Grant Thornton

Focus on: Healthcare

International Business Report 2010 – Sector focus series

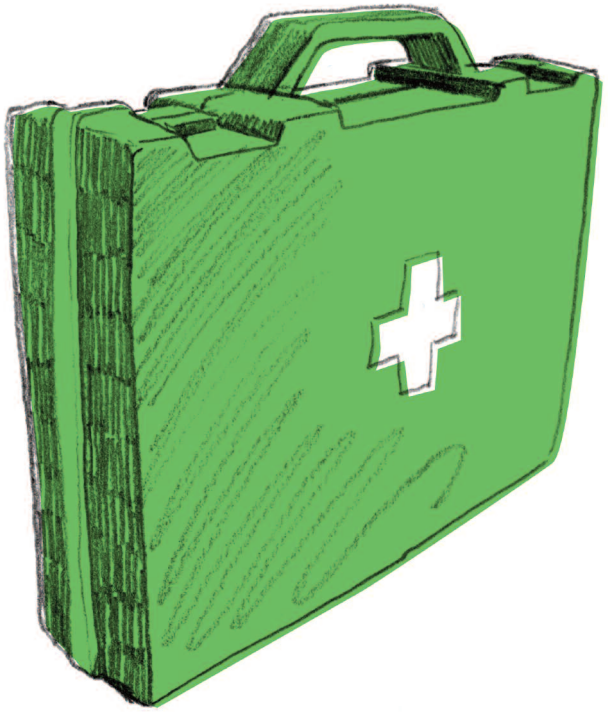
The Grant Thornton International Business Report (IBR) 2010 reveals that privately held businesses (PHBs) in the healthcare sector are the least confident about their economic prospects for the year; a balance[1] of just -18 per cent are optimistic this year. Businesses, on average across all sectors, are more optimistic this year (+24 per cent) than they were in 2009 (-16 per cent).

Of the ten sectors considered in the 2010 series of focuses, financial services is the most buoyant at +42 per cent; ahead of technology (+40 per cent), cleantech (+34 per cent), hospitality (+32 per cent), retail (+31 per cent), manufacturing (+25 per cent), construction & real estate (+13 per cent), food & beverage (+7 per cent), transport (+5 per cent) and healthcare (-18 per cent).

The healthcare sector

The healthcare sector has been headline news this year as the Obama administration in the United States (US) tried to get the Affordable Health Care for America Act through congress. Following its signing, what the future holds for both health insurers and the broader healthcare arena in the US is unclear, as the act certainly brings health insurance coverage to roughly 30 million more Americans.

In many countries there still remains no viable alternative to private healthcare, but businesses still noted decreases in the purchase of prescription drugs in 2009 as consumers tightened their belts. In the United Kingdom (UK), where the private healthcare market grew by 5.6 per cent in 2008 to around £25.81bn, there is evidence that improvements in public healthcare and the downturn are deterring some consumers from using private healthcare.



[1] the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic

The state of the sector

Optimism/pessimism

- a balance of -18 per cent of businesses in the healthcare sector are optimistic about their respective countries' economic outlook this year
- they are the least optimistic about economic outlook this year and the only sector to have a negative balance
- the balance, on average across all sectors, indicating optimism for the year ahead has risen by 40 percentage points this year, from -16 per cent in 2009 to +24 per cent.

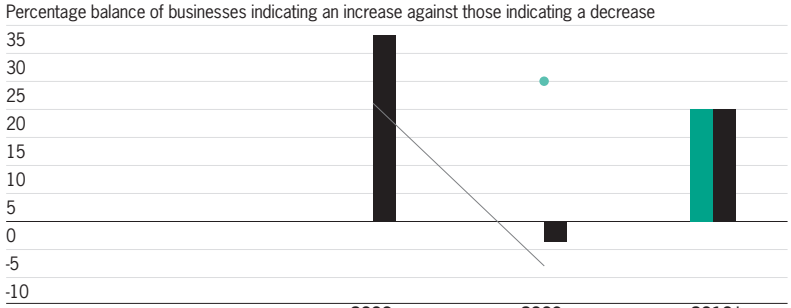
Figure 1: Outlook for the economy over the next 12 months
Percentage balance of businesses indicating optimism against those indicating pessimism

Source: Grant Thornton IBR 2010

Employment

- a balance of +20 per cent of businesses in the healthcare sector expect to expand the size of their workforce in 2010, identical to the all sector average
- actual employment growth reported by businesses on average across all sectors in 2009 (-8 per cent) was lower than expected 12 months previously (-4 per cent).

Figure 2: Employment history: 2008-2010
Percentage balance of businesses indicating an increase against those indicating a decrease



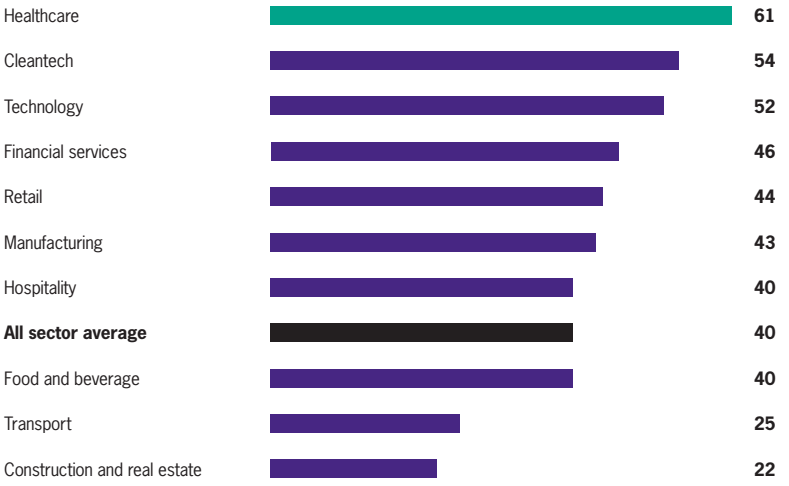
	2008	2009	2010*
Expected healthcare	–	–	20
Expected all sectors	33	-4	20
Actual healthcare	–	25	–
Actual all sectors	21	-8	–

*actual 2010 data will be documented in IBR 2011
Note: the healthcare expected data for 2008 and 2009 as well as the actual data for 2008 are not available as this sector has not been covered in the survey previously. Please note that the expected values are represented by the bars and the actual values by the lines.
Source: Grant Thornton IBR 2010

Revenue expectations

- a balance of +61 per cent of businesses in the healthcare sector expect their revenue to increase across 2010
- they are the most optimistic about revenue this year, followed by cleantech and technology (54 per cent and 52 per cent respectively)
- on average across all sectors, revenue expectations have rebounded to +40 per cent this year, up from just +11 per cent in 2009.

Figure 3: Revenue expectations over the next 12 months
Percentage balance of businesses indicating an increase against those indicating a decrease

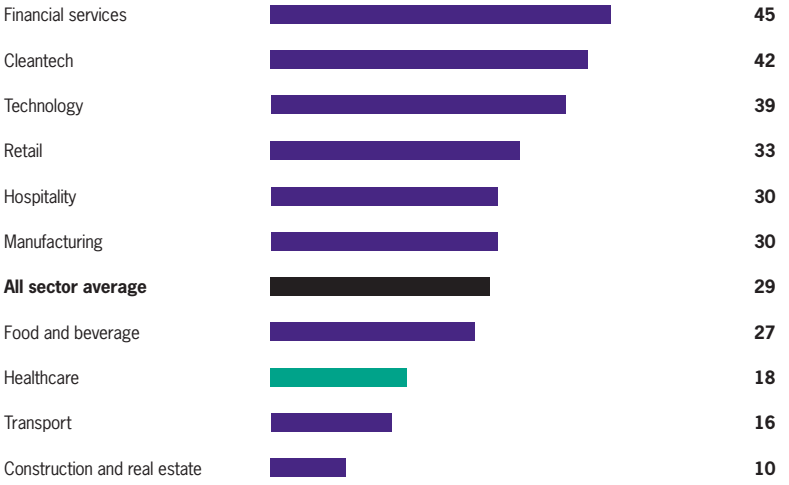


Source: Grant Thornton IBR 2010

Profitability expectations

- the balance of businesses in the healthcare sector expecting to increase profits in 2010 is +18 per cent, below the all sector average of +29 per cent
- they are one of the least optimistic sectors with only transport (+16 per cent) and construction & real estate (+10 per cent) being less optimistic
- the all sector average has increased by 34 percentage points, from -5 per cent in 2009 to +29 per cent this year.

Figure 4: Profitability expectations over the next 12 months
Percentage balance of businesses indicating an increase against those indicating a decrease



Source: Grant Thornton IBR 2010

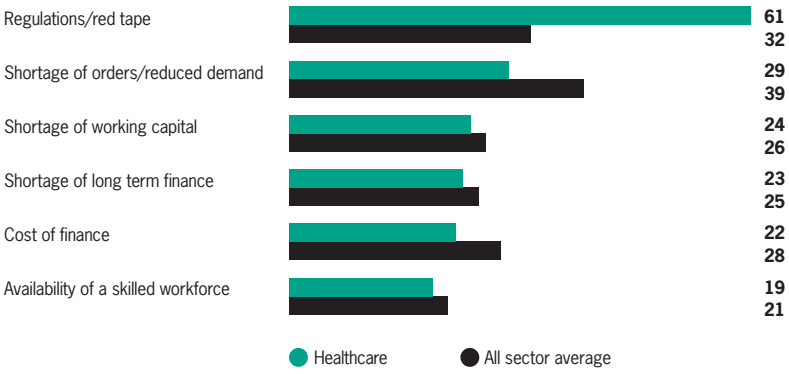
Pam Newlove
Grant Thornton, New Zealand

"For some time the New Zealand government has had a focus on pushing more funding into primary care, as opposed to secondary care. They feel they get more bang for buck for every dollar they put into primary care. It's better and cheaper to deliver at primary level."

Constraints

- regulations/red tape is by far the most pressing concern for businesses in the healthcare sector, 61 per cent compared to 32 per cent on average across all sectors
- all other constraints are of lesser concern in the healthcare sector compared to the all sector average
- shortage of orders/reduced demand is the greatest constraint on average across all sectors for 39 per cent of businesses (29 per cent in healthcare).

Figure 5: Constraints on expansion
Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint

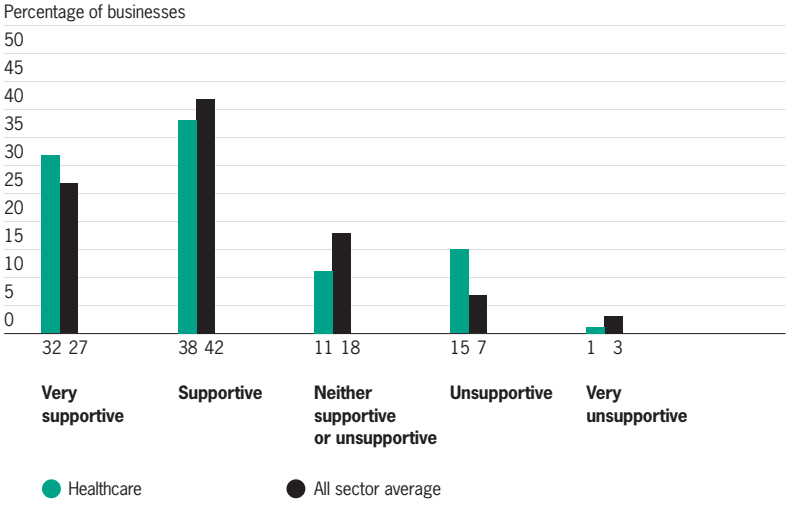


Source: Grant Thornton IBR 2010

Support of lender

- 70 per cent of businesses in the healthcare sector are happy with the level of support provided by lenders, compared with 69 per cent on average across all sectors
- 16 per cent of businesses in the sector believe that lenders are unsupportive or very unsupportive of their business, compared to just ten per cent on average across all sectors.

Figure 6: Level of support provided by lenders
Percentage of businesses



Source: Grant Thornton IBR 2010

"In France, we are seeing quite a lot of money being channeled towards the private healthcare system – in terms of new technologies, such as imaging systems, innovations and new services – as the sector is considered more resilient in the current environment."

Arnaud Limal
Grant Thornton, France

Mergers & acquisitions

- healthcare is the sector least likely to grow through acquisition, with just 11 per cent of businesses planning to do so within the next three years
- the all sector average has fallen steadily over the past three years from 44 per cent in 2007 to 26 per cent this year.

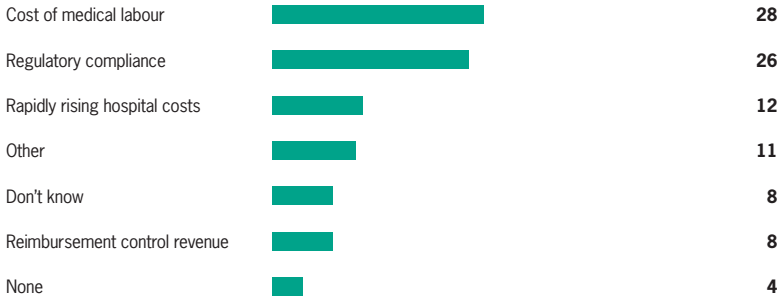
Figure 7: Plans to grow through acquisition in the next three years
Percentage of businesses planning to grow through acquisition

Source: Grant Thornton IBR 2010

Current challenges

- healthcare businesses believe that the biggest challenge currently faced by the industry is the cost of medical labour (28 per cent)
- this is followed closely by regulatory compliance, cited by 26 per cent of businesses
- and the least concern is expressed for reimbursement control revenue, cited by just eight per cent.

Figure 8: Biggest challenge the industry is currently facing
Percentage balance of businesses indicating increased against those indicating decreased

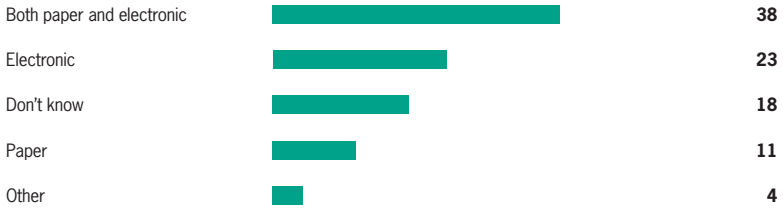


Source: Grant Thornton IBR 2010

Medical record storage

- most healthcare businesses currently store medical records on paper and electronically (38 per cent)
- almost a quarter (23 per cent) store them just electronically
- 11 per cent purely on paper.

Figure 9: How do you currently store medical records?
Percentage of businesses



Source: Grant Thornton IBR 2010

Outlook for the sector

The future of the private healthcare market does not appear to be under threat in the long term, but short term prospects are less clear. In the US, continuing tight economic conditions and the likely impact of healthcare reforms on the competitive landscape have created uncertainty in the sector.

Meanwhile in the UK, growth is expected to be far more modest than was observed between 2004 and 2008, as businesses strive to offer cost-effectiveness versus increasingly competitive public provision. However, large budget deficits mean outsourcing to the private sector could increase at the same time as spending on public service is cut. The private healthcare sector is forecast to expand to £32.62bn in 2013, up 63 per cent from 2004.

In emerging markets, the evidence suggests that the healthcare sector is booming as real incomes and health awareness increase. In India, the sector is expected to achieve double-digit growth in 2010 as new hospitals open and occupancy rates in existing institutions increase.

Mark Naughton
Grant Thornton, United Kingdom

"The market is very fragmented and so there are still opportunities for consolidation; businesses with a robust balance sheet, a robust business model and a strong management team will look to take advantage of this."

Sector's perspective

A private healthcare provider based in Malaysia, which employs approximately 150 people.

Lessons learned from the downturn
"The macro structure has been affected by factors that are not fully understood and so there are no regulations in place for these factors. Until we get to the point where we have these rules, there will always be a risk of the economic crisis happening again. Specifically to us we have learnt to manage our resources more closely. This is because our stakeholders are affected by this more now than they were in the past. So the management of resources is more important."

Major risks for the year ahead
"Regulation changes; we have to be on top of what is happening. It is not just the immediate environment that affects us; we are now feeling the effects of globalisation. You have to keep on top of current affairs more so now. Previously the Asia crisis was self contained and expected but the global crisis has come from the US and affected everybody. The risk is always there in business. The government's response in the form of financial stimulus is a major risk. The money that they have handed will need to be repaid, but trying to get it back is a risk. We could find ourselves in a similar situation to Greece."

Planning for the future
"It is the time to make changes. We now have more frequent risk meetings so that we can manage risk more effectively. We are now more tuned in and proactive to be able to react faster. One good thing about the healthcare sector is that the need is always there. It could be said healthcare is crisis proof."

"The government's response in the form of financial stimulus is a major risk."

"In the future we know how to react to the situation six to ten months earlier than we did this time around."

A private medical centre based in Finland, which employs approximately 500 people.

Lessons learned from the downturn

"The main lesson has been the effect of the economic crisis; it came to our business very late compared to other industries. We noticed that it had started when our revenue went down by five to ten per cent. In previous years we had been experiencing ten to 15 per cent growth. We now have fewer patients and so income has declined. Also, the patients that come to see the doctor in the surgery are not following through with the recommended diagnostics (these incur an additional charge). So we have learnt from this to be more prepared should it happen again. In the future we know how to react to the situation six to ten months earlier than we did this time around."

Major risks for the year ahead

"A major risk is the economic situation in both Finland and the EU as a whole. We are particularly conscious of the situation in Greece, Spain and Portugal, and how it could affect the Finnish economy and banks. Locally, a new medical centre is due to open at the beginning of 2011, this will be competition for us. The new centre will have the same number of operating theatres that we have and the profile of their patients is also the same. In light of this we will introduce a new strategy and marketing plan during the autumn."

Planning for the future

"As mentioned above we are rolling out a new strategy and marketing plan in autumn to combat the threat of the new medical centre. Our other goal is to increase our private citizens and occupational health services patients. This is slightly connected to a national incentive to increase the quality of occupational health services. In Finland, the average retirement age is quite low so this is an incentive to provide better occupational health services."

View from Grant Thornton

Lessons learned from the downturn

- **efficiencies:** businesses have been looking inward at their cost base to see if they can run things more efficiently
- **declining investment:** businesses have been forced to function with much less non-operating investment income
- **sector remains robust:** healthcare businesses have stood up well to the downturn and there are sound investment opportunities in many economies, although more discretionary elements have suffered
- **specialisation:** margins of businesses offering more specialised care services have been much better protected from impact of downturn.

Major risks for the year ahead

- **rising unemployment:** the unemployed are less likely to pay for health insurance, curbing private sector revenues and putting greater strain on public health systems
- **quality:** the focus has moved towards quality of care where a range of new metrics will find out poorly performing businesses
- **scarcity of labour:** many countries are suffering from an ageing workforce and a lack of new healthcare professionals
- **public sector deficits:** sovereign debt crisis in Europe is causing huge levels of uncertainty and could squeeze budgets
- **governance & transparency:** businesses which have been run informally will need to introduce a more robust corporate governance model.

"Given rising costs, the quality of care and how to measure it is high on the agenda at the moment. Studies have shown that, although the costs are much higher, the quality overall is not necessarily commensurate with the cost."

Erik Shannon
Grant Thornton, United States

Planning for the future

- **care in the home:** preference for caring in the home means many healthcare businesses are diversifying into domiciliary care
- **efficiencies:** businesses are revisiting previous consolidations to look for back office efficiencies
- **pre-emptive healthcare:** focus has increased on contamination and its derivatives
- **ROI on research:** greater emphasis on health research is to produce a tangible return
- **M&A:** sector remains fragmented, offering businesses with healthy balance sheets the opportunity for consolidation
- **favourable demographics:** ageing populations of many developed countries will have increasing care needs.

Elma von Wielligh-Louw
Grant Thornton, Australia

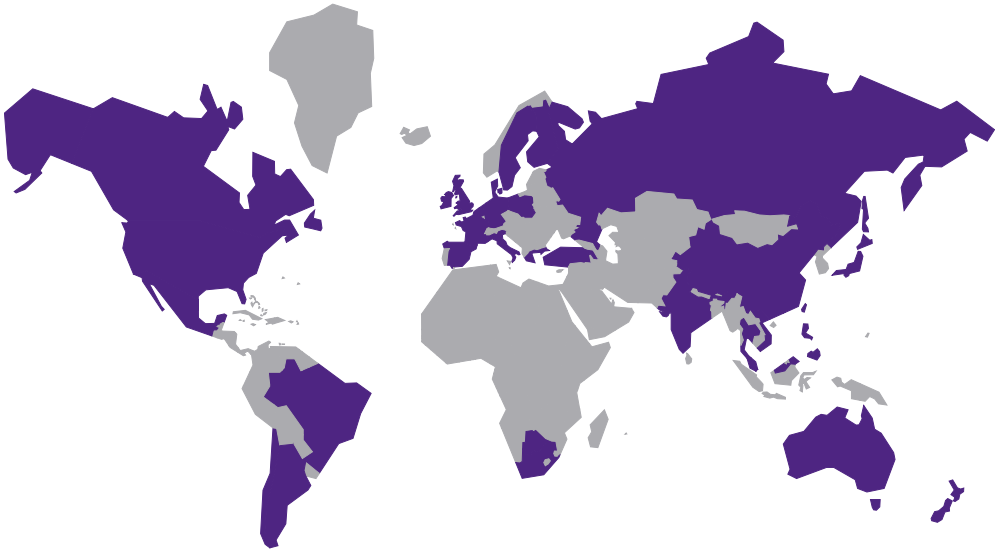
"Without significant investment in terms of training local doctors, or maintaining the funding that has been provided to hospitals to keep the existing doctors, the sector may be in real trouble in the next five to ten years in terms of medical workforce availability."

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy. In the healthcare sector, 119 businesses were interviewed, 53 per cent from human health activities, 21 per cent from residential care activities and 26 per cent from other healthcare-related activities.

To find out more about IBR and to obtain copies of reports and summaries visit: **www.internationalbusinessreport.com**. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina
Armenia
Australia
Belgium
Botswana
Brazil
Canada
Chile
Mainland China
Denmark
Finland
France
Germany
Greece
Hong Kong
India
Ireland
Italy
Japan
Malaysia
Mexico
Netherlands
New Zealand
Philippines
Poland
Russia
Singapore
South Africa
Spain
Sweden
Taiwan
Thailand
Turkey
United Kingdom
United States
Vietnam



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