

## North American Healthcare IT Spending Forecasts to 2007

**North American healthcare spending for IT will continue to grow through 2007. Healthcare software and IT service investments will show the largest growth.**

### Core Topic

Healthcare: Healthcare Business Drivers, Strategies and Management Issues

### Key Issue

How will successful healthcare organizations measure, align and deploy IT to realize value from IT investments?

### Strategic Planning Assumption

From 2003 through 2007, healthcare industry spending on hardware, software and IT services will increase by a 7 percent CAGR (0.8 probability).

Healthcare IT spending in North America for hardware, software and IT services is projected to increase by a 7 percent compound annual growth rate (CAGR) through 2007, according to a Gartner forecast (see Note 1). The fastest-growing IT investments will be in software and IT services (see Table 1). Healthcare, as defined in this forecast, represents the provider and payer market segments.

According to the forecast, the market factors that are demanding lower healthcare costs and increased operational efficiency will drive healthcare organizations' (HCOs') spending for next-generation IT solutions and services (see Table 2).

**Table 1**  
**North American Healthcare IT Spending Forecasts for 2003 Through 2007**

	2003	2004	2005	2006	2007	CAGR 2003-2007
	(Millions of Dollars)					
Healthcare Hardware Spending	\$9,737	\$10,225	\$10,629	\$10,873	\$11,032	3%
Healthcare Software Spending	\$4,005	\$4,361	\$4,793	\$5,242	\$5,682	9%
Healthcare IT Services	\$22,754	\$24,173	\$25,813	\$28,001	\$30,237	7%
<b>Totals:</b>	<b>\$36,496</b>	<b>\$38,759</b>	<b>\$41,235</b>	<b>\$44,116</b>	<b>\$46,951</b>	<b>7%</b>

Source: Gartner Research (April 2004)

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Table 2

North American Healthcare Market Drivers by Segment

Healthcare Provider Drivers	Healthcare Payer Drivers
Compliance with government regulations	Consolidating market
IOM report/medical error reduction	Aging population
Leapfrog/employer desires to cut healthcare costs	Increasing regulations (such as HIPAA, SOX)
Competitive differentiation	Competitive differentiation
Cost-reduction/operational efficiency	Cost reduction/operational efficiency
Improving reimbursement	Consumers as a "new customer"

**Key:**

**HIPAA** U.S. Health Insurance Portability and Accountability Act

**IOM** Institute of Medicine

**SOX** U.S. Public Company Accounting Reform and Investor Protection (Sarbanes-Oxley) Act of 2002

Source: Gartner Research (April 2004)

### Healthcare Hardware Spending

Spending for IT hardware (26 percent of spending in 2004) is the lowest growth segment for healthcare IT spending during the forecast period (3 percent CAGR). Hardware spending is affected by:

- Desktop workstations. These are now more powerful than needed to run most healthcare applications. Healthcare software applications are not pushing the capacity of the hardware platforms they run on, and probably will not push hardware performance for the next seven years. Therefore, the purchase of desktop workstations (mostly for replacements) will remain relatively flat during the next four years.
- Moore's Law (see Note 2). Hardware component prices continue to fall, even as performance increases. Advancements to hardware technology will continue to drive down costs, making hardware investments by providers and payers more affordable.
- Linux. With proven scalability and stability, this platform will continue to win market share as a Web server and an enterprise platform, driving down the investment needed to achieve acceptable system performance and security.
- Mobile/wireless hardware components. These will generate the largest gain in healthcare hardware spending, making up for the reduction of spending and prices in other hardware segments. Wireless pen tablets and other wireless devices

**Note 1**

**MarketView 2.0**

The North American market forecasts represent provider and payer market segments for the United States and Canada (see "Worldwide IT Services Market Definitions, 1Q03"). Approximately 55 percent of the spending is provider-based. Detailed data on these market segments can be accessed from "MarketView 2.0," which enables Gartner clients to obtain online data queries and Web-based data manipulation. Contact your Gartner sales representative for details.

**Note 2**

**Moore's Law**

An observation made in 1965 by Gordon Moore, co-founder of Intel, that the number of transistors per square inch on integrated circuits had doubled every year since the integrated circuit was invented. Moore predicted that this trend would continue. In subsequent years, the pace slowed a bit, but data density has doubled approximately every 18 months.

will be acquired to support the expanding implementation of electronic medical record applications, re-engineered supply chain management environments, bar-code-driven applications and point-of-service transactions.

- Infrastructure and integration investments. These will continue to increase for payers and providers for networks and network management components, integration brokers, middleware, and system redundancy solutions.

### **Healthcare Software Spending**

Spending for IT software (11 percent of spending in 2004) represents the largest growth segment for healthcare IT during the forecast period (9 percent CAGR). Healthcare software spending is affected by:

- The provider market. This segment continues to invest in electronic medical record systems, revenue cycle management applications and supply chain management software.
- HCOs. This segment is investing more heavily in departmental systems that support cardiology, operating room and emergency department services.
- Consumer focus. This will be the key to healthcare payer differentiation going forward. Making this transition will require investment in:
  - Web-to-customer experience enhancements
  - Core managed care system replacements
  - Integrated contact center technologies and customer relationship management
  - Patient care management applications
  - Internal and external decision support tools
  - Application integration technologies

### **Healthcare IT Services Spending**

Spending for IT services (62 percent of spending in 2004) is projected to increase at a 7 percent CAGR during the forecast period. Healthcare IT services spending is affected by:

- HCOs, which are continuing to invest in business process management/re-engineering to drive down costs and develop best practices to drive improved profitability and patient care. The implementation of next-generation software applications requires process re-engineering efforts to realize the optimum benefits of the software that has embedded enterprise rules and workflow engines.

- Business process outsourcing (BPO), which continues to gain traction in healthcare. HCOs will continue to use outsourcing for operations that are considered noncritical, or where staffing and personnel skill sets cannot be maintained to support the desired level of customer service. BPO will grow at a faster rate after 2004, as vendors deliver better reference sites and more-flexible service-level agreements that are tied to measurable key performance metrics.
- Strategic consulting services, which will continue to generate growth in this spending segment. Business-IT fusion, strategic marketing and business expansion projects will be conducted with trusted consulting advisors.
- Vendor selection processes, which will continue to involve an investment in consulting services. Many of the next-generation healthcare solutions are multimillion-dollar acquisitions. HCOs will rely on consulting services to ensure the proper alignment of organizational goals and capabilities with vendor services and solutions.
- Project management services. These will be needed to ensure that the implementation of multimillion-dollar healthcare solutions achieves the projected returns on investment. This is now a requirement of many HCO governing boards.
- Human resource services. These executive-focused functions will continue to grow. Many HCOs will temporarily "rent" CIO or IT directors until permanent replacements are hired. This service has grown during the past few years.
- IT outsourcing and support services (hardware and software). These will continue to grow for the provider and payer markets. As additional solutions are acquired, consideration for IT outsourcing will increase. The increase in acquired systems will also increase the growth for hardware and software support services.

**Bottom Line:** From 2003 through 2007, healthcare industry spending on hardware, software and IT services will increase by a 7 percent compound annual growth rate (0.8 probability). This spending increase will be attributed to increased market pressures on healthcare organizations to decrease costs and improve operational efficiency, because of global economic competition factors experienced by U.S.-based employers. The largest growth increases will be for software and IT services needed to drive the industry toward improved business process management. The largest amount of healthcare spending will continue to be for hardware (\$11 billion in 2007) and IT services (\$30 billion in 2007). Healthcare organizations will continue to benefit from declining hardware costs and improved hardware performance.

**Acronym Key**

<b>BPO</b>	business process outsourcing
<b>CAGR</b>	compound annual growth rate
<b>HCO</b>	healthcare organization