

Strategy & Corporate Finance Practice

# The essentials of healthcare innovation

The pandemic has raised the importance of healthcare organizations actively choosing, evolving, accelerating, and extending their innovation efforts, a new survey reveals.

by Daniel Cohen, Laura Furstenthal, and Leigh Jansen



**When the winds** of change blow, some people build walls, others build windmills. This Chinese proverb reminds us that crises present choices. Those choices, in turn, shape organizations' future growth paths. Last fall, we wrote about the healthcare sector's successful shift from merely sustaining core operations when the COVID-19 crisis hit to driving rapid innovations that saved lives and lessened the pandemic's impact. But the winds remain strong, with new outbreaks and variants of the virus continuing to destabilize our lives and economies, even as vaccines are rolled out. Maintaining the innovation momentum will be critical to a continued effective response.

Over the past year, the healthcare sector experienced dramatic change, with novel business models, unexpected collaborations, and accelerated timelines requiring organizations to rethink how they operate. Many of these shifts are likely to persist. When we surveyed more than 100 leaders in the industry, from pharmaceutical and medical technology companies to health systems and payers,<sup>1</sup> 90 percent agreed that the pandemic will fundamentally change the way they do business, requiring new products, services, processes, and business models.

To better understand how healthcare leaders' priorities have shifted, we interviewed executives from across the value chain. Specifically, we examined how they plan to position their organizations to deliver on their innovation aspirations and which innovation capabilities they expect to grow in importance. They highlighted two main areas where the COVID-19 pandemic has brought major changes they expect to endure.

**Digital acceleration.** The healthcare sector has long been a laggard in digital adoption, but the pandemic delivered a massive jolt of

urgency to embrace new tools and technologies. Providers rapidly scaled offerings and were seeing 50 to 175 times the number of patients via telehealth a few months into the pandemic compared with what they did before. Providers have also more broadly embraced digital engagement with patients and communities, such as proactively messaging about COVID-19-related protocols. Meanwhile, pharmaceutical and medtech companies have expanded their investments in digitally enabled clinical trials and customer-engagement models.

**Workplace of the future.** Many parts of healthcare require in-person care, but the pandemic has illuminated the extent to which healthcare can be delivered remotely, such as virtual care and remote patient monitoring, and virtual collaboration for professionals in the pharmaceutical and medtech industries. This model supports greater flexibility and has enabled organizations to draw from a more diverse talent pool. "You can now attract anyone, anywhere," one executive said in reference to hiring. Healthcare leaders are also reevaluating old workplace norms and introducing new measures, such as offering assistance to help combat videoconferencing fatigue. "COVID-19 has shone a light on culture, good or bad," another interviewee told us, and it has led healthcare players to reassess work conditions and extend greater flexibility to employees.

Adapting to these shifts, along with myriad others, will require many healthcare organizations to transform their operations—and their mindsets. Past research shows that prioritizing innovation during crises can help unlock growth in the recovery, provided leaders approach it with commitment and establish key capabilities and processes.

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<sup>1</sup> McKinsey Healthcare Innovation Through Crisis Survey, June 2020.

## The foundation for successful innovation

As we noted in our earlier article, lasting innovation success requires eight essential practices (exhibit). While all eight are important and span the full innovation cycle from strategy to execution, in our latest survey, healthcare leaders identified four that are, and will, remain more critical as a result of the pandemic: choose, evolve, accelerate, and extend.

**Choose.** In a world of dynamic change and heightened uncertainty, it is more important than ever to actively manage portfolios of innovation initiatives, consciously choosing to invest in innovation during a crisis. “There is so much chaos, it’s like a constantly changing game board,” one healthcare leader said. “We need even more discipline to make sure we don’t miss something or get overly enamored of shiny new things.” By regularly reviewing their innovation pipelines, organizations can identify initiatives that are less likely to succeed based on the latest data and assumptions, while strengthening investments in projects with high potential. Deprioritizing some initiatives will be particularly critical for organizations plagued by staff burnout and resource constraints.

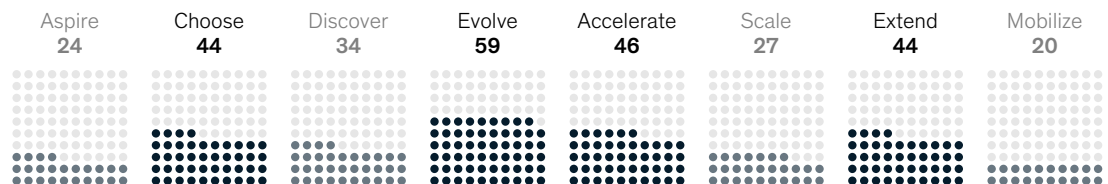
As focus on areas such as infectious diseases and testing grows, incremental innovation likely will not be enough to stay abreast of competitors. Bold bets are necessary, and multiple executives in our survey cited the value of a “start-up approach” and “scrappy mindset” in seizing opportunities. The respondents also reported a greater willingness to take risks and use agile decision making to determine how best to address new business segments. In fact, several companies have adapted their operating models to purposely select and test multiple ideas quickly rather than committing up front to a single path. One large healthcare provider, for example, has adopted a new decision-making process that includes key stakeholders from across their system, which has allowed the provider to speed up decisions across a broad portfolio of initiatives. The organization has found that this model leads to decisions and outcomes that are as good or better than under the previous model, in which they analyzed reams of data and performed weeks of analysis.

**Evolve.** Another priority that healthcare executives cited was evolving their business models to address new delivery constraints and client expectations. This finding is in line with our recent analysis of profit

Exhibit

### Four of the eight essentials of innovation were identified by healthcare leaders as being more critical as a result of the pandemic.

Most important innovation in the next normal,<sup>1</sup> % of respondents citing essential among their top three



<sup>1</sup>Question: Which of the 8 essentials (select up to 3) will be more important in a post-COVID-19 world compared to a pre-COVID-19 world?  
Source: Healthcare executive survey and interviews (not published), Sept 2020 to Jan 2021, n = 41

pools in the sector, which suggests healthcare players that develop innovative business models will generate disproportionate value. Several digital health companies have embraced virtual healthcare delivery, while wearables players have adapted their offerings to include monitoring for COVID-19 symptoms. Companies are also streamlining their customer support by introducing virtual assistants and using new technologies such as augmented reality. One medical technology firm, recognizing that its customers want more flexibility, made its products available as a service, which led to a surge in demand.

**Accelerate.** From vaccines to new designs of personal protective equipment (PPE) and ventilators, numerous recent examples demonstrate the healthcare sector's ability to innovate at previously unimagined speeds. In the United States, the US Food and Drug Administration deployed a range of measures (such as issuing new guidance, establishing new industry engagement models, and issuing emergency use authorizations) designed to support the COVID-19 response across the range of products it regulates. In several instances, the FDA stipulated or requested that manufacturers gather data derived from the real-world use of products in order to better characterize performance, understand supply-chain vulnerability, and support additional development activity, both throughout and beyond the pandemic.

Rapid development and deployment of innovations will continue to be critical in the postpandemic world. One executive noted that healthcare has started to embrace the "beta" mindset and "soft launch" models of releasing test versions (where

safety permits) that are improved based on user feedback. Another described his life-sciences company's shift to a product-as-a-service model in just six months—a change that in the past would have taken up to five years.

**Extend.** The COVID-19 pandemic has highlighted the benefits of nontraditional and creative partnerships and collaborations in quickly finding creative solutions to urgent problems—from the health and auto industries teaming up to build ventilators, to pharmaceutical sector competitors collaborating to hasten the development of a COVID-19 vaccine, to healthcare providers partnering with technology companies to deliver COVID-19 apps and solutions. Experts expect such extensions of the healthcare ecosystem to be the way of the future, with more partnerships and consortia that pool capital, assets, and capabilities, both to bring operational synergies and drive innovation. "Never in my career have I experienced less politics and a more collaborative work environment," one healthcare leader told us.

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From the rise of the sharing economy in the wake of the financial crisis to airport security measures following the 9/11 attacks, deep crises tend to create shifts that stick. The COVID-19 crisis is likewise bringing changes to the healthcare sector that are here to stay. As past downturns have shown, innovation is a critical part of any recovery and will be necessary for healthcare players to stay abreast of their industry. To succeed, leaders should place particular focus on four of the eight essentials of innovation—choose, evolve, accelerate, and extend—while ensuring that end-to-end fundamentals are in place.

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