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BY SUNDAR SUBRAMANIAN, JEFFREY GITLIN, AND KELLY BARNES

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There's one constant in today's frenzied news cycle: The U.S. healthcare industry is facing significant uncertainty. Given the range of possibilities on the table and the lack of specific plans or legislation, we can't claim to know precisely what will happen to the Affordable Care Act (ACA). Repeal without replacement? Replacement with provisions like Medicaid block grants? Minor changes that aim to address some of the cost challenges in the current system? The crystal ball is unclear.

Our PwC health industries teams are updating our thinking and building and refining models of what we call the New Health Economy. These efforts are aimed at quantifying the impact on industry profitability of potential policy scenarios and strategic responses. And although it is difficult to predict precisely how policy will change, our research has given us a good sense of what companies should do in all scenarios: Develop a strategy that is resilient to the existing trends and uncertainties in the market and to a broad range of outcomes, which can be accomplished by focusing on the few knowns and planning for the unknowns. As we noted in 2016, a US$1.5 trillion shift in profit pools is already under way from older to newer business models, and some $480 billion in health value is likely to be created through consumer-enabled business strategies that rely on transparency and customer engagement.

Let's start with the few known outcomes that are emerging in the New Health Economy.

• Businesses still need to focus on helping solve the enormous healthcare affordability challenge. In virtually any scenario, the U.S. healthcare economy is continuing to grow at a rate significantly higher than that of the economy at large. By 2025, healthcare could be a $4.5 trillion industry that consumes nearly 20 percent of GDP, up from 18 percent in 2015. Although recent policy changes have insured millions of Americans, they have not solved the underlying cost and affordability issues.

• The markets for individual and Medicaid policies, which have been highly volatile in recent years, will continue to be among the most volatile sectors of the business. Issues such as the potential repeal of Medicaid expansion, the ACA exchanges, and the individual mandate have the capacity to bring large numbers of people in and out of these markets quickly.

• Medicare Advantage, the program under which private insurance companies manage Medicare coverage, will be a significant growth sector. Regardless of policy changes, more baby boomers will continue to age into the general Medicare program, and more of them will likely choose Medicare Advantage plans. Annual growth in Medicare Advantage enrollment could be between 7 and 12 percent.

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• Employers continue to play a significant role in healthcare, covering more than 155 million Americans. And these employers are demanding more for their money from insurance companies — they want better service, more employee engagement in wellness programs and healthcare spending, and real outcomes on total cost reduction to make it all affordable.

Armed with this knowledge, how should companies react?

We believe the most resilient enterprises will focus on three core efforts: doubling down on a few "no regrets" actions; managing unknowns through bolder positions and offensive plays; and creating option value that allows companies to learn and adjust as the industry and policy situation evolve.

First, focus on the knowns and accelerate a few "no regrets" actions — investments that are likely to pay off regardless of the policy outcome. These include:

Plan for scenarios. Understand the specific impact on your business projections and construct volatility ranges for potential policies. Get a firm grip on fixed costs, and then realize the disproportionate hit on margins you might suffer if, for instance, volume in the individual markets falls 20 percent while uncompensated care costs rise 10 percent and fixed costs are reduced by 15 percent.

Get in shape. To mitigate the potential impact to earnings, make sure your organization takes a *Fit for Growth** approach. All companies are well served by reducing the percentage of their costs that are fixed. Accelerate automation, invest in efficiency efforts, and set aggressive cost-reduction goals. Doing so will require organizations to focus intently on a handful of capabilities, and become lean elsewhere by using automation, process reengineering, and sourcing through vendors. (**Fit for Growth* is a registered service mark of PwC Strategy& LLC in the United States.)

Bet on growth. Companies should make sure they have sufficient exposure in the areas of the market that are growing: Medicare Advantage and group policies. Beyond selling policies for Medicare Advantage, companies can focus on solutions that address affordability issues for the growing population that is eligible for Medicare. As they add jobs, employers continue to add members to their group policies, but they remain frustrated by the continuing cost escalations. This creates a potential opportunity for both insurers and providers to accelerate their investments in analytics with proven medical value.

Second, engage in a few efforts that can be characterized as bolder positioning and offensive plays. These may include:

Seek integration. Gaining scale provides an impetus for improving market share, reaping the larger gains that can come from spreading investment across a larger population, and realizing efficiencies. For regional and midsized players, it might make sense to consider horizontal integration. Furthermore, the prospect of vertical integration between payors and providers can provide an opportunity for investment synergies while hedging market risks.

Drive value. Regardless of government policy, we know that the demand for greater value among consumers and payors will rise. As a result, this may be a good time to accelerate payor–provider collaboration models that drive both medical outcomes and value, or to construct analytics or machine-learning methods that bring innovative approaches to bear on medical cost outcomes.

Pursue direct distribution. As individuals seek more or new options, companies can thrive by offering them a broader range of services. An Amazon of healthcare could reach lots of consumers by providing direct access, operating in many states, and assembling a provider- rental arrangement with volume discounts to mitigate for high-utilization scenarios.

Third, companies should create option value that allows them to live, learn, and adjust as the industry evolves. Many venture funds create so-called option-value investments; these are investments made in emerging or high-risk areas — typically in small amounts — that provide the option in the future to scale up quickly should the market move in favor of the product or service. Companies almost never make such investments. However, this may be a good time for companies to consider channeling 5 to 10 percent of their investment portfolio to gain minority stakes in other companies or projects that offer the potential to grow into newer markets, such as individualized consumer solutions or apps aimed at improving the customer experience. That way, if these companies and projects grow based on reforms that develop, companies will be in a position to benefit; in the meantime, because such investments are typically small, the downside is limited.

Over the last several years, the U.S. healthcare industry has not been for the fainthearted, and it will likely present even more challenges in the years to come. Everybody in the industry must take pains to ensure their own mind-sets and business models are resilient to the changes under way. +

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