



# HEALTHCARE IT SERVICES MARKET: THE OUTLOOK FOR 2017

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## DIGITAL TRANSFORMATION, AUTOMATION, COMPETITION DRIVING THE DEMAND ENVIRONMENT IN 2017



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The healthcare IT market is growing and will continue to grow in 2017. Industry reports indicate that the North American healthcare IT market is poised to reach USD 104.3 billion by 2020, and 2017 is gearing up to be one of the biggest years for healthcare information technology.

The healthcare sector is well into a digital transformation. We see the rise of consumerism, cognitive computing, the IoT movement, cloud services, and process automation. Venture capitalists have poured more than USD 4.5 billion this year into digital health startups in the hope of finding the next Uber or Airbnb that will disrupt the traditional business model of the incumbents. In the technology vendor landscape, the rise of non-traditional players such as Amazon Web Services is already disrupting the status quo.

As the new Republican administration's healthcare policy unfolds, there will be uncertainty in the short term as the fate of the Affordable Care Act (ACA) hangs in the balance. Regardless of how it plays out, the IT function in healthcare organizations will be challenged to do more with less, while driving innovation at the same time.

- » Health insurance companies will have to carefully watch for policy changes such as the removal of the individual mandate while waiting for the outcome of pending mega-mergers between Anthem and Cigna, and Aetna and Humana.
- » In the event of an ACA repeal or a large-scale exit of insurers from the exchanges, healthcare providers could face an avalanche of uninsured Americans showing up in ERs. Consolidation among providers will nevertheless continue as they try to increase their negotiating power with payers.

- » Pharma and medtech will benefit from the simplification of FDA approval processes which will spur innovation. The medtech sector is hoping for the removal of the medical device tax, which will provide some relief and unlock resources for innovation and investments.
- » Healthcare IT is likely to get a boost from the passing of the 21st Century Cures Act, specifically the increased focus on data interoperability between electronic health record (EHR) systems. The Act goes so far as to impose disclosure requirements on technology vendors for enabling interoperability, and penalties for data blocking practices. Improved interoperability will unlock data and unleash innovation in research and population health management.
- » IT security will remain in the spotlight as data breaches and ransomware incidents rise. CISOs will reign supreme.

2017 seems all set to be an exciting year. There has never been a better time to be in healthcare IT.

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Sincerely,



Paddy Padmanabhan  
CEO, Damo Consulting Inc  
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Dec 14, 2016

## OUR FIRST ANNUAL SURVEY ON THE OUTLOOK FOR HEALTHCARE IT SERVICES IN 2017



In November 2016, we ran a survey among healthcare IT services providers to understand their view on the outlook for 2017



There were 17 questions in the survey covering a range of topics related to the demand environment, as well as the companies' approach in terms of planned investments and perceived challenges



We received 31 responses from executives across levels



Some of the questions provided multiple response options, hence the percentages may not always add up to 100%

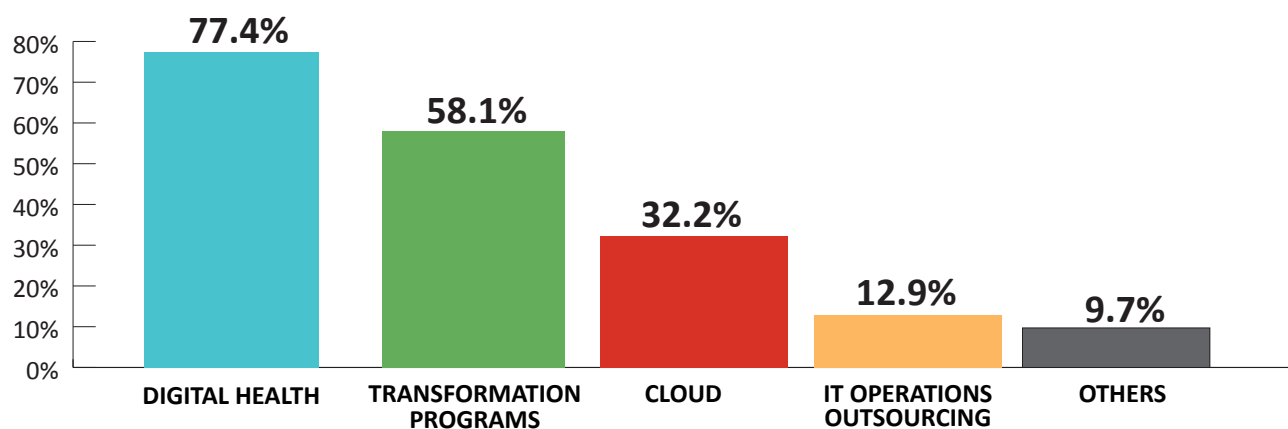


## KEY TAKEAWAYS: THE OUTLOOK FOR HEALTHCARE IT SERVICES IN 2017

- ✓ Over 90% of the respondents indicate they will increase investments in healthcare in 2017
- ✓ The top three areas for growth are digital transformation, analytics, and cloud
- ✓ Cyber security and data privacy concerns will be the biggest obstacles for topline growth for healthcare IT spend, along with a reduction in IT spend
- ✓ While customer referrals are seen as the best source of leads, technology vendors are looking to increase their efforts in “influencer marketing” (64.5%) by growing analyst relations and investing in research partnerships. They are also looking to do more “content marketing” (51.6%)
- ✓ The primary decision maker for IT services continues to be the CIO
- ✓ Despite the increased investments, more than half expect only a modest growth of 20% in healthcare revenues in 2017
- ✓ The outcome of the presidential election is by far the biggest concern for the macro-level demand environment, followed by concerns about IT spend levels
- ✓ Pricing pressure (64.5%) and rise of non-traditional players such as AWS (58.06%) are the key factors that will impact the competitive healthcare environment in 2017
- ✓ Deal conversion (35.5%) and demand generation (35.5%) appear to be the biggest challenges in achieving growth objectives in the healthcare IT



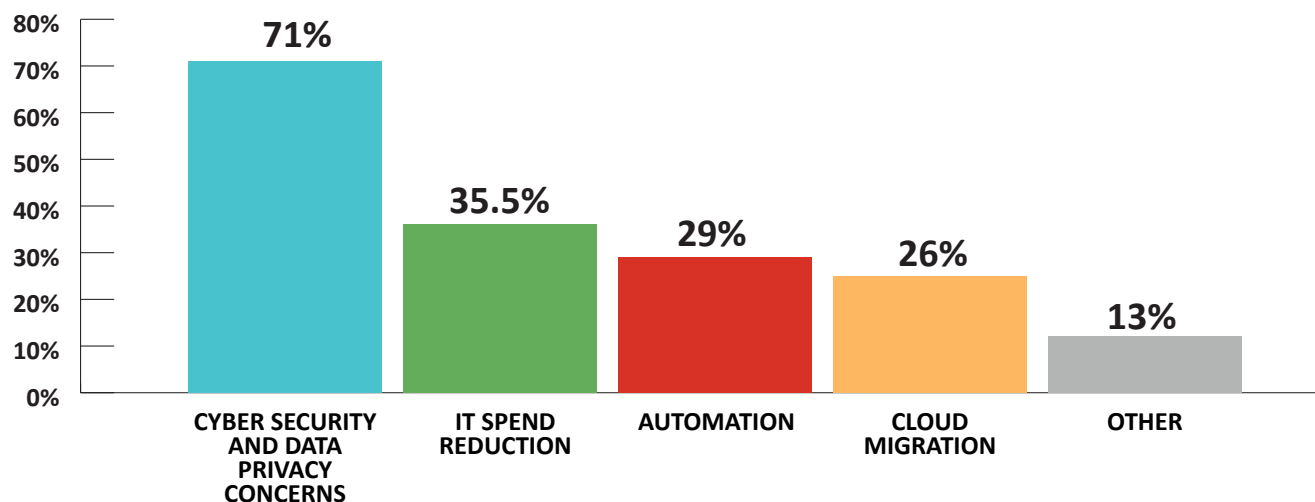
## WHICH OF THE FOLLOWING DO YOU SEE AS THE HIGHEST GROWTH AREAS IN HEALTHCARE IN THE NEXT THREE YEARS?



The top three areas of growth are digital transformation (77.4%), big data analytics (58.1%), and cloud (32.2%). The pessimistic outlook on traditional outsourcing may be due to the impact of automation and the shift toward cloud.



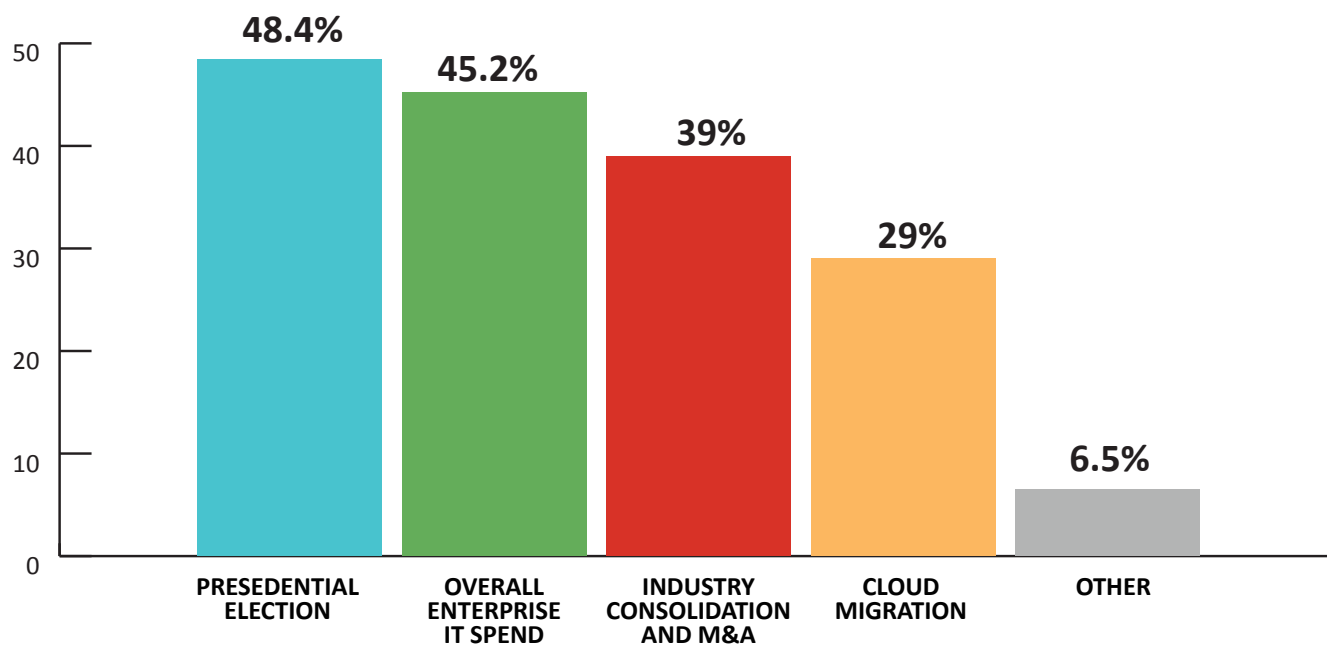
## WHAT ARE THE BIGGEST HEADWINDS (OBSTACLES) FOR TOPLINE GROWTH FOR HEALTHCARE IT SPEND?



Cyber security and data privacy concerns were the primary obstacles to topline growth for the majority of respondents (71%). IT spend reduction was a significant concern as well, reflecting budgetary pressures. Automation and cloud appear to be concerns because of their expected impact on traditional IT services business.



## WHAT IS LIKELY TO IMPACT THE MACRO-LEVEL DEMAND FOR IT AND IT-ENABLED SERVICES IN HEALTHCARE ?

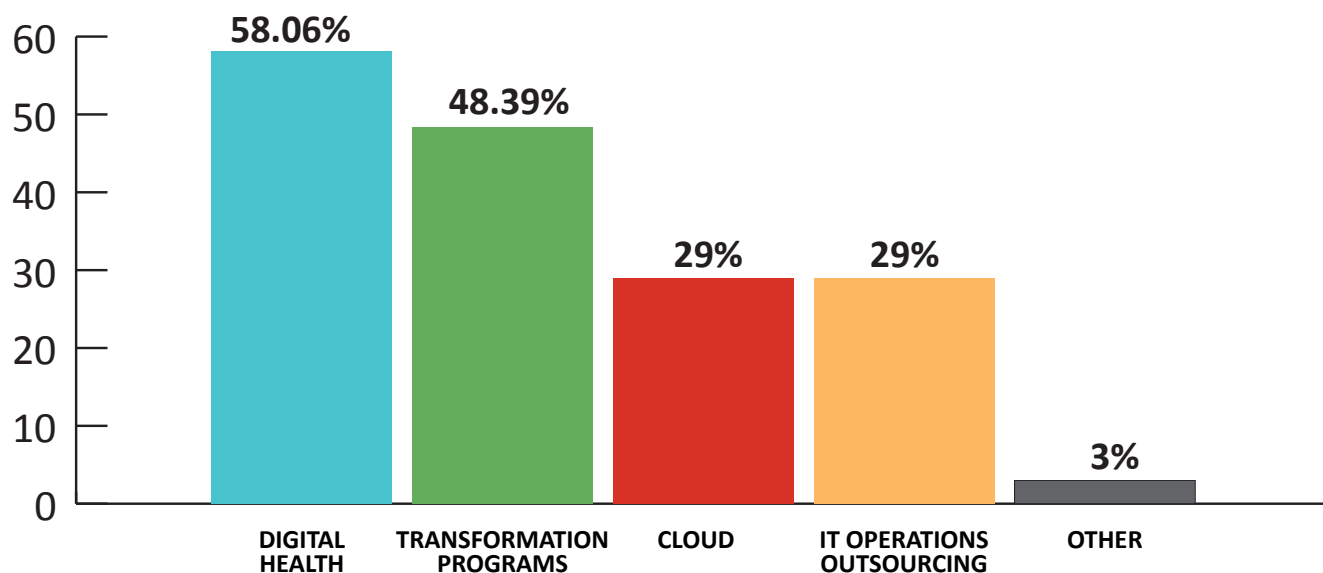


The Presidential election (48.4%) and overall enterprise IT spend (45.2%) are seen to have the most impact on the macro-level demand. Cloud migration comes up as a headwind again, reflecting the perceived threat of cloud computing to traditional IT services business.





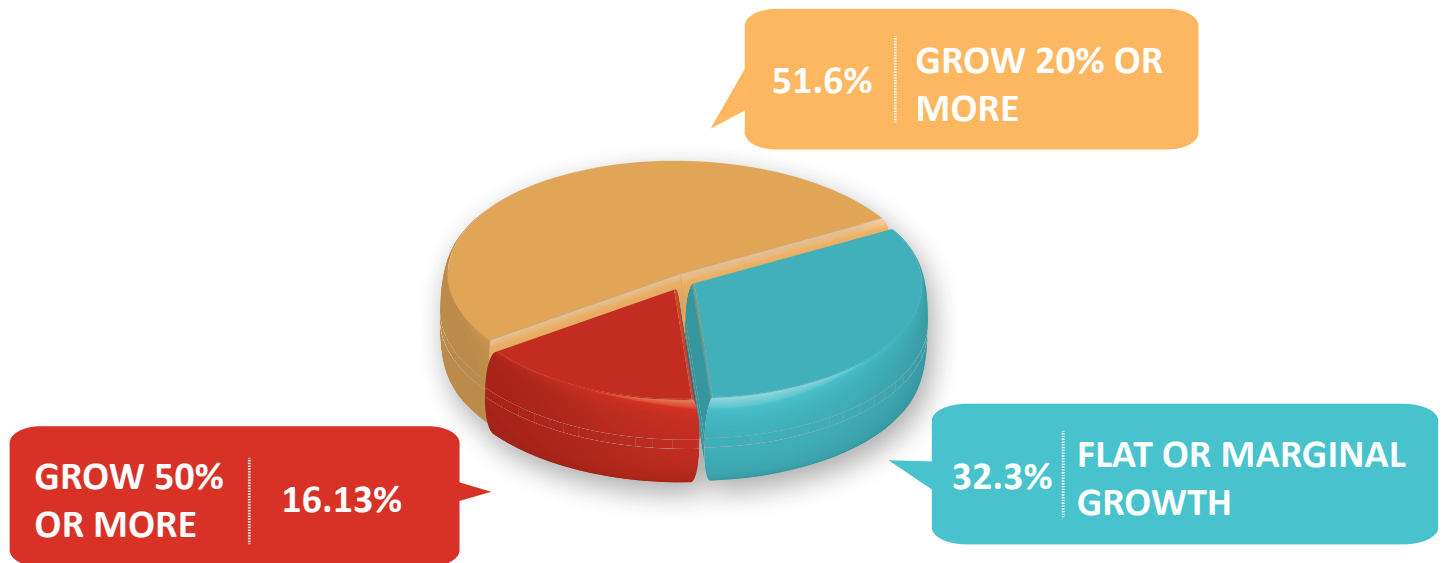
## IN YOUR OPINION, WHICH OF THE FOLLOWING AREAS ARE THE BIGGEST DRIVERS OF TOP LINE GROWTH FOR VENDORS IN THE HEALTHCARE TECHNOLOGY MARKET?



The biggest drivers of top line growth for vendors in the healthcare technology market are “digital health” (58.06%) followed by “transformation programs” (48.39%). IT operations outsourcing continues to be a significant driver of the top line, along with cloud.



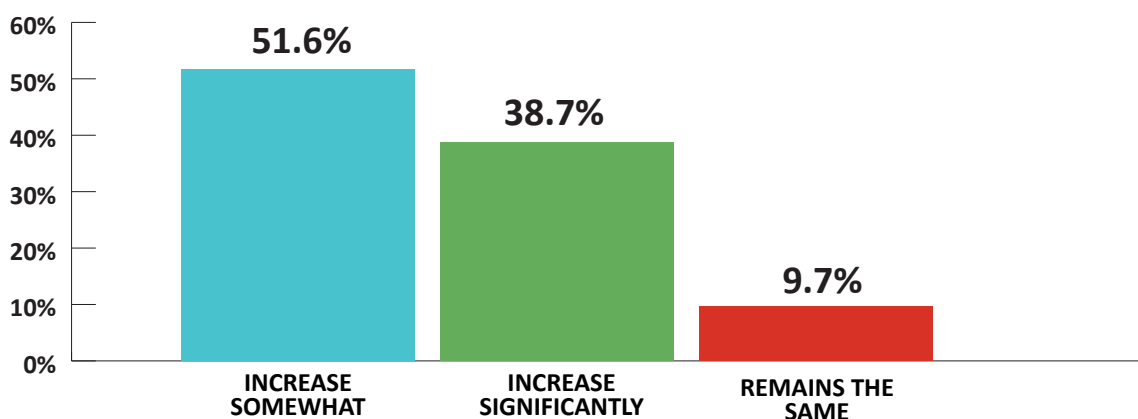
## WHAT IS THE GROWTH FORECAST FOR YOUR COMPANY IN THE HEALTHCARE SECTOR IN 2017?



Despite a commitment to increase investment in healthcare, more than half the respondents (51.6%) anticipated a conservative increase in growth of 20% in 2017, with a third (32.3%) expecting flat or marginal growth.

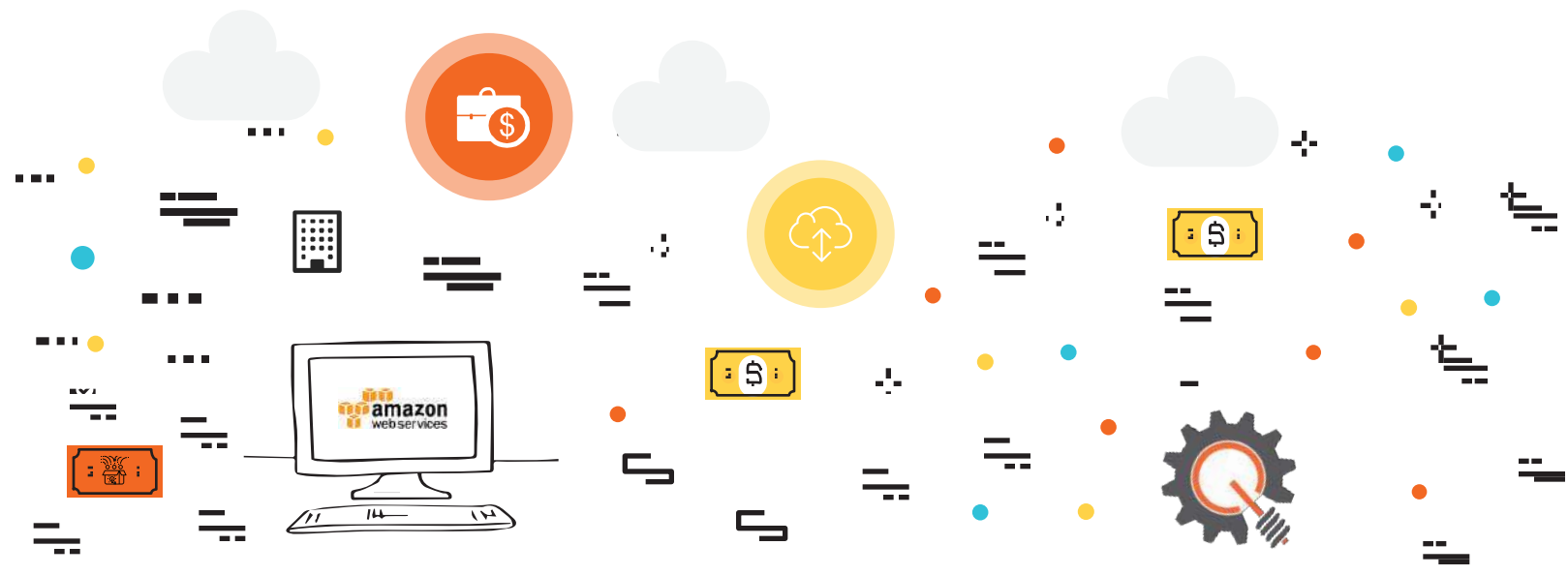
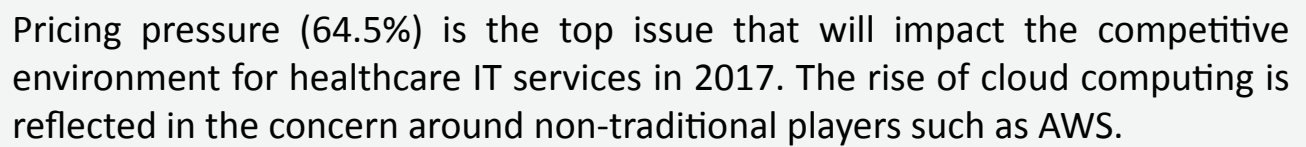


## HOW WILL YOUR COMPANY'S OVERALL INVESTMENT IN THE HEALTHCARE PRACTICE CHANGE OVER THE NEXT 18 MONTHS?

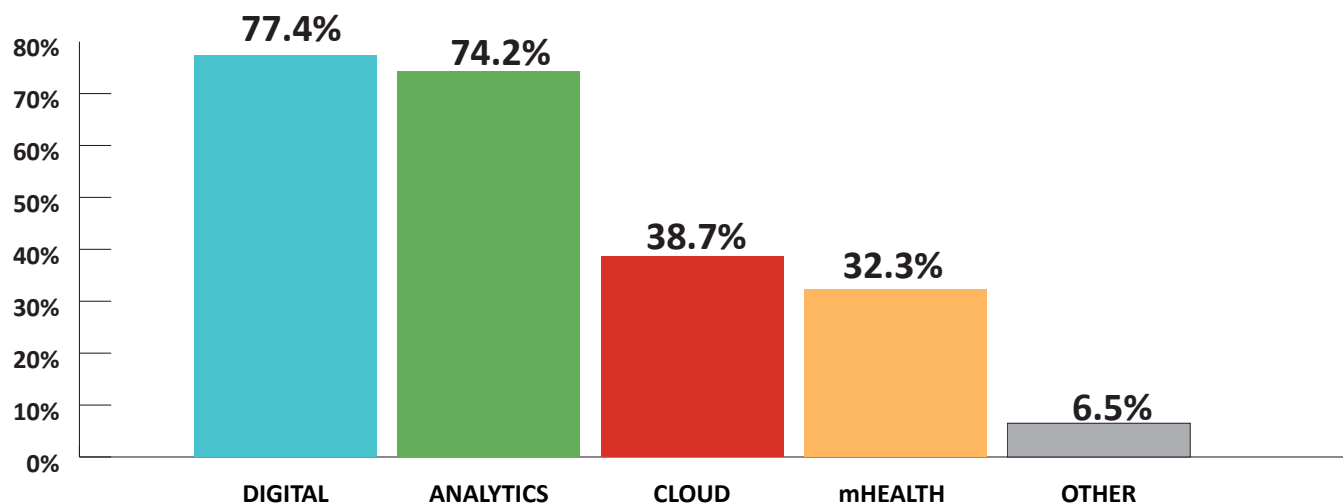


Survey respondents appear to be optimistic about healthcare with over 90% of the respondents indicating that they are likely to increase investment in the healthcare practice, and over 38% indicating they will “significantly” increase investments.

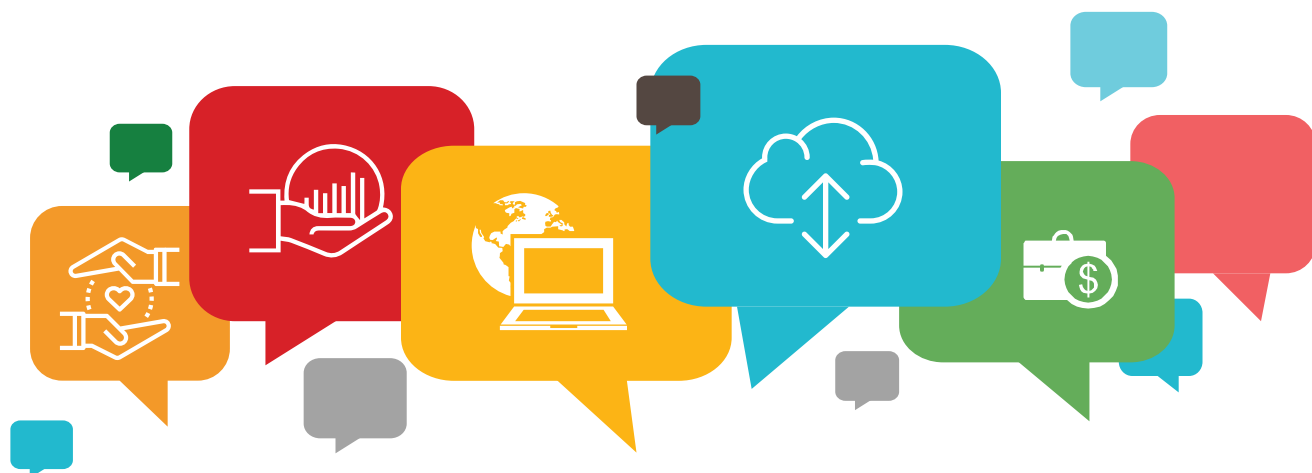




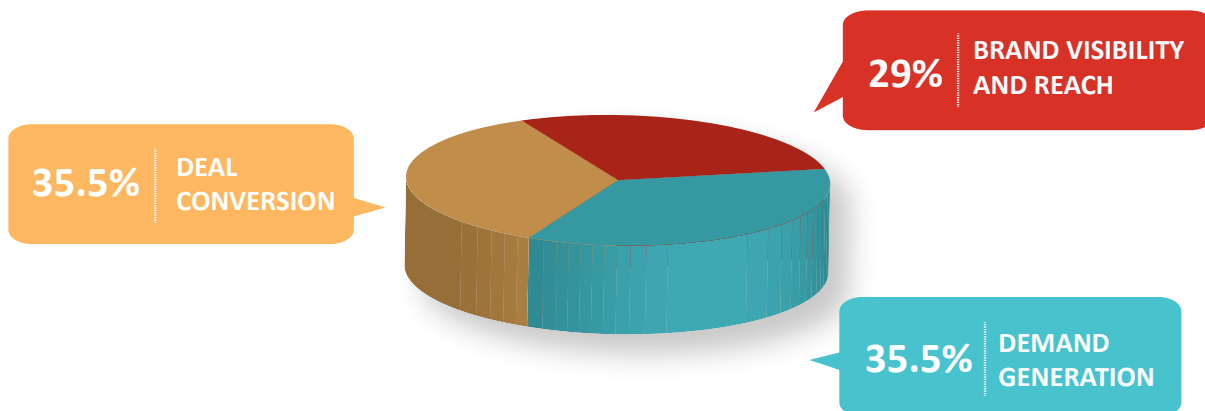
## WHICH OF THE FOLLOWING ARE GOING TO BE THE FOCUS AREAS FOR YOUR COMPANY IN 2017?



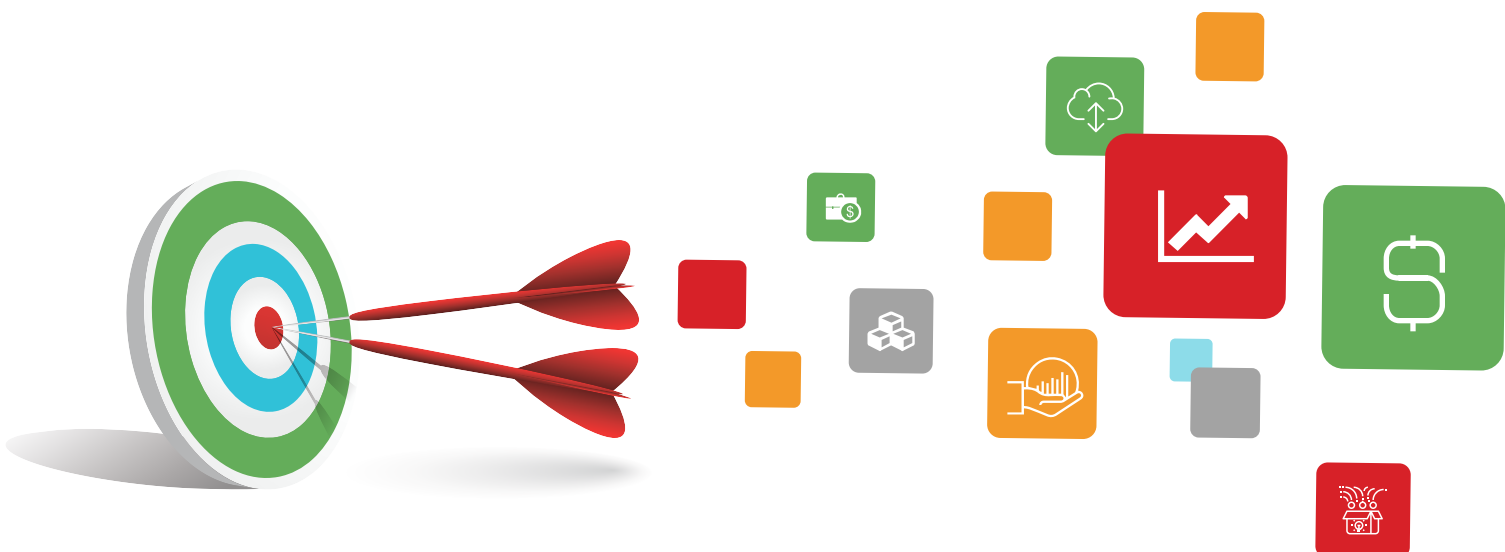
As digital and analytics continue to be the highest growth areas in healthcare and play a greater role in healthcare delivery, it is not surprising that digital (77.4%) followed by analytics (74.2%) will be the most important focus areas for most healthcare companies in 2017.



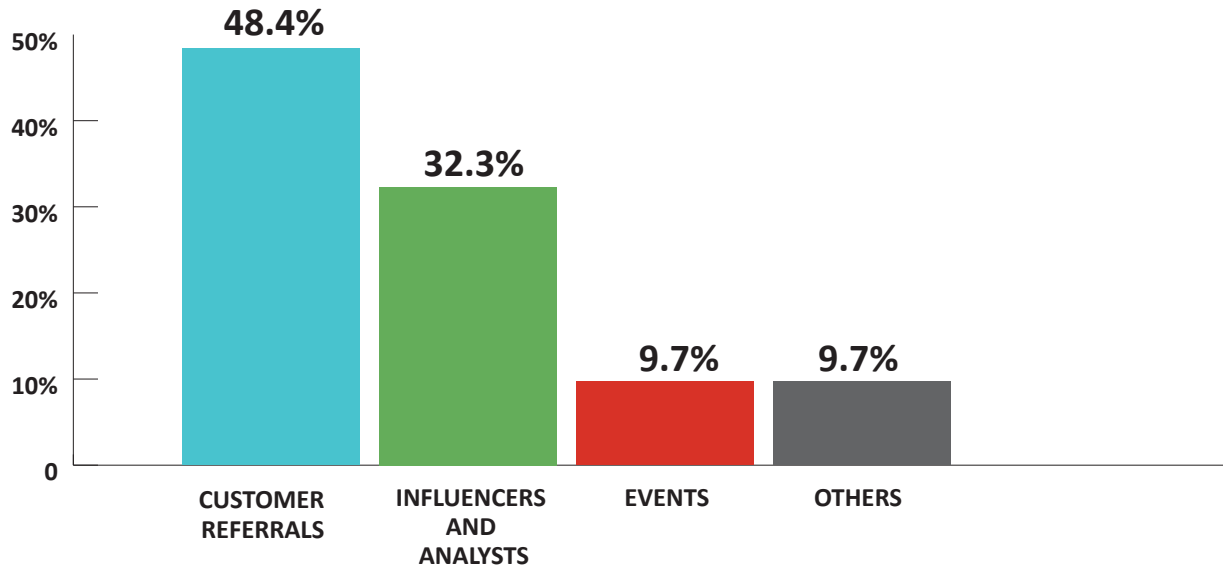
## WHAT IS YOUR BIGGEST CHALLENGE IN ACHIEVING YOUR GROWTH OBJECTIVES IN HEALTHCARE?



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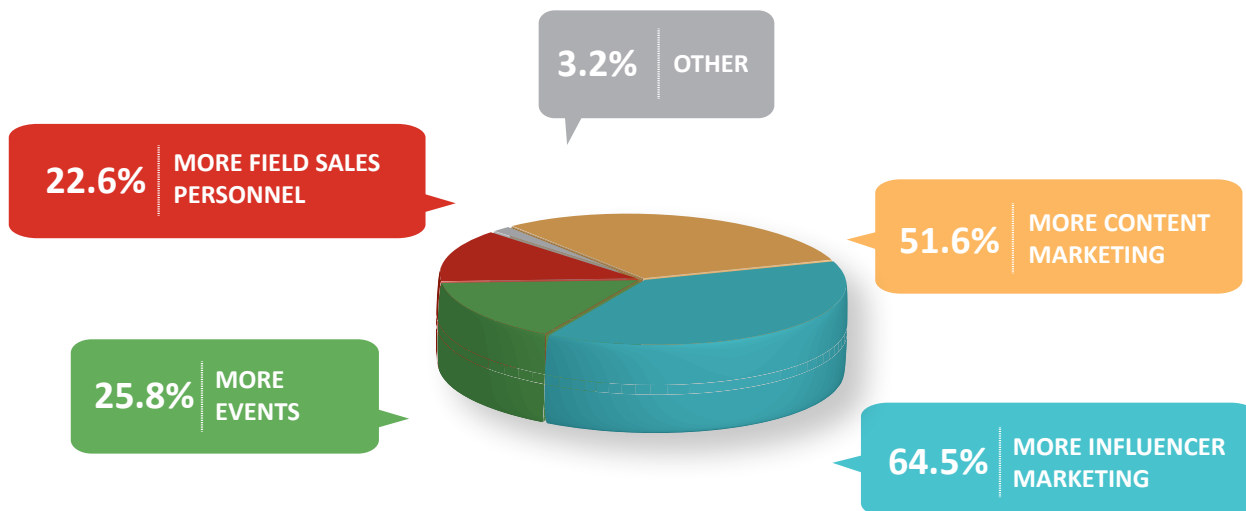
## WHAT HAS BEEN THE BEST SOURCE OF LEADS FOR YOU IN THE LAST 2-3 YEARS?



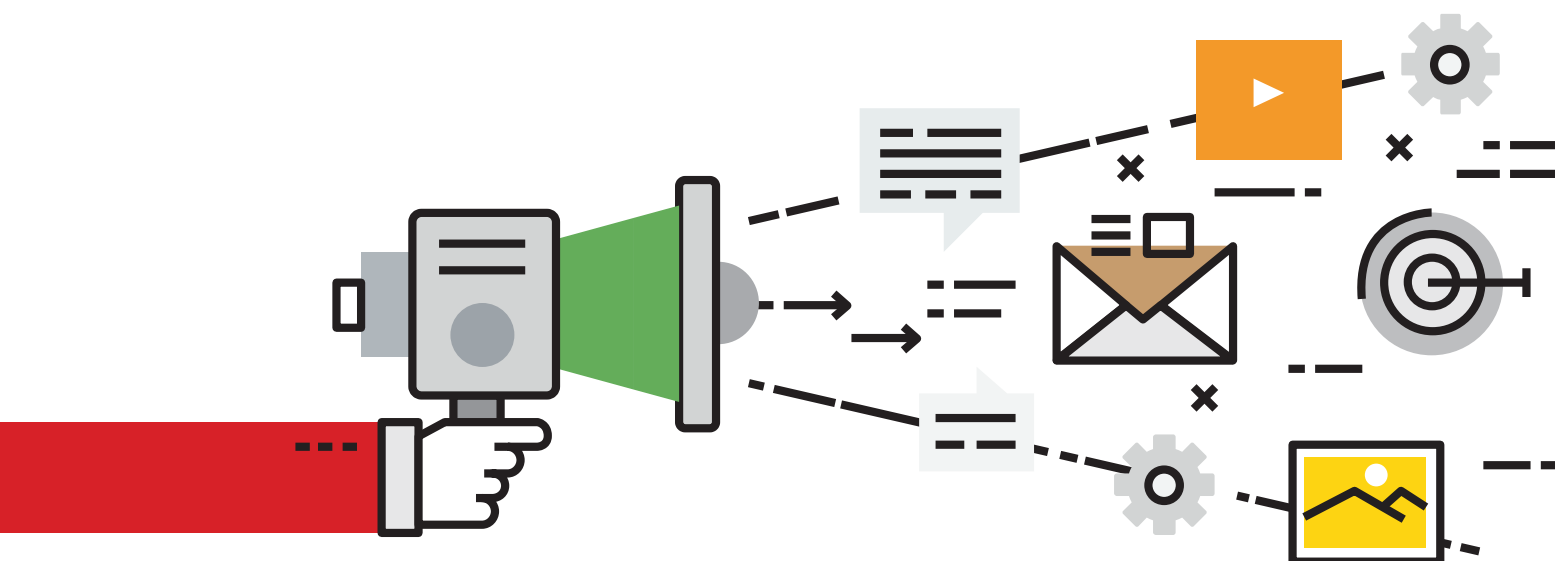
Customer referrals was the best source of leads (48.4%) followed by Influencers and analysts (32.3%). The increased investment in influencer marketing in the earlier response reflects the growing influence of the analyst community as a source of leads.



## WHAT DO YOU PLAN TO DO DIFFERENTLY THIS YEAR?

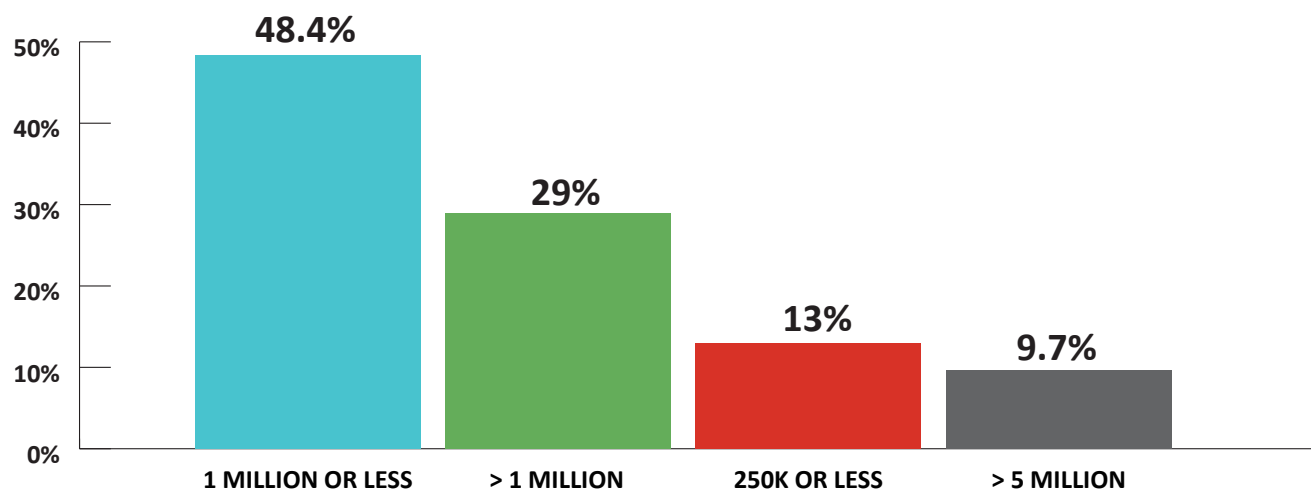


Most healthcare IT executives are looking to increase their efforts in “Influencer marketing” (64.5%) by growing analyst relations and investing in research partnerships. A substantial number of respondents are also looking to do more “content marketing” (51.6%).





## WHAT WAS THE AVERAGE TICKET SIZE OF A HEALTHCARE TRANSACTION IN 2016?



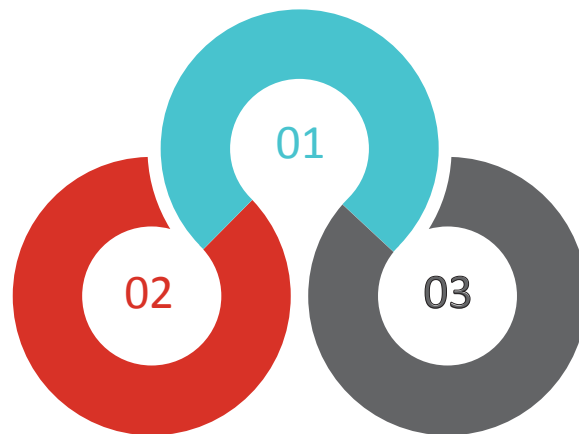
Almost half of the respondents (48.4%) stated that the average ticket size of a healthcare transaction in 2016 was \$1 million or less .



## ARE THERE ANY OTHER COMMENTS OR THOUGHTS THAT YOU HAVE ABOUT HOW THE HEALTHCARE TECHNOLOGY MARKET IS GOING TO CHANGE IN 2017?

I think with the elections that just occurred the ACA act is in jeopardy and that the HC landscape may change drastically

Change in Obamacare, M&A between payers, individual business



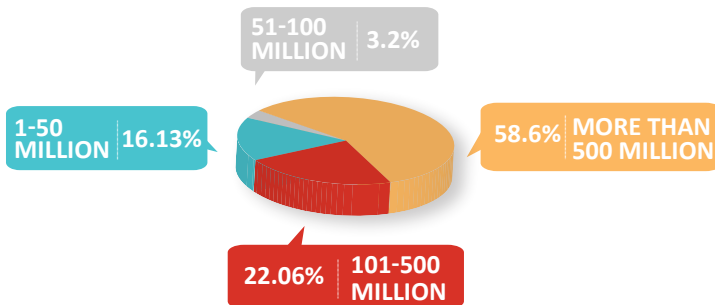
Changes to ACA from the new administration could have a significant impact.

The new administration's healthcare policy, especially the repeal of the ACA, and the fate of pending mega-mergers, especially in the payer space, appear to be some of the major concerns.

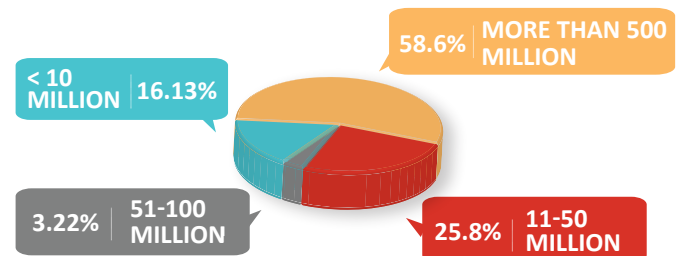


## RESPONDENT PROFILES: N=31

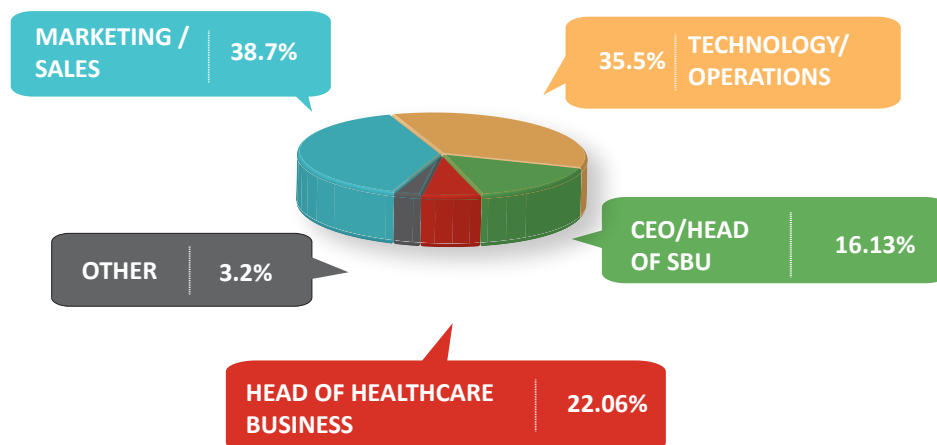
WHAT IS THE OVERALL REVENUE OF YOUR COMPANY IN USD?



WHAT IS THE REVENUE FROM YOUR HEALTHCARE PORTFOLIO?



PLEASE INDICATE YOUR POSITION IN YOUR COMPANY



More than half the respondents (58.06%) were from companies with an overall revenue of more than \$500 million. For more than half the respondents (54.83%) the revenue from the healthcare portfolio was more than \$100 million.

## ABOUT DAMO CONSULTING



Founded in 2012, Damo Consulting is a technology and management consulting firm based in Chicago, focused on healthcare sector

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We provide technology sourcing & growth strategy advisory, digital marketing and content solutions, research and market intelligence services

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Founding principal has over 18 years in healthcare IT, including leadership stints in Accenture, Wipro, and silicon valley startups

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We bring thought leadership and deep market knowledge with an in-house research team, ongoing publications in industry journals, and speaking engagements at leading industry conferences

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