

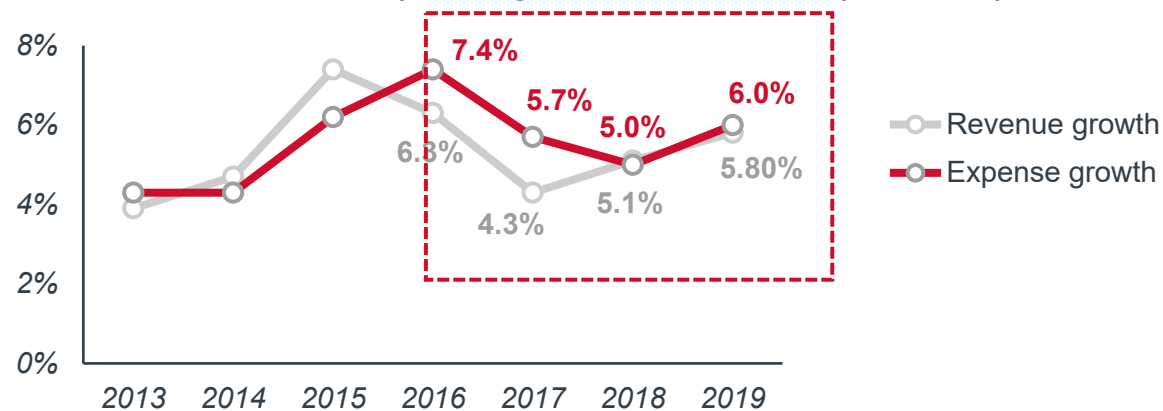
6 things health tech vendors need to know about health systems

1. 2020 stressed health system operating margins

Recovery continues, but those in tight positions before Covid struggle to stay afloat

Prior to Covid-19, hospital finances were on the rocks

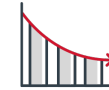
Median revenue and expense growth rates for nonprofit hospitals



SPOTLIGHT

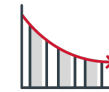
Pandemic increases financial pressure on providers

>50%



Typically observed decline in hospital operating revenue during shutdown

~90%



Typically observed volume today relative to pre-Covid baseline; final gap to 100% expected to close slowly, if ever



50%

Share of hospitals projected to end 2020 with negative operating margins



Share of **Americans with ESI** decreased from 67% to 58% between 1998 and 2018

1. Relative Value Unit.

2. 28% decrease when accounting for CARES Act funding.

Source: Moody's Investors Service, "Preliminary Medians – Profitability Holds Steady as Revenues and Expenses Converge," April 25, 2019; Rae M et al., "Long-Term Trends in Employer-Based Coverage," Health System Tracker, April 2020; "National Hospital Flash Report," KaufmanHall, August 2020; "The Effect of COVID-19 on Hospital Financial Health," KaufmanHall, July 2020; "CY 2021 Revisions to Payment Policies under the Physician Fee Schedule and Other Changes to Part B Payment Policies; Medicare Shared Savings Program Requirements; etc.," Centers for Medicare & Medicaid Services, August 4, 2020.

2. Health systems are more strategic with spending



Investing in tech

The pandemic lit a fire under previously ‘adolescent’ telemedicine approaches—still a long way to go

78%

Of health system CFOs expect to **increase** capital spending on digital technologies



Optimizing existing physical assets

Ongoing outpatient shift, changes in health care consumption patterns has many executives and boards thinking about a lighter inpatient footprint, more outpatient investments

53%

Of health system CFOs expect to **decrease** spending on new facilities

Additional areas of change



Service rationalization

Shifting procedures to different locations



Cross-system decisions

Purchasing decisions made at executive leadership level rather than by individual hospitals

Source: “Building resilience during the COVID-19 pandemic and beyond,” Deloitte Insights, Sept. 2020

3. Systemness is top of mind for many in 2021

Three reasons why leaders say systemness¹ should stay on their agendas



Solve ongoing and new Covid-19 challenges

Leaders still need to mitigate staff burnout, ensure access to testing and PPE, and flex capacity all while distributing vaccines, treating rising non-Covid-19 needs, and managing financial stability



Avoid backsliding on hard-fought 2020 gains

Systemness is neither accidental nor self-sustaining—leaders must remain vigilant and implement structural changes to stay coordinated and agile



Use today's momentum to build better systemness beyond the pandemic

Pre-pandemic mandates to deliver consistent, quality, accessible care and strengthen long-term sustainability will remain when Covid-19 finally subsides

1. Systemness: the ability of a health system to overcome challenges and progress toward goals, as one unified organization, because of its scale—not in spite of it.

4. Recognize that this is not a universal journey

Systems are all at different **starting points** in systemness.

They also have very **different strategic aspirations when it comes to systemness**, based on their unique economics, constraints, and leadership philosophies.



Examples of different systemness aspirations seen in the research



Explicitly **federated models** encouraging entrepreneurial spirit among facilities and regions; corporate role scoped to emphasize achieving back-office efficiencies



Systems working to mature into **integrated delivery network models** with goals of clinical integration and population health



Academic systems working to overcome the **academic medical center versus community provider divide**

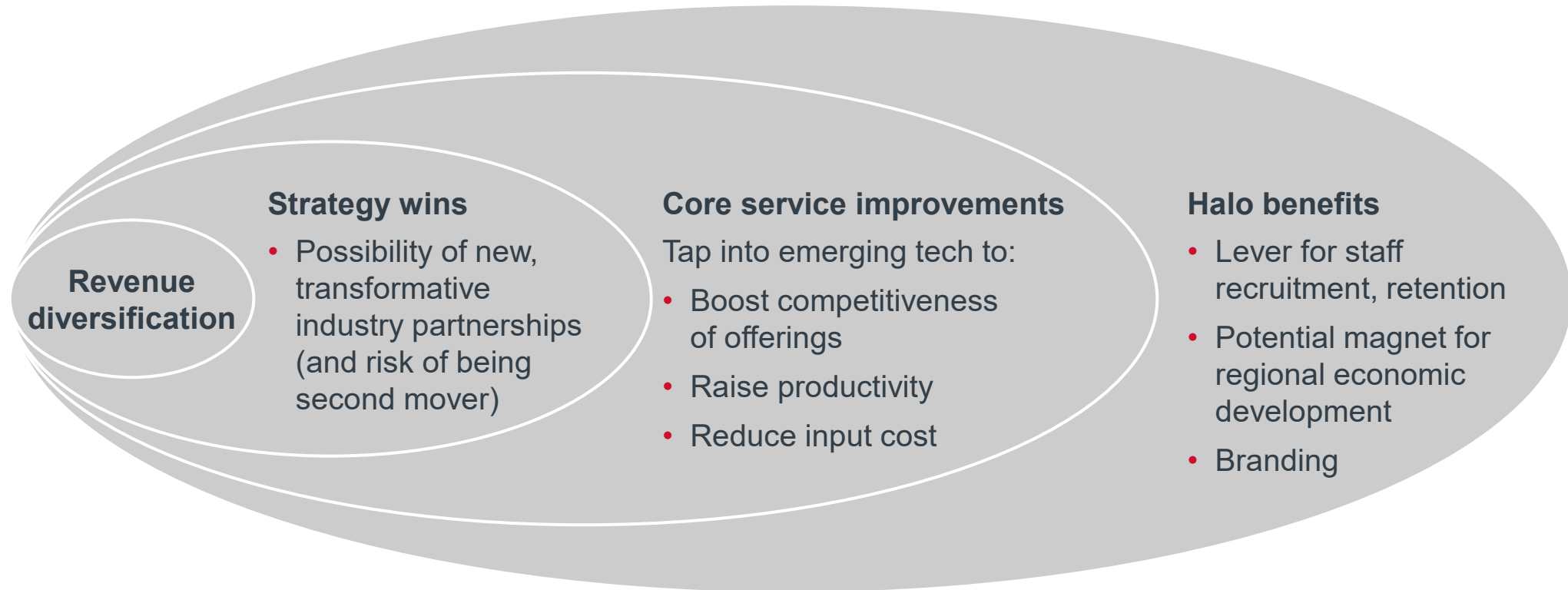


Mergers of equals, attempting to create a coherent blend

...and many more

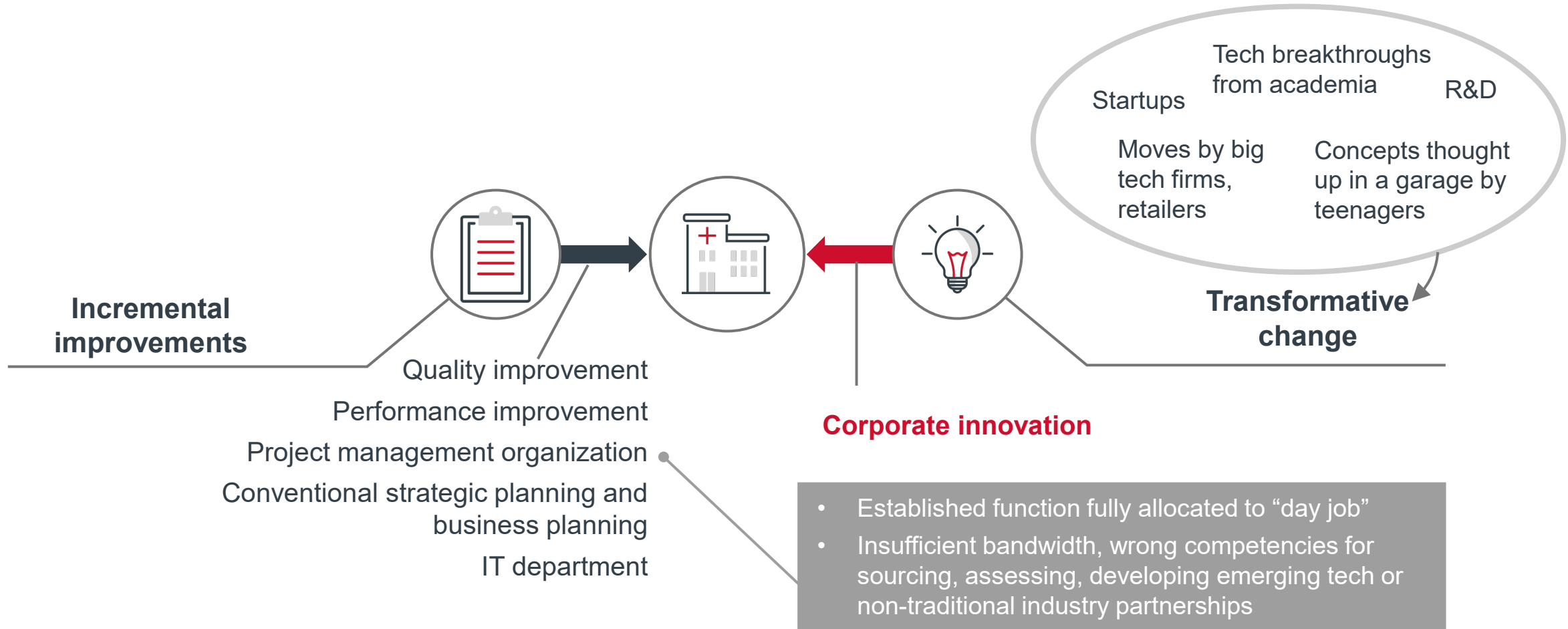
5. Health systems look to modernize through innovation

Perceived role of innovation for health systems



6. Understanding of ‘corporate innovation’ is widening

Novel tech and partnerships not reaching system



ABOUT OUR RESEARCH

Change has always defined health care, but today's leaders face unprecedented challenges and market shifts. Developing successful strategies and advancing make-or-break objectives has never been more challenging due to mounting complexity, intensifying competition, and a growing roster of stakeholders.

HOW WE HELP

We provide the knowledge you need to stay current, along with the strategic guidance, data, and tools you need to prioritize your next actions.

WHO WE SERVE

Hospitals • Health systems • Medical groups • Post-acute care providers • Life sciences firms
• Digital health companies • Health plans • Health care professional services firms

➤ **Connect** with Advisory Board expert and access more resources by contacting us at healthtech@advisory.com

➤ **Visit** advisory.com/resources/DigitalHealthInnovation for the latest market trends and industry insights for digital tech business leaders.

THE ADVISORY BOARD ADVANTAGE

Our team of 200+ experts harness a time-tested research process and the collective wisdom of our 4,500+ member network to develop provocative insights, actionable strategies and practical tools to support the business imperatives of organizations across the health care ecosystem.

Advisory Board helps leaders in the health care industry work smarter and faster by providing provocative market trends, industry insights, and actionable strategies to support key business imperatives.

With more than 40 years of experience, a team of nearly 200 experts, and a network of over 4,500 member organizations, we help stakeholders across the health care ecosystem unpack the now and predict the next in the health care industry.

We know that together we can change the business of health care for the better. Join us by visiting [advisory.com](https://www.advisory.com).



655 New York Avenue NW, Washington DC 20001
202-266-5600 | [advisory.com](https://www.advisory.com)