McKinsey & Company

German Healthcare Sector

Creating room for innovation

How demand-oriented healthcare products and services can take shape

This article is a translated excerpt from the German publication „Der GKV-Check-up 2022", by Beatrice Pototzky, Carina Mannteufel, Florian Niedermann, Gregor Theisen und Oscar Boldt-Christmas.

October 2022

Among the developments affecting German healthcare players today, two have an especially critical role in creating opportunities to continuously drive innovation. The first is Germany's demographic shift, while the second involves patients' and customers' changing expectations—for example, regarding healthcare availability. Players who want to meet healthcare demands for the long term must tackle these challenges. The products and services they offer today depend on their freedom to innovate within given boundaries, such as those created by legislation reforms or access to financial resources. How does this context influence innovation ability in healthcare and, as a result, opportunities to design products and services so they better meet patients' needs? A current McKinsey survey provides answers—with a special focus on the concerns of statutory health insurers.

The ability to meet today's healthcare challenges—and future ones—depends on innovation. Developments like Germany's demographic shift are changing society, and as a result the expectations and needs that the healthcare system must meet are changing, too. As the population grows older, so does the typical individual's risk of both illness and multimorbidity, or the presence of more than one chronic disease. While just one out of five young adults suffers from (at least one) chronic disease, the same is true for more than half of adults 65 or older.[1] Since the population as a whole is steadily aging, the number of patients with chronic diseases is climbing fast.

More people need healthcare and have higher expectations for availability and quality

At the same time, our society's expectations for modern healthcare are on the rise as well. One out of five Germans now has a health app on their smartphone.[2] When it comes to healthcare, people increasingly want easy access, fast availability, and high service quality—the same qualities they value in other aspects of their lives.

The result of these developments is clear: more people need healthcare, and they have higher expectations for its availability and quality. The task for healthcare players—statutory and private insurers, providers, start-ups, and private equity firms—is to regularly optimize what they offer and find innovative ways to meet the demands of a changing society.

In other words, the time has come to integrate new developments into patient care for the long term with approaches increasingly in line with patient needs. Doing so is only possible if the context for healthcare players is continuously optimized, both in terms of external factors that impact their freedom to innovate (for example, reforms) and internal ones that healthcare organizations control themselves.

[1] https://www.rki.de/DE/Content/Gesundheitsmonitoring/Gesundheitsberichterstattung/GBEDownloadsK/2012_2_Demografischer_Wandel_Alterung.pdf?__blob=publicationFile#:~:text=So%20weist%20im%20jungen%20Erwachsenen,Krankheit%20erkrankt%20(Abbildung%203).

[2] https://www.zukunftsinstitut.de/dossier/megatrend-gesundheit/

This article discusses a recent McKinsey survey on this topic that was developed and conducted in conjunction with NewtonX, a B2B market research company. We start by laying out fundamental innovation options and the factors that influence them (Chapter I) and then present the findings of the survey (Chapter II). In addition, we show the actions that emerge from these findings (Chapter III). Finally, we provide a look ahead to the next steps planned for the survey and analyses based on it (Chapter IV).

I. Opportunities for healthcare innovation and the factors that influence them

In June 2022, McKinsey and NewtonX collaborated to conduct a survey of 50 participants in the healthcare sector: 10 from statutory health insurers, 5 from private health insurers, 20 from providers, 10 from startups, and 5 from private equity firms. They all answered questions on eight factors that potentially influence their freedom to innovate. In addition, we asked for their assessment of how each factor might develop in the coming quarter. The survey respondents are all top managers at their organizations.

Various kinds of innovations can produce demand-oriented healthcare

In essence, healthcare players can direct their innovation abilities to four different areas to create new developments in line with the new demand landscape (see Exhibit 1):

— **Products/services innovation.** Players can use innovation to create products and services that are entirely new or improve existing ones.

— **Process innovation.** They can change the processes or approaches used in development, production, or sales or for making their products and services available.

— **Experience innovation.** They can improve their customer experience and optimally tailor their product and service touch points to meet customers' needs.

— **Business model innovation.** Finally, players can develop new business models to adjust their value chains, diversify their revenue streams, or create new ways to deliver products and services to customers.

Exhibit 1

How we define innovation

Product/ service innovation	**Process innovation**	**Experience innovation**	**Business model innovation**
Philips Shifted from incandescent to LED lightbulbs Corning Created Gorilla Glass (for Apple's iPhones)	MasterCard Created a new approach to develop, manufacture, distribute, or deliver an offering Walmart Launched "Buy Online, Pickup In Store" and pickup tower machines	Disney Created MyMagic+, a suite of tech that enables personalization and enhancements to guests Mariott Personalized app experiences with mobile check-in, mobile requests and mobile key	Xiameter Created low-cost B2C e-commerce channel Nalco Created water treatment management service (versus supplier of chemicals)

Source: McKinsey

COVID-19's accelerating impact on innovation and political change was felt most strongly in healthcare. At the start of the pandemic, remote care approaches—often leveraging digital infrastructure—were set up quickly. For example, patients could call to request their physician's documentation of their illnesses rather than visit the office, and physicians could offer and bill for videoconference consultations with SHI patients.[3] In 2018, Germany's Bertelsmann Stiftung foundation published its Digital Health Index, which showed that Germany had fallen behind selected EU and OECD countries in terms of healthcare system digitization. Decision makers' willingness to act quickly during the pandemic is clearly a step in the right direction.[4]

COVID-19's accelerating impact on innovation and political change was felt most strongly in healthcare

Eight factors influence the freedom to innovate
The following eight factors are decisive for healthcare innovation in all of these areas. The survey examined the influence each factor exerts and how these factors are developing:

— **Planned reforms.** Reforms influence what types of care products and services are possible and the forms they can take (for example telemedicine, digital app).

— **Diversity and inclusion.** Diversity means variety in terms of gender, age, skin color, nationality, religion, handicap, sexual orientation, or other characteristics. Organizations made up of people with diverse characteristics—for example, with a higher share of women managers—have been proven more profitable. Inclusion, in turn, means that the characteristics listed here do not lead to discrimination. Instead, people of all kinds are able to join the organization, work in teams, and contribute their strengths.

— **Environmental consciousness.** Due to climate change, the environmental friendliness of organizations and the products and services they offer plays an increasingly important role in customer acquisition. More and more people prefer sustainable products. And a similar effect is evident on the employment market: people often see working for a sustainable organization as a better choice.

— **Digitization.** Digitization is just one of many innovation options, but its importance and relevance have grown in recent years, including as a result of the pandemic.

— **Medical and technical advances.** Advances in both medicine and technology enable innovative treatment methods and care in new or different forms.

— **Customer expectations.** The extent to which an organization encourages and offers innovation also depends on what its customers want.

— **Skilled employees.** Skilled employees form the heart of every organization and are especially important in improving and further developing products and services.

— **Financial resources.** Their financial means determine the extent to which organizations can optimize the care they provide.

II. The importance of influencing factors varies widely across different types of organizations

The infographic at the end of this article shows selected findings of the survey. In addition, all findings are explained briefly below. The survey contains two types of questions. The first asks how organizations prioritize the factors in terms of importance, while the second considers how they expect the factors to develop in the next quarter—in other words, from July to September 2022.

Financial resources top the list as the most important factor—primarily due to responses from specific types of organizations.

We asked survey participants to prioritize individual factors in terms of the extent to which these factors influence their ability to make innovations to existing products and services. A majority viewed financial resources as very important for enabling innovation: 56 percent of participants list financial resources as one of the top two factors. The next four most frequently cited factors finish far behind the leaders: they were listed in the top two by just 30 to 40 percent of participants.

3 https://link.springer.com/article/10.1007/s41972-020-00126-2
4 https://www.bertelsmann-stiftung.de/de/unsere-projekte/der-digitale-patient/projektthemen/smarthealthsystems#c1203567

When we look at the responses from each type of organization—in other words, from SHIs, PHIs, providers, startups, and private equity firms—clear prioritization differences emerge. In particular, startups and private equity firms see financial resources as the driving factor. In fact, 100 percent of the startup respondents and 80 percent of those from private equity companies consider financial resources as one of the two factors with the greatest influence on their innovation ability. SHI representatives, in turn, consider reforms to be most important, while their PHI counterparts view technical advances as having the most positive influence on their products and services. No consistent view emerges from the responses by provider representatives.

SHI representatives consider reforms to be most important to their innovation ability

Different types of organizations have different expectations about how influencing factors will develop in the next quarter

In addition to asking respondents about the importance of individual influencing factors, we posed a question about how they expect these factors to develop in the next quarter: would changes have a positive or negative effect on their freedom to innovate?

The results for three selected factors—reforms, diversity and inclusion, and environmental consciousness—are shown in detail in the infographic below. Reforms are included because SHI representatives in particular[5] consider them to greatly influence their organizations' innovation ability. Because the other two factors are the subject of much discussion today, we look at them in detail as well.

Reforms. Opinions differ widely on the extent to which reforms will change healthcare players' freedom to innovate in the next quarter. These diverging assessments are evident not only across different kinds of healthcare players, but even among organizations of the same type. Some respondents believe that planned reforms will significantly boost their innovation opportunities, while others expect the impact to be negative. Among the participants representing SHIs—who as a group view reforms as an extremely important influence on their innovation abilities—this difference of opinion is especially strong: 50 percent expect positive impact on their ability to make product and service innovations, and another 10 percent think this impact will be quite high. On the other hand, 30 percent expect no change, and 10 percent anticipate negative impact.

Diversity and inclusion. Diversity and inclusion topics receive a great deal of media attention. An organization's diversity is considered to play an important role in its profitability[6] and contributes to its sustainability efforts. For this reason, it's surprising that nearly half of respondents from SHIs, startups, and private equity firms expect no changes here in the next quarter. On the other hand, respondents from PHIs and providers expect positive change; it seems likely that they devote more of their attention to this factor.

Environmental consciousness. Environmental consciousness is another topic that generates a lot of media coverage—and social attitudes are beginning to change in response as well. The majority of Germans consider environmental and climate protection to be very important.[7] Companies, including those in the healthcare sector, are taking notice and first movers are formulating and communicating their environmental priorities. Teva, for example, is the first pharmaceuticals company to issue a sustainability-linked bond, which is tied to drug access as well as climate targets.[8]

In each type of organization, 60 to 80 percent of survey participants say that their organization makes environmental consciousness a focus—and they expect (significant) improvement in this area during the next quarter. The remaining respondents expect no change. Within different types of organizations, views about how environmental consciousness will affect existing products and services are more mixed. For example, 80 percent of participating SHI managers expect environmental consciousness in their organizations to improve (significantly), while just 50 percent expect a corresponding (significant) improvement in their products and services.

Sustainability efforts would be better served by an even stronger environmental focus and even more positive development. At the same time, it's worth noting that no one expects the current situation to worsen.

5 This article was originally published in Der GKV Check-up, an annual publication for SHI leaders in Germany.
6 https://www.mckinsey.de/news/presse/2020-05-19-diversity-wins
7 https://www.umweltbundesamt.de/themen/nachhaltigkeit-strategien-internationales/umweltbewusstsein-in-deutschland
8 https://dup-magazin.de/management/strategie/das-grosse-ziel-lautet-ethische-gesundheitspolitik/

Not all influencing factors are shown in the infographic. To provide a complete view, we have summarized some of the findings on the expected development of the remaining factors:

Digitization. Opinions on digitization are more consistent: most respondents expect (significantly) more of it. Participants from SHIs agree the most, as they all anticipate a (significant) increase in digitization, both internally and in their products and services. These results are good news, because digitization is an important trend that drives healthcare innovation. Both digitization development and expectations about it are partly due to COVID-19. As a result of the pandemic, people not only expect more digitization but are also more willing to use digital products and services.

Medical and technical advances. Nearly all organizations anticipate meaningful advances (for example, in terms of medical treatment or technology) that will increase their opportunities for innovation. A full 100 percent of private equity and PHI representatives share this view, along with 80 percent of those from SHIs and 85 percent of those from startups. Members of just one group—providers—expect negative change, and they account for only 5 percent of respondents in this category.

Customer expectations. Nearly all organizations agree in this category as well. They foresee an increase in customers' expectations for both the number of services available and their quality. In all groups of participants, at least 70 percent of respondents assume that customers want the number of functionalities and services to increase. When it comes to the quality of services and functionalities, 70 percent of SHI participants and 60 percent of PHI participants think customers expect improvements. These results are at the lower end of the scale. For startups, this share is 80 percent, and it reaches 90 percent among providers and a full 100 percent for private equity managers. Responses from SHIs, startups, and private equity firms suggest that these organizations are changing their products and services the most to meet these higher customer expectations. In fact, 70 percent of participants from SHIs, 90 percent of those from startups, and 100 percent of those from private equity companies expect to achieve higher levels of customer satisfaction, compared to just 40 percent of those from PHIs and 55 percent of those from providers.

Skilled employees. Many organizations anticipate that they will need to fight harder for this increasingly scarce resource. For example, 65 percent of providers expect that finding skilled workers will become (significantly) more difficult. At SHIs, in turn, 50 percent foresee a (significantly) worse situation. But the picture is somewhat brighter when it comes to actually hiring prospective employees once they have been identified. Many survey participants expect an improvement in this area.

Financial resources. Expectations about finances for the coming quarter diverge. Private equity firms and startups are optimistic, while SHI representatives anticipate negative developments.

III. The survey findings should lead to concrete action

The survey findings provide a basis for deriving actions to move healthcare more in line with demand. Some of these actions can be implemented at the market or policy level, while others can be realized individually by organizations themselves within the legal parameters available to them.

Actions at the market level include:

1. Designing **reforms** so that they pave the way for more innovation in different types of organizations in the healthcare system.

2. Taking a fast, transparent approach to making **advances** and improvements visible and usable for all market participants.

3. Creating a market that is more accessible and attractive for **skilled employees** and making searching for skilled employees easier.

Actions that individual organizations can take are:

1. Taking appropriate steps in fiscal planning to focus **financial resources** more strongly on innovation opportunities and planning in a buffer for weaker years.

2. Increasing their internal **environmental consciousness** by changing both their organizational infrastructure (vehicle fleets, heating systems, home office options, etc.) and employee behavior (taking the stairs instead of the elevator, vegetarian meals, etc.)

3. Driving **diversity and inclusion** at all levels of the hierarchy with targeted hiring and support for diverse talent.

IV. Look ahead: recurring rounds of the survey will show how expectations about the freedom to innovate are changing

The next planned step is to develop an “opportunity index” with the findings from June 2022 as the baseline. The survey will be repeated each quarter and the findings will be shown against the baseline to show how the freedom to innovate develops over time. At the same time, the insights will make it possible to develop tailored actions that enable and support healthcare innovation for the long term.

□ □ □

Real innovation is impossible without breaking free of existing structures. This insight is not new, as a quote attributed to Henry Ford reveals: “If I had asked people what they wanted, they would have said faster horses.” The key to innovation, then, is to lay a course for such breakthroughs and create the conditions that make them possible. It will be exciting to see how different players in the healthcare system find ways to drive innovations and how different conditions can support them. We wish them not just “faster horses” but opportunities to rethink healthcare.

We express our appreciation to NewtonX for their support and contributions to developing the survey.

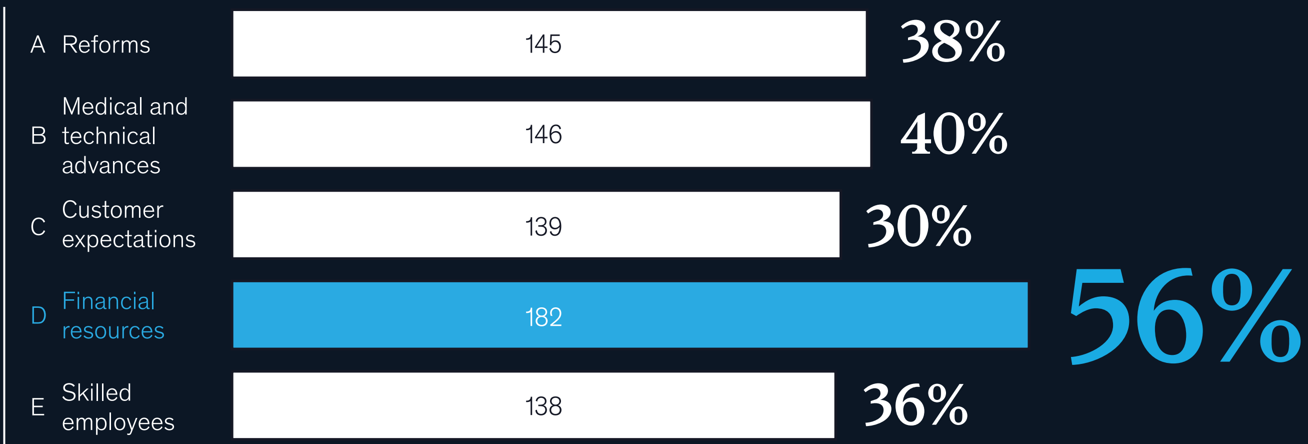
Selected findings of the online survey on freedom to innovate in healthcare[1]

Participants per organization type, SHIs (10), PHIs (5), providers (20), startups (10), private equity (5)

Financial resources are the most important factor overall in changing healthcare to better meet needs

Which factor has the greatest influence on your ability to offer products and services that are even more in line with demand? Please use a scale of 1 to 5 (5 = highest influence)

Total of the points awarded (1-5) for each factor; percentage of participants for each factor who list it in their top 2



Deep dive

Startups and private equity firms most frequently cite financial resources as one of the top 2 influencing factors; for SHIs, in turn, reforms have the most impact

Percentage of participants per factor who include it in their top 2 priorities

1 The figures shown here are the findings of a joint survey by McKinsey and NewtonX (from June 2020)

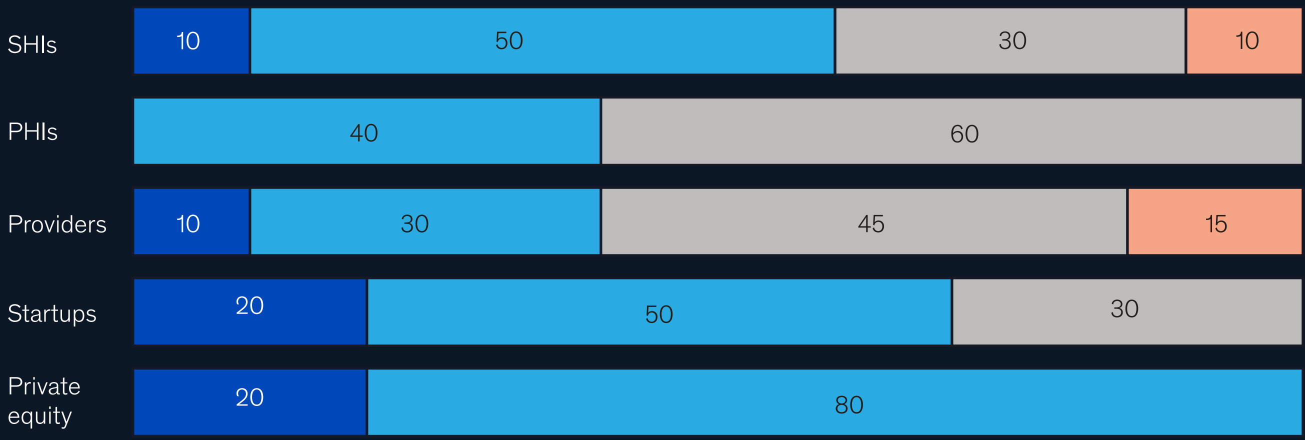
Source: McKinsey

Assessments for the next quarter (July - September 2022), percent

Improve significantly | Improve | No change | Worsen | Worsen significantly

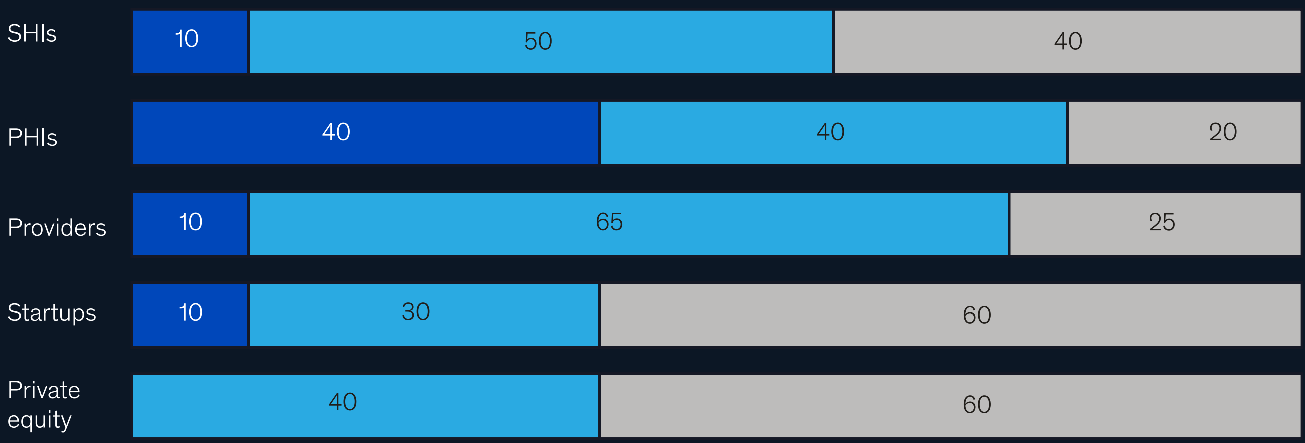
Reforms alone are not enough to improve innovation opportunities

How do you expect currently planned legislative reforms to impact opportunities for innovation of your products and services?



PHIs and providers most frequently expect positive development in terms of diversity and inclusion

How do you expect diversity and inclusion to develop at your organization?



Source: McKinsey

Assessments for the next quarter (July - September 2022), percent

Improve significantly | Improve | No change | Worsen | Worsen significantly

Significantly more digitization is expected at all types of organizations—focus on internal digitization appears to be stronger

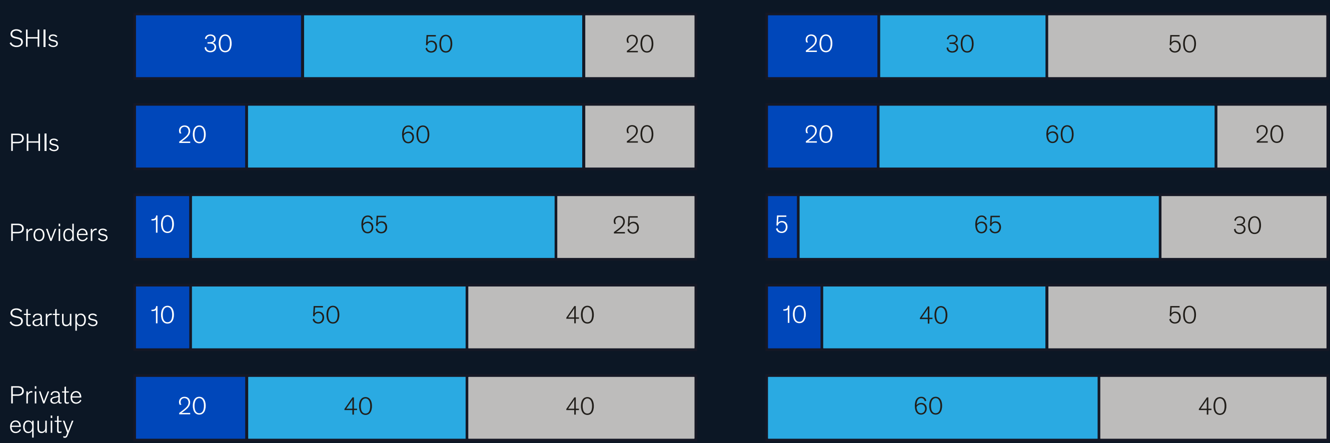
How do you expect ***digitization to develop within your organization?***[1]

How do you expect ***digitization of your products and services to develop?***[2]

Environmental consciousness plays an increasing role in products and services, but positive changes are expected within organizations as well

How do you expect ***environmental consciousness to develop within your organization?***[3]

How do you expect ***the environmental friendliness of your products and services to develop?***[4]



1 Such as paperless processes, video conferencing, (partially) automated billing
2 Such as digital communication channels to customers, digital care products and services, digital billing/payment for products and services
3 Such as recycling and actions to conserve energy and water
4 Such as supplier guidelines, circular economy approaches, recycling, sustainable sourcing

Source: McKinsey