

Market insights

4 health system growth archetypes

Health system posture and outlook

Health system growth in 2022 is not easy. Facing margin pressures and the outpatient shift, multi-hospital systems across the wider sector are in different boats when it comes to their growth prospects.

In this document, we use proprietary planner data to organize health systems into four growth archetypes. For each, we unpack:

1. Recommendations on where they should place their effort to grow.
2. Insights for other health care actors who sell to health systems and would benefit from a deeper understanding of their clients.

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Read time – 7 minutes

Audience(s)

- Hospitals and health systems
- Digital health companies
- Medical device companies
- Physicians and medical groups

Introduction

The summary results in this brief were captured through our annual strategic planners survey. It was conducted in May 2022.

We asked health system strategy executives a series of questions related to their growth outlook—with detailed questions about their current and future plans.

Cumulatively we had 57 respondents answer the survey. We took a narrower cut of the data selecting respondents who were “VP level or above” ending with a sample size of 45.

From their aggregate responses, clusters of expressed behavior emerged and formed the basis for this piece. To add additional detail to these responses, a smaller cohort of respondents participated in qualitative interviews.

SUMMARY

4 health system growth archetypes

Our annual strategic planner survey of health systems across the United States shows a mixed outlook for growth—with all health systems facing headwinds.

From this 2022 snapshot of responses from VPs and above across 45 health systems, we find that they fall into four camps when it comes to their approach to growth (see table below).

Cumulatively, despite rising labor costs and inconsistent demand, most health systems (59%) are trying to attract and treat more patients through existing provider businesses (organic growth) in addition to buying new businesses (inorganic growth).

To augment this quantitative analysis, we interviewed respondents, and two clear conclusions bear out:

1. A **focus on attracting and treating** is mission critical for 100% of hospitals—with most focusing heavily on maximizing referrals.
2. The **risk appetite for acquisitions by health systems is lower than previous years**, likely leading to a slowdown in M&A activity—or at least big-ticket deals.

Four health system growth categories

01. Survival mode	02. Regimented focus	03. Cautious expansion	04. New pastures
Health system paring down the network and/or rationing services	Health system focused on maximizing the operation of the existing network	Health system focused on growing and operating the network	Health system focused on operating and growing the network & expanding into nontraditional revenue streams
7%	34%	54%	5%
of total respondents	of total respondents	of total respondents	of total respondents

01 Survival mode

Archetype in brief

Health systems in survival mode are not growing. They are trying to stave off decline. They are likely to have negative operating margins, limited non-operating investments, and negligible cash reserves.

7%

Of responding health systems fell into this category

What this archetype looks like on the ground

Health systems in survival mode were likely struggling financially before the pandemic. The drop in volume, shocks to the labor market, and spikes in cost of goods pushed their financial situation from bad to worse. Many of these systems rely heavily on federal emergency funding to prop up their finances. And when those programs end, hospitals in survival mode will face several difficult choices.

In terms of operations, hospitals in survival mode are likely to be reducing FTE count (mostly on the non-clinical side), reexamining all capital expenditures, and shutting down services.

The number one up-at-night issue for survivalist mode is staffing—particularly nursing staff. Because hospitals in this group lack cash reserves to pay for premium labor, they struggle to staff critical hospital functions. This creates a vicious cycle whereby they lack the staff to operate, which dampens their revenue. That, in turn hampers, their ability to pay competitive wages, which leads to understaffed units.

Capital investment for hospitals in this growth archetype was likely modest before the pandemic. All of these health systems are re-evaluating their capital priorities today—likely pulling them back even further. Our survey results point to growth through referrals and maximizing productivity instead of acquisition of complementary provider businesses.

What this archetype should do to succeed

- **Network integrity:** Maximizing the referrals to the hospital is key. This requires all access points to the system (including the ED, referring physicians, directing contracting, and direct-to-consumer) to be optimized. This is a plan won in increments, and it requires continued effort and vigilance.
- **Productivity:** Together with network integrity, shortening length of stay and nurse productivity help with margin pressure and ensuring that hospitals capture all available volume. Pulling forward discharge planning, and team-based unit workflow can yield clear returns here.
- **Differentiated employee value proposition:** Productive hospital operations are impossible without staff. Given the competition for health care talent and the cash limitations of health systems in survival mode, consider focusing on the non-monetary aspects of your employee value proposition—flexibility, individualized career progression, and non-monetary performance recognition.
- **Principled service rationalization:** Financial pressures can force health systems in this category to shutter services. Proactive evaluation of service lines with an eye for why they may be underperforming before shutting them down can reduce unforced errors.

What others can do to be a better partner to this archetype

- **Burnout mitigation and energy management:** Survey data shows that clinical staff in the acute care setting are at highest risk of burnout. Strategies, tools, and approaches to helping staff stay resilient will be well received by health systems in this group.
- **Task reallocation/outsourcing:** Because many health systems in this archetype are under-staffed, any resources or technologies that off-load tasks or make decisions faster are valuable.
- **Cost savings/efficiencies:** Vendors or partners that provide for immediate, realized cash savings will be in high demand from health systems in survival mode.

02 Regimented focus

Archetype in brief

Health systems in regimented focus are concentrating on growth through their existing business operations. They ideally are only temporarily in this growth posture. Among health systems, this group is most likely to be changing the size and timing of capital investments.

What this archetype looks like on the ground

Health systems in the regimented focus category are maintaining laser focus on organic growth fundamentals. This encompasses everything from increasing screenings, to network integrity, to direct contracting.

Like many other organizations, health systems in this growth category are struggling to alleviate margin pressure—particularly caused by the war for talent. Health systems in this group likely have the means to pay for premium labor. Our interviews found that many systems in this category have been successful at increasing their employed ranks—even if the costs to do so have been higher than in the past.

The dividing line between health systems in survival mode and regimented focus is that regimented focus health systems are choosing this posture to mitigate risk and encourage operational focus. Survivalist health systems are forced to their posture because of their organization's financial health (lower cash reserves, diminishing non-operating income from investments, etc.).

34%

Of responding health systems fell into this category

What this archetype should do to succeed

- **Physician partnership:** The return of outpatient volume augers a future longer-term shift where procedures and care are delivered. Shifting the referral default to in-network outpatient providers will be key to protecting health system incumbency and market share. Tightening their relationships with referring physicians will also be critical to harnessing this volume change.
- **Internal innovation:** Most health systems in this category would like to grow through both operations and acquisitions. And while a focus on the existing clinical operating model is critical for now, it doesn't preclude market scanning for future opportunities. Continuing this scan for innovation—on a limited scale—can position these health systems to accelerate out of the regimented focus posture when it makes sense.
- **Systemness:** Operating a series of business units in unison can provide real scale and savings opportunities. This is the idea of "systemness," and it is hard (but replicable) work. When applied to areas like procurement, information technology, and revenue cycle, it can unlock significant savings and revenue opportunities.

What others can do to be a better partner to this archetype

- **Referrals management:** Strategies and approaches to maximize referrals and share of wallet are critical to this group's growth thesis.
- **Talent pipeline:** Health systems in this category might feel a little better about their talent prospect, but they still want to make sure they have a sustainable pipeline for talent. New sources and solutions for talent (or talent development) are critical to navigate regimented focus for growth.

03 Cautious expansion

Archetype in brief

Health systems in cautious expansion are focused on growth through their existing business operations and through acquisitions. The balance of their efforts skew to current business operations because of market uncertainty, rising cost of capital, and increasing competition for target acquisition.

54%

Of responding health systems fell into this category

What this archetype looks like on the ground

Health systems in the cautious expansion category have a growth posture very similar to the past but with added caution because of market uncertainty and an increase in cash-rich competitors.

Cautious expanders are not immune to margin pressures. The main difference here is that their cash on hand, and access to capital, make them more resilient, than health systems in survival mode or regimented focus to weather economic and financial challenges.

Health systems in this growth cohort are focusing on organic growth fundamentals—network integrity, staffing etc.—in addition to acquisitions. As one VP put it during the interview process, “we are absolutely still looking at potential acquisitions, but right now I can’t dilute the balance sheet.”

Cumulatively, this points to a health system that is far more judicious about acquisitions.

What this archetype should do to succeed

- **Disruptor tracking:** Health systems in this cohort are slowing their growth moves, while other players are potentially accelerating their acquisitions. Therefore, it is critical that health systems in this category maintain an eye on new market entrants—and even consider some defensive acquisitions.
- **Physician cooperative models:** Patient steerage and clinical decisions remain the common dominator in any successful health care product. And while the default to cooperating with doctors is ownership of the practice, cautious expanders would benefit from evaluating other cooperation alternatives.
- **Scenario planning:** It can be increasingly difficult to confidently pick paths forward with uncertainty in the operating environment. Health systems in the category would benefit from developing more flexible scenario planning capabilities as a way of remaining strategically flexible while tracking the market.

What others can do to be a better partner to this archetype

- **Market and trend analysis:** Cautious expanders are likely still occupied with margin management. Accurate and differentiated insights on market dynamics will help health systems in this cohort keep an eye on acquisitions.
- **Innovations in affiliation models:** If the market trends toward higher borrowing costs but deeper connectivity across the continuum will dictate future success, any alternatives to the ownership model have a better opportunity for adoption than previous periods.

04 New pastures

Archetype in brief

Health systems in the new pasture growth cohort are continuing to grow by operating their existing businesses plus adding to their portfolio through acquisition. Additionally, health systems in this cohort are investing in start-ups and other technologies to grow—operating as business incubators and venture funders.

5%

Of responding health systems fell into this category

What this archetype looks like on the ground

Health systems in this cohort are trying to compete both within the traditional provider landscape and with investors who are identifying and bringing new health care businesses to market.

These systems frequently have very robust market intelligence functions plus prior experience with incubating and selling off intellectual property, businesses, or services.

Not all health systems that self-identified in this category boast national or international brands. But they all indicated that their future growth trajectory was contingent on non-traditional revenue sources.

What this archetype should do to succeed

- **Strategic partnerships:** To offset the higher risks associated with new product development, health systems in this category should consider building out their partnership capabilities to develop and shepherd new businesses. Think novel combinations of skills and intellectual property to build products and services.
- **Differentiated investment proposition:** There is no shortage of potential investors for new health care start-ups. Capital alone does not differentiate the health system from other potential investors. A clear idea of what the health system can bring to the table and maximize the chances of success are crucial to winning bids.
- **Product incubation:** Coupled with the above, health systems have differentiated knowledge, expertise, and visibility into the clinical environment. Health systems need to both communicate that expertise and transfer it to the ventures they partner with.

What others can do to be a better partner to this archetype

- **Market sizing and intelligence:** While health systems in this cohort feel very confident in their market intelligence functions, no one has full visibility into all market angles. While the barrier to prove value to this cohort is exceptionally high, the rewards of partnership are clear.
- **Funding and contracting innovation:** Hospitals and health systems working on new ventures continue to need partners with financial expertise. These are organizations who can help structure deal terms, find investors to share risk, or source additional capital.
- **Knowledge management:** Many health systems in this cohort are very large and complex enterprises. Because the future of their growth is contingent on sourcing, synthesizing, and evaluating data, solutions that organize and present information to key decision-makers is mission-critical to their success.

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Source: Fein, AJ, 2022 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers, March 2022; Federal Trade Commission, Open Commission Meeting Transcript, February 17, 2022.

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