plenty of viable and ready-to-deploy solutions available today in emerging technologies such as artificial intelligence (AI) and digital health solutions.	58	25	33	42	29	13

Healthcare enterprises: How strongly do you agree or disagree with the following statements?

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Appendix III: Technology & service providers and spending in 2019

	Agree (NET)	Strongly agree	Somewhat agree	Disagree (NET)	Somewhat disagree	Strongly disagree
	%	%	%	%	%	%
The rapid change in the healthcare IT landscape makes buying decisions harder.	80	35	45	20	13	8
Electronic Health Record systems will continue to dominate technology spending budgets.	80	25	55	20	15	5
The rapid change in the healthcare IT landscape implies longer buying cycles.	68	38	30	32	28	5
There will be a significant (greater than 20%) growth in healthcare IT spending in 2019.	60	23	58	40	30	10
Emerging technologies such as AI and blockchain will struggle to gain mainstream acceptance and grow in 2019.	58	18	40	43	25	18
Federal government policies have provided a boost to healthcare IT spend this past year.	55	13	43	45	38	8

Technology & service providers: How strongly do you agree or disagree with the following statements?

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Appendix IV: Healthcare enterprise executives and challenges

	Agree (NET)	Strongly agree	Somewhat agree	Disagree (NET)	Somewhat disagree	Strongly disagree
	%	%	%	%	%	%
Data management and interoperability are the biggest challenges for digital transformation.	75	50	25	25	17	8
We are committed as an organization to digital transformation but we are constrained by our internal capability and/ or budgetary issues in making progress.	71	25	46	29	29	0
We are confused by the buzz around AI and digital.	67	29	38	33	21	13
We are well on track and leading our peer group in the digital transformation journey.	67	21	46	33	25	8
Data privacy and security are the biggest challenges for digital transformation.	63	46	17	38	25	13

Healthcare enterprises: How strongly do you agree or disagree with the following statements?

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Appendix V: Technology & service providers and the competitive environment

	Large impact (NET)	High impact	Moderate impact	Weak/ no impact (NET)	Weak impact	No impact
	%	%	%	%	%	%
Pursuit of market share growth among existing vendors	83	33	55	13	13	0
The rise of digital health startups	80	28	53	20	15	5
M&A, consolidation among tech providers	78	28	50	23	15	8
Rise of non-traditional players such as Amazon Web Services, Apple, Google	75	40	35	25	20	5
Growing influence of major EHR vendors, such as Epic, Cerner	75	30	45	25	18	8

Technology & Service providers: What is the level of impact of each of the options below on the competitive environment?

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About Damo Consulting

Damo Consulting is a growth strategy and digital transformation advisory firm that works with healthcare enterprises and global technology companies. We help develop and implement digital transformation strategies and enable market growth strategies. We specialize in thought leadership led brand transformation and actionable healthcare market intelligence.

Learn more about our digital transformation advisory practice here.

For additional insights on digital transformation in healthcare, visit us at https://medium.com/the-big-unlock

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