




healthlaunchpad



The US Healthcare Market Segmentation



At **healthlaunchpad**, we help companies with their US market entry strategy. One of the first areas they want help with is how the US Healthcare Market is segmented. How is this \$4.3 trillion market organized? What are the healthcare industry market segments, how big is each segment, and what are their characteristics?

This is a complicated issue, and there are many different ways of looking at it. In this article, we will share how we look at the US healthcare market. Then drill down into how the provider and payer segments are structured.

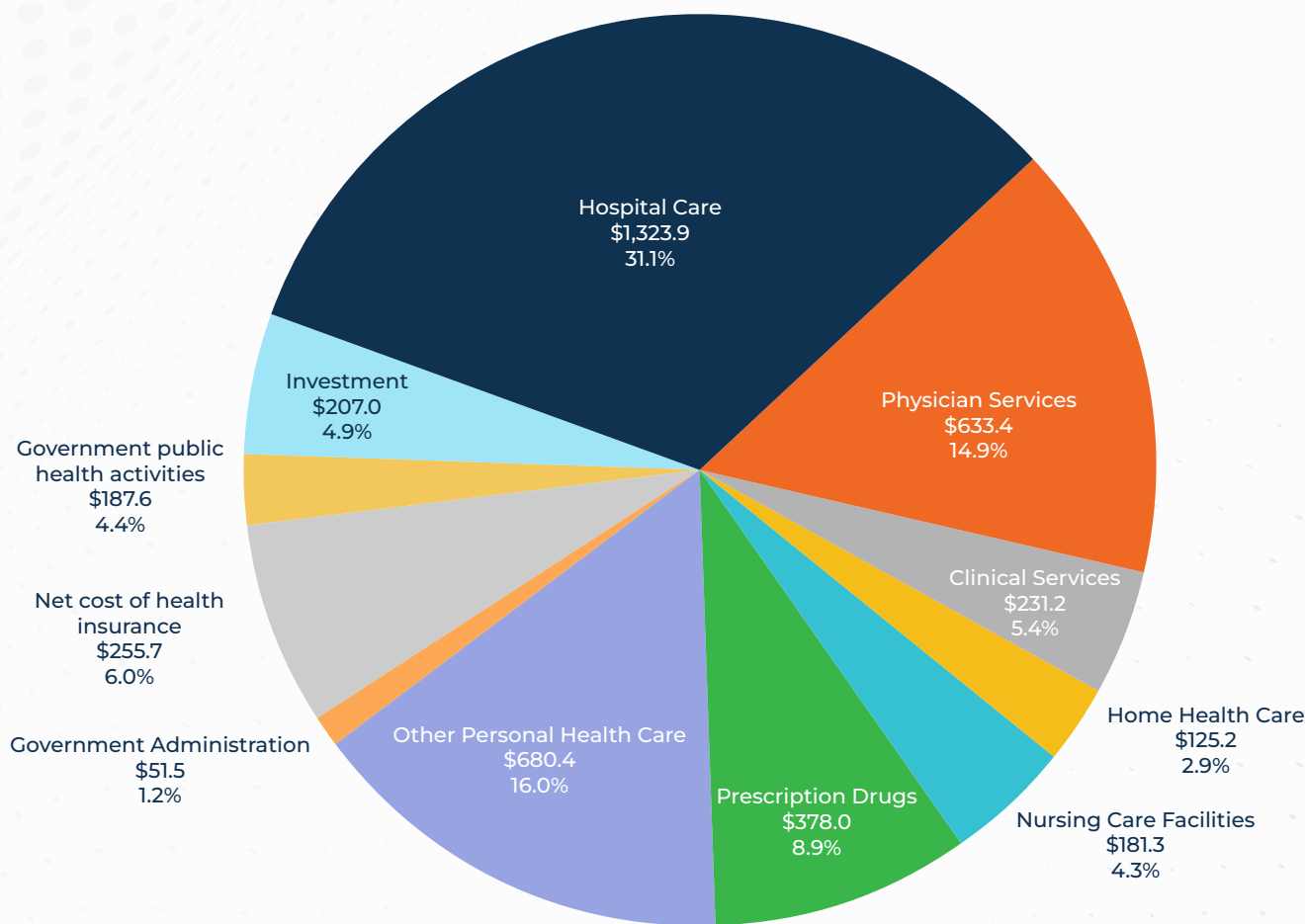
We hope that after reading this, you will have a basic orientation to the US healthcare market.

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50,000 Foot View – The US Healthcare Market

The U.S spent \$4,225.1 billion on health care in 2021 - where did it go?



Source: AMA

In simple terms, there are three major healthcare industry market segments within the U.S. market: The Provider market, the Payer market, and the Supplier market.

The Provider market accounts for about two-thirds of the \$4.3 trillion US healthcare market. The remaining third is split approximately evenly between the payer and supplier markets.

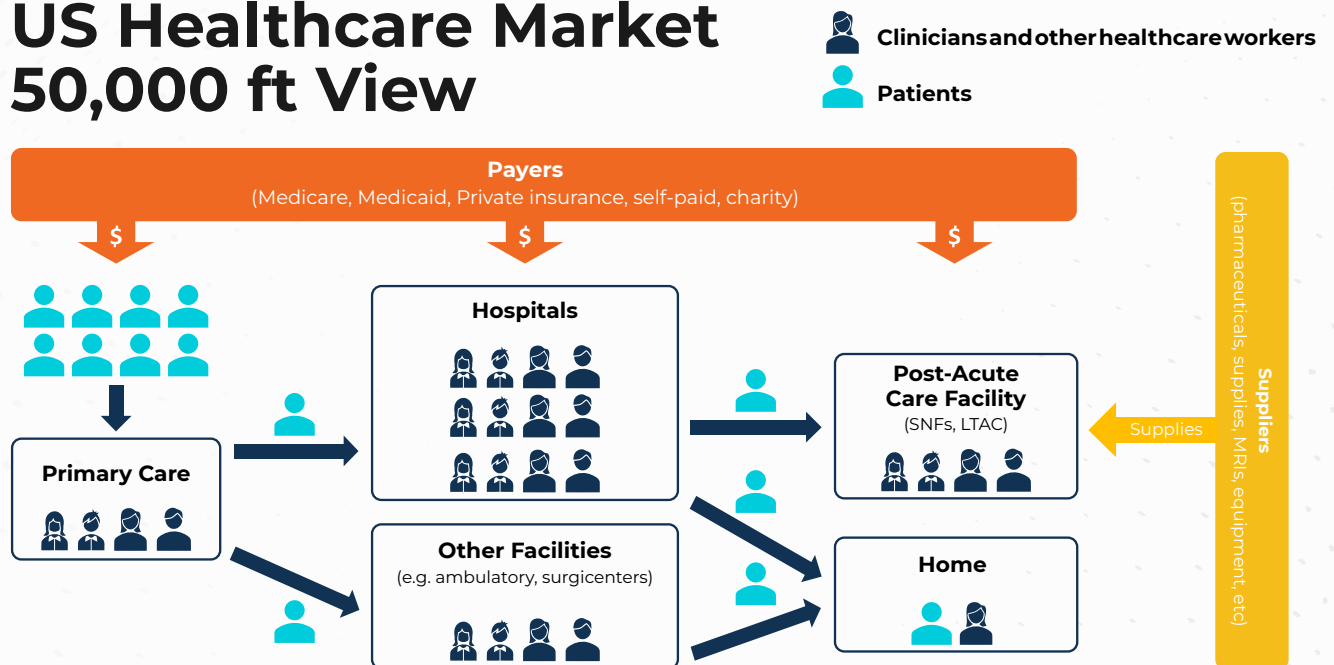
We have always found that the best way to understand the US Healthcare market is to look at it through the eyes of a patient.

US Healthcare Market Segments

1 The US Provider Market

This diagram shows a typical patient journey, and how they encounter the various parts of the healthcare market. They will interact most with the Provider Market.

US Healthcare Market 50,000 ft View



For the sake of this scenario, this is a patient who will undergo a hip replacement. The start of journey is likely to begin in a physician's office. The physician will then refer the patient for a medical procedure. This may happen in a hospital or surgical center. These ancillary facilities are also known as Ambulatory Surgery Centers(ASC).

After successfully undergoing the procedure and the patient is ready, the physician discharges the patient for rehabilitation. In most cases, this happens at home. However, in certain cases, and especially where there are complications, the patient may be transferred to a Post-acute Care Facility, typically a Skilled Nursing Facility (SNF). In rare circumstances, and in the most acute cases, the patient is taken to a Long-term Acute Care (LTAC) Facility for more specialized care.

At home, the patient may be under the care of either a home care aide or a visiting nurse. Throughout the journey, the patient will interact and be supported by the other two healthcare industry market segments – The Healthcare Payer market and the Healthcare Supplier market.

2

The US Healthcare Payer Market

The Payer market provides payment for some or all patient's procedures, supplies, and medications. The market is made of both private and public institutions. The private payers consist of health insurance firms such as United Healthcare and Aetna, among others.

The public Payers Market includes Federal and State entities.

The biggest public payer is the Federally run Medicare, and this is mostly for people of the age of 65. Medicaid is for lower-income Americans. It is funded by the States and subsidized Federally.

Later on, we will dive into this market in more detail.

3

The US Healthcare Supplier Market

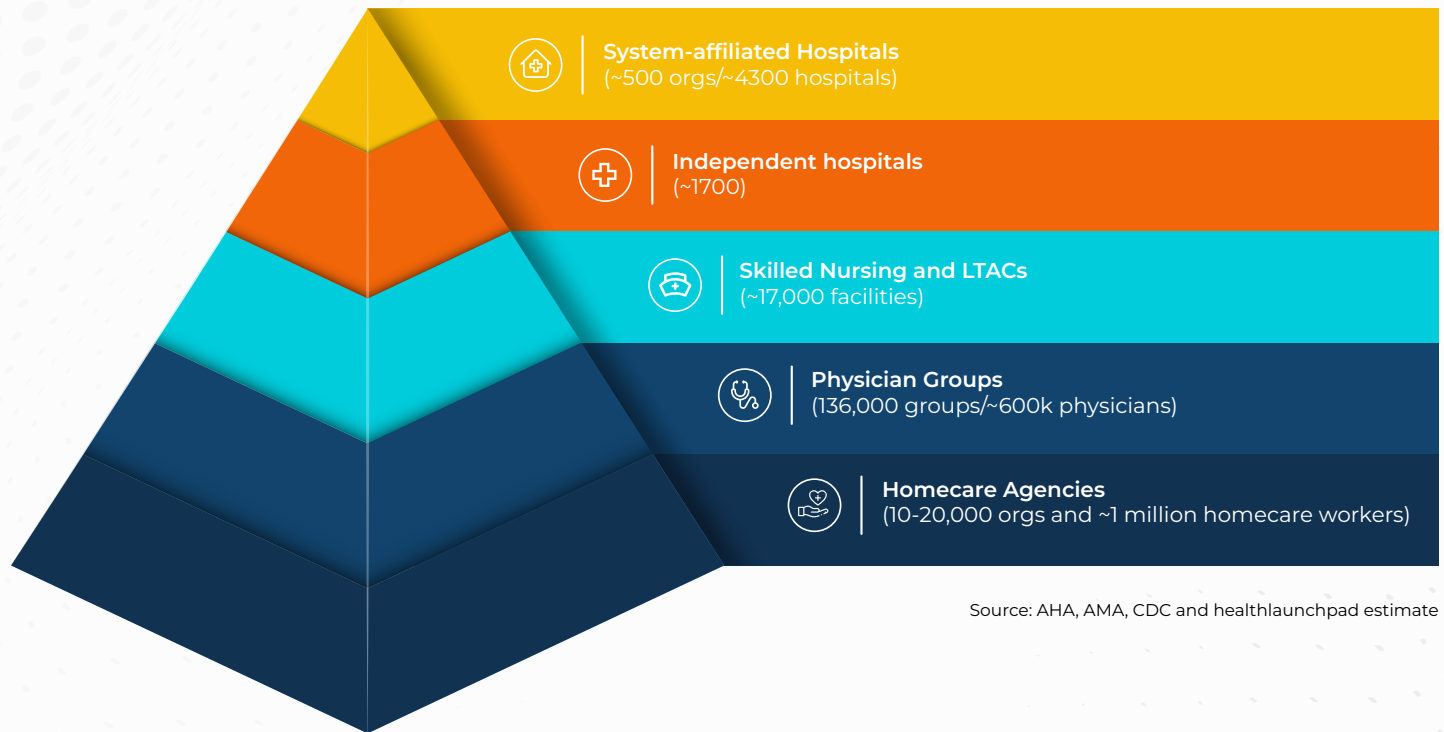
The second and last of the healthcare industry market segments that patients interact with is the Healthcare Supplier Market.

The market includes pharmaceuticals, medical supplies, devices, and everything else that patients may need for treatment or to manage their conditions.



The US Healthcare Provider Market Segmentation

Now let's take it down a level and focus on the US Healthcare Provider market segment. In simple terms, this is broken into hospitals, post-acute care facilities, physician groups, and homecare organizations.



Source: AHA, AMA, CDC and healthlaunchpad estimate



Hospital-based Organizations

According to the American Hospital Association, there are 6,000 hospitals in the US. The vast majority are part of 637 multi-hospital system organizations. We will explain these in more detail later. There are still around 1,700 independent hospitals



Post-acute Care

There are two types of post-acute facilities. The majority are Skilled Nursing Facilities (SNFs). In addition, there are Long-term Acute Care (LTAC) Facilities, There are approximately 18,000 skilled nursing care facilities in the US. Many of these operate under large organizations such as Genesis, Heartland ManorCare, and Lifecare Centers of America.

There are around 400 LTAC Facilities, many owned by large organizations such as Kindred Healthcare.



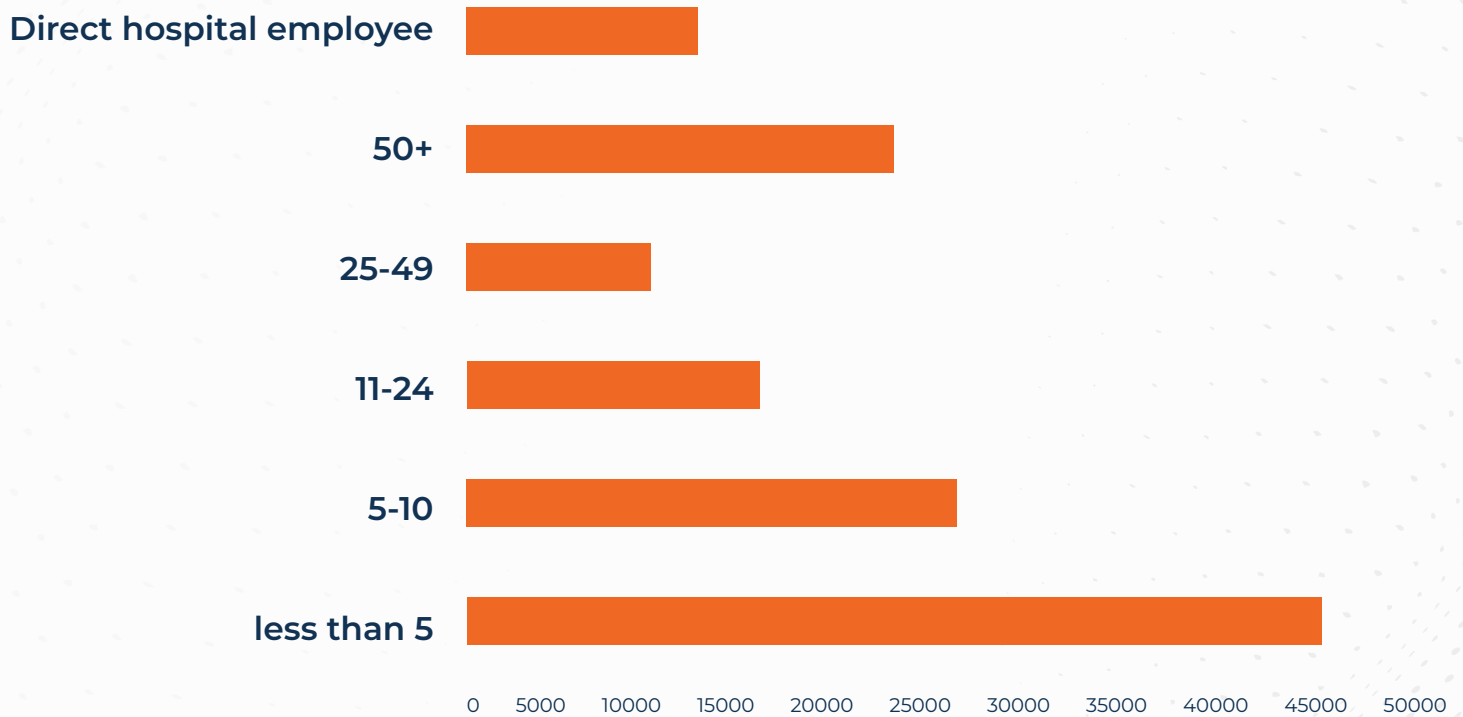
Physician Groups

There are 136,000 physician groups in the US, according to the American Medical Association. They employ over 600,000 physicians. (There are another 300,000 physicians working for healthcare systems).

As the graphic below shows, the majority of practices employ fewer than 10 physicians. However large physician groups with more than 50 physicians are a close third.

About 43% of these physicians work in single-specialty groups, 15% in solo practice, and 25% in multi-practice groups. The rest work in hospitals or other organizations such as payers or the Government.

Number of Practices



Source: AHA



Home Care

According to PHI National, there are more than 2 million home care workers. These include personal care aides, home health aides, and nursing assistants.

Home Care workers work for Home Health Care Services institutions or provide services for the Elderly and Persons with Disabilities.

Home Health Care Services include Home Health Care Agencies, Visiting Nurse Associations, In-Home Hospice Care Services.

Services for the Elderly and Persons with Disabilities include Non-Medical Home Care Providers, Homemaker Service Providers, Self-help Organizations, Activity Centers for Older Adults and People with Disabilities, Companion Service Providers, Adult Day Care Centers. There are 33,347 firms registered as Home Health Care Services and 8,405 firms registered as Services for the Elderly and Persons with Disabilities.



The US Hospital Market

When it comes to the US Healthcare Market, many people assume that this only refers to the hospital market.

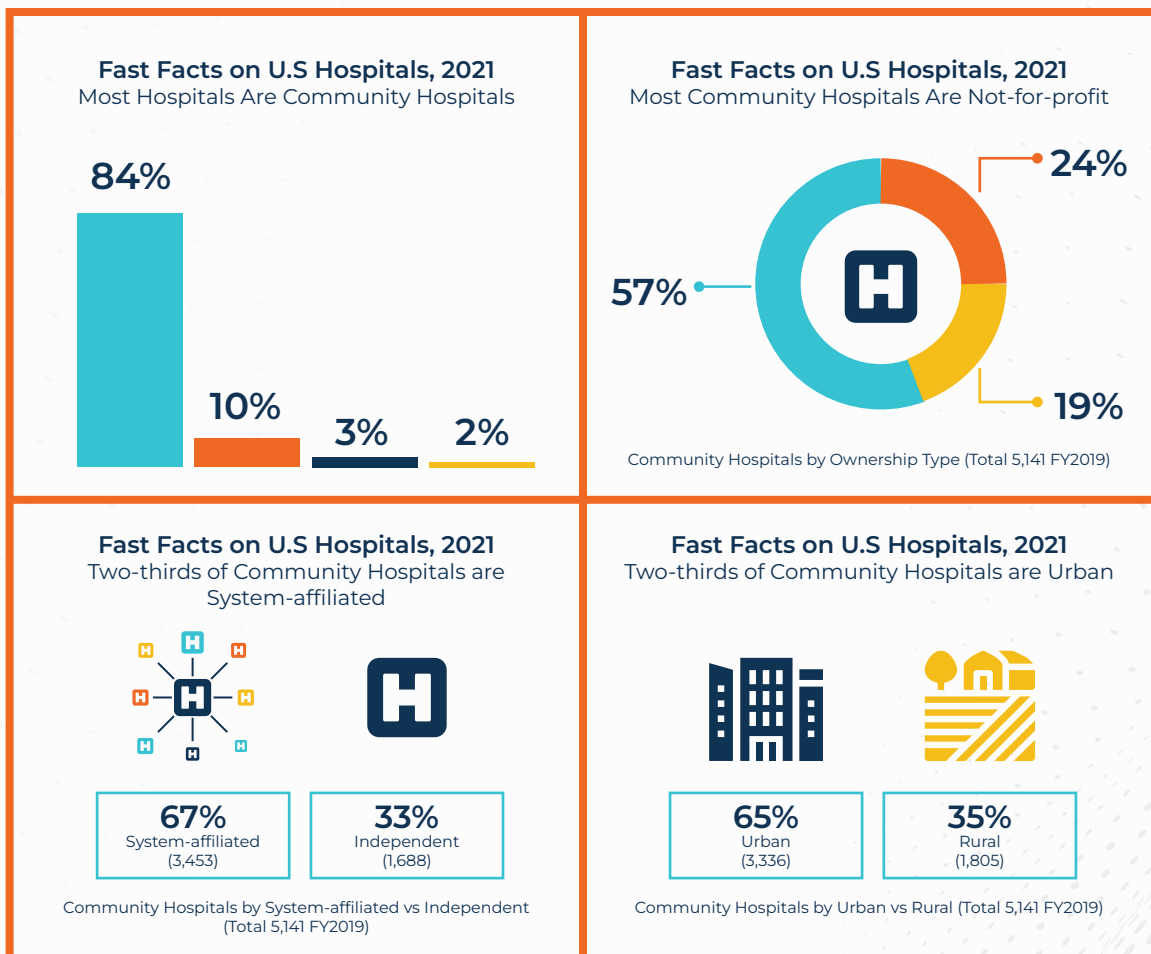
As shown in the pie chart at the start of this article, hospital care and physician services, accounting for 50% of the market and around \$2 trillion.

As captured above, the vast majority of hospitals are part of one of 637 healthcare systems. In the next section, we will dive deeper into these.

Here are some quick statistical facts from the American Hospital Association regarding the US hospital market

As you can see, US hospitals are mostly Community hospitals, in urban locations, part of a healthcare system, and not-for-profit.

Their minority are for-profit, rural hospitals, government-run, and independent hospitals.



Source: AHA

According to IBISWorld, US Hospitals employs over 5 million people including around 300,000 physicians and around 2 million registered nurses.

Bear in mind that these numbers are for hospital-based organizations. Many of these clinicians actually work in healthcare system Practice Groups and Ambulatory Facilities.

Anatomy of A Hospital-based System

According to the Agency for Healthcare Research and Quality (AHRQ), there are 637 healthcare systems in the US.

What surprises many who are learning about the US Healthcare Market for the first time is the size of some of the healthcare organizations.

The Top US Healthcare Systems

Becker's analysis of 100 of the largest hospitals and health systems in America, provides a great overview of some of these vast organizations. Industry consolidation, mergers, and acquisitions have been a growing trend for the last 10-20 years.

Further, changing dynamics have made it increasingly hard for hospitals to remain independent, and this has, therefore, driven larger systems to acquire additional scale and capabilities.

Take, for instance, the Chicago-based CommonSpirit Health. This faith-based organization runs 137 hospitals and care centers in 21 states.

It came about as a combination of Catholic Health Initiatives and Dignity Health. At the time of its launch, the health system had 150,000 employees including 25,000 physicians.

In FY 2020, their reported operating revenues were \$30 billion with EBITDA of 2.1% (excluding the CARES Act)

In analyzing the US Healthcare Market Segmentation, it is important to note that most healthcare systems are smaller and regional. RWJ Barnabas Health is a good example. It is the largest integrated health delivery system in New Jersey, providing treatment and services to more than 3 million patients each year.

This healthcare system is a product of the merger of two healthcare organizations, RWJ and Barnabas Health.

Before joining forces, the two organizations had been highly acquisitive.

Currently, RWJ Barnabas Health has 13 hospitals, including a teaching hospital and a pediatric facility.

The health system also has dozens of ambulatory and specialist facilities.

RWJ Barnabas Health has 35,000 employees, which include 9,000 physicians.

This map shows their geographic footprint and how it serves a third of all New Jerseyans.



Anatomy of a Physician Group

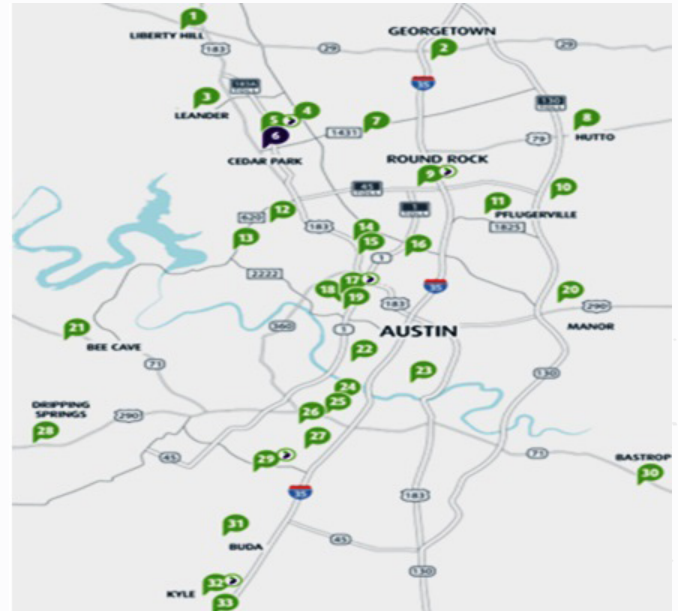
As referenced above, there are 136,000 Physician Groups in the US.

Although the majority are small practices, each of the 24,000 group practices employs over 50 physicians. These are typically multi-location and often with multi-specialty practices.

In addition to physicians, they also employ multiple physician extenders including nurse practitioners and other clinicians who can deliver the needed medical procedures.

A good example of such a practice is Austin Regional Clinic.

This is a multi-specialty group that has 400 providers. It delivers 21 specialties across 33 locations within the Austin area of Texas.



US Healthcare Payer Market Overview

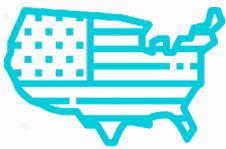
The Healthcare Payer Market plays a critical role in the overall healthcare system. It's made up of both private and public institutions that provide healthcare coverage and pay for healthcare services on behalf of their members.

While Providers offer healthcare services to patients, Payers are the organizations responsible for setting service rates, collecting payments, processing claims, and paying Providers. This means the Payer market provides payment for some or all patient's procedures, supplies, and medications.

The size of the US Healthcare Payer Services market was \$61.9 billion in 2022. Between 2022 and 2030, this market is estimated to grow at a rate of 7.7% annually. As you'll see below, the US Healthcare Payer Market Segmentation includes private insurance companies, government-funded programs such as Medicare and Medicaid, and self-funded employer-sponsored health plans.

US Healthcare Payer Market Segments

Here's a quick look at Payer Market Segmentation based on the geographic areas they serve.



National Health Plans:

Large national health plans represent the largest Payer firms in the country. Although there are more than 350 health plans in the United States, the top 10 national plans represent 65% of the total market. These large national firms include UnitedHealthcare, CVS Health (formerly Aetna), Centene, Elevance (formerly Anthem), and Humana.



State and Local Plans:

Of the 350 health plans in the US, 44 are state-regulated health plans. The most notable state plans are "Blues" plans – which carry the Blue Cross Blue Shield branding and offer access to the national blue network. Almost all of these plans are non-profit organizations – meaning they don't have a responsibility to pay shareholders. State health plans are regulated by the insurance committee of each state where they are sold.



Large Regional Plans:

These types of health plans often serve a large region of the US, but do not offer the same type of broad, nationwide coverage as a national health plan. As a result, they offer smaller Provider networks that are limited to a specific geographic area. Regional health plans primarily focus on serving large employers in the area, as well as Medicare recipients.



Provider-Sponsored Plans:

About 150 of the health plans in the US are Provider-sponsored plans. These insurance plans are connected to a specific hospital or health system, which functions as the plan's primary network. Since plans are owned by a specific health system, they typically focus on serving large employers in the area or large Medicare populations.



State Medicaid Plans:

Many states also offer their own Medicaid services for low-income families. These health plans serve large populations, but also require third-party companies to go through an RFP process – since any work is considered a government contract.



Third-Party Associations:

Additional types of Payers, commonly referred to as third-party associations, serve a specific subset of the HealthCare Payer market. They include plans that offer supplemental dental, vision, or pharmacy services for health insurance companies. While many of these companies are small in comparison to other types of payers, they're also nimble and have access to large coverage areas. Third-party associations are also the most likely to outsource needed services.

US Healthcare Payer Lines of Business

Below is a brief overview of the Payer market based on the lines of business they sell.



Commercial Insurance Plans:

Commercial plans are offered by private insurance companies to provide healthcare coverage for employers. In this market, employers choose the benefits package that is offered to their employees. Payers compete with one another based on factors such as premiums, benefit design, and provider networks.



Individual and Family Insurance Plans:

These types of health insurance plans are similar to commercial insurance, but they include policies purchased directly by individuals and families. The primary market for individual and family plans are people who are not employed by a company, including the self-employed and small business owners.



Medicare and Medicare Advantage Plans:

Medicare is a Federal health insurance program that provides coverage for seniors who are 65 years old or older, as well as some younger people with disabilities. Medicare has several parts, including Part A, which covers hospital stays and inpatient care, Part B, which covers doctor visits and outpatient services, and Part D, which covers prescription drugs. Medicare Advantage plans, sometimes called “Part C,” serve as a type of private health insurance that can be purchased by seniors in place of Original Medicare (Parts A and B). Many seniors opt to purchase a Medicare Advantage plan to help reduce out-of-pocket costs and coverage gaps, which can be especially helpful when living on a fixed income. With Federal funding and more than 12,000 people aging into Medicare every day, Medicare Advantage plans represent the most profitable type of coverage for Payers.



Medicaid or State Insurance Plans:

Each state government offers Medicaid services to provide insurance coverage for low-income individuals and families. To control costs and improve the quality of care for Medicaid beneficiaries, states frequently contract with a managed care organization (MCO) to provide healthcare services to enrollees. The MCO then contracts with healthcare providers to create a network of providers who are responsible for delivering care to Medicaid beneficiaries.



ACA (Affordable Care Act) Insurance Plans:

Also known as “Obamacare” plans, ACA plans are individual and family plans that are offered by payers through a state’s health insurance marketplace. Enrollment in these plans is only offered once a year during an open enrollment period, and financial assistance in the form of premium tax credits and cost-sharing reductions may be available based on income.





We hope this overview of the US Healthcare Market has been helpful.

Our aim is to make this the kind of article we would have found valuable when we started our journey in healthcare.

If you are thinking about marketing to the US healthcare market, we can help.

Healthcare is one of the hardest markets to build a business in. We know this from first-hand experience. Sales cycles are longer than most other industries and the buyer collective is often very large. On the positive side, it is a highly addressable market and there are many sources of data to help you with targeting.

To learn more contact our CEO at adam@healthlaunchpad.com