MARKET INSIGHTS PREVIEW

Survey insights: 6 priorities for health system strategists in 2024

Health systems are recovering from the worst financial year in recent history. Our annual strategic planners survey uncovers what health system strategy leaders are planning for in the next year, and where they are focusing their energy to achieve growth and sustainability. Read on to explore the top six findings from this year's survey.

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Read time – 10 min

Audience

- Health systems, digital health companies, health plans

Advisory Board

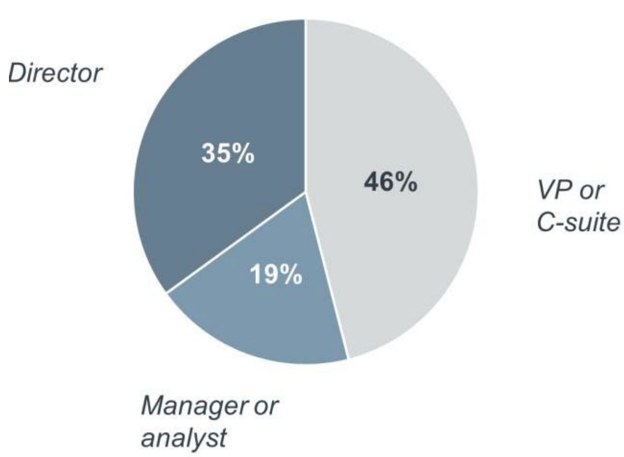
Introduction

Methodology and respondents

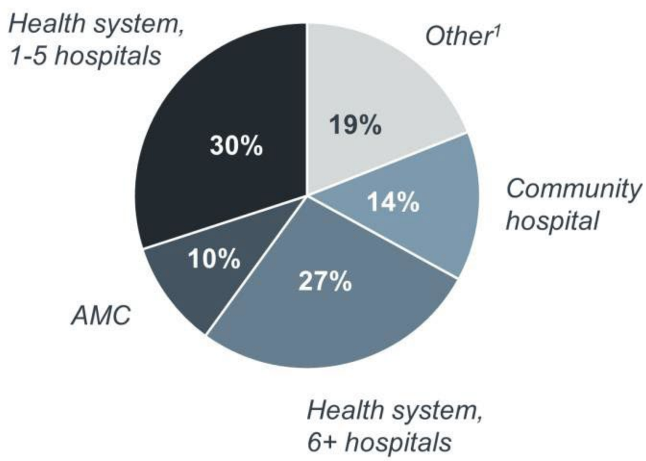
Advisory Board administered a survey on health system strategy from July to August 2023. The survey included Likert scale questions, ranking exercises, and true/false questions.

There were 37 total respondents. Common role descriptions of the respondents were: chief strategy officers, chief executive officers, and VPs and directors of strategy, planning, and/or business development. Respondents worked predominately at health systems.

Role of respondent



Type of organization



Research questions

With this survey, we sought the answers to five key questions:

1. How do health system margins, volumes, capital spending, and FTEs compare to 2022 levels?
2. How will rebounding demand impact financial performance?
3. How will strategic priorities change in 2024?
4. How will capital spending priorities change next year?

1. "Other" includes three independent physician groups, two employed medical groups, one integrated delivery network, and one other.

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The findings

SECTION	FINDING	TAKEAWAYS
01	**Bigger is better for financial recovery**	Health system finances are in a better place than 2022. But recovery isn't evenly distributed — large health systems outpace small health systems on financial performance across the board.
02	**Volumes are decoupled from margins**	Volume rebound fails to deliver much needed margin improvement. For nearly 45% of our sample, growing volumes are coupled with flat or declining margins.
03	**Strategists look to technology to stretch capital budgets**	Capital spending budgets are improving from 2022, but only slightly. Strategists are looking toward technology to cost-effectively address workforce, consumerism, and operational efficiency.
04	**Building is reserved for those with the largest budgets**	For many systems, high cost of borrowing and moderate capital budgets have cooled building ambitions. There's an exception — well resourced systems are actively pursuing volume capture through building new facilities.
05	**Revenue diversification tactics decline despite disruption**	While leaders recognize the growing shifts in site of care, they are increasingly shying away from riskier diversification efforts that require greater up-front capital.
06	**Strategists align on a strategic vision to go back to basics**	Despite uneven financial recovery, strategists across system types agree on the need to return to operational normalcy through prioritizing operational efficiency, workforce, and quality.

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01 Bigger is better for financial recovery

What did we find?

Hospitals are beginning to recover from the lowest financial points of 2022, where they experienced persistently negative operating margins. In 2023, the majority of respondents to our survey expected positive changes in operating margins, total margins, and capital spending.
However, less than half of the sample expected increases in full-time employee (FTE) count. Even as many organizations reported progress in 2023, challenges to workforce recovery persisted.

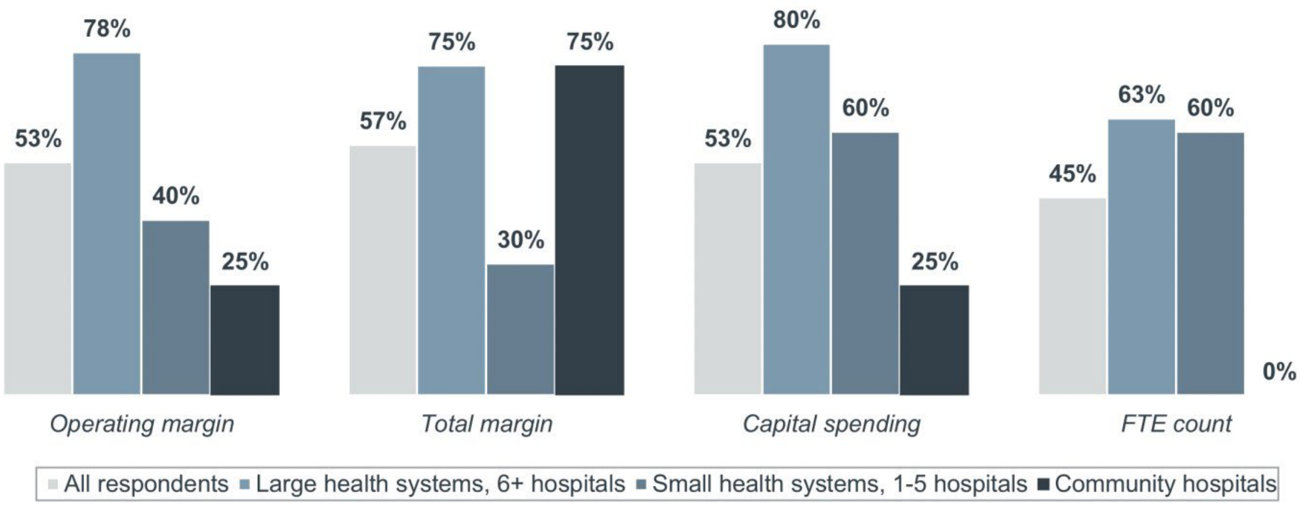
Importantly, the sample was relatively split between those who are improving financial performance and those who aren't. While 53% of respondents projected a positive change to operating margins in 2023, 40% expected negative changes to margin.

One exception to this split is large health systems. Large health systems projected above-average recovery of FTE counts, volume, and operating margins. This will give them a higher-than-average capital spending budget.

40%

Of respondents are experiencing margins below 2022 levels

Percentage of respondents with expected positive change from last 2022 to 2023



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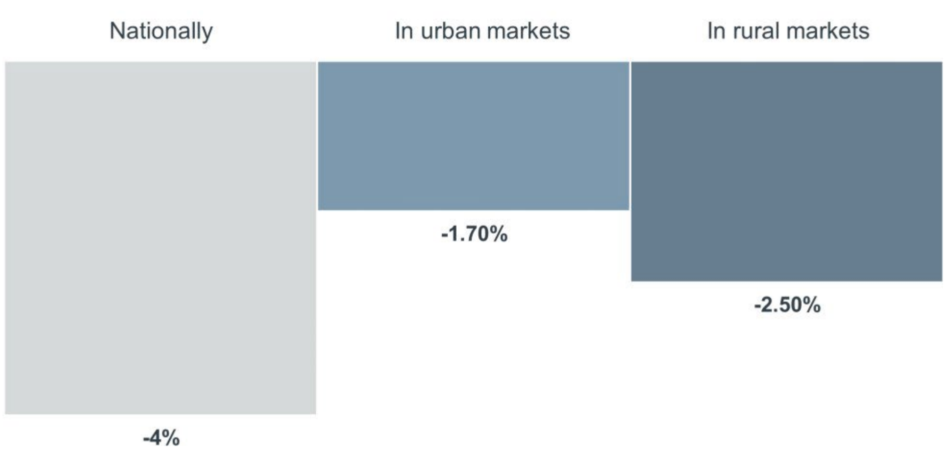
Why does this matter?

These findings echo an industry-wide consensus on improved financial performance in 2023. However, zooming in on the data revealed that the rising tide isn't lifting all boats. Unequal financial recovery, especially between large and small health systems, can impact the balance of independent, community, and smaller providers in a market in a few ways. Big organizations can get bigger by leveraging their financial position to acquire less resourced health systems, hospitals, or provider groups. This can be a lifeline for some providers if the larger organization has the resources to keep services running. But it can be a critical threat to other providers that cannot keep up with the increasing scale of competitors.

Variation in financial performance can also exacerbate existing inequities by widening gaps in access. A key stakeholder here is rural providers. Rural providers are particularly vulnerable to financial pressures and have faced higher rates of closure than urban hospitals. Closures and consolidation among these providers will widen healthcare deserts. Closures also have the potential to alter payer and case mix (and pressure capacity) at nearby hospitals.

Net change in number of hospitals, Q1 2016 - Q2 2021



Source: Medicare FFS Standard Analytical Files.

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02 Volumes are decoupled from margins

What did we find?

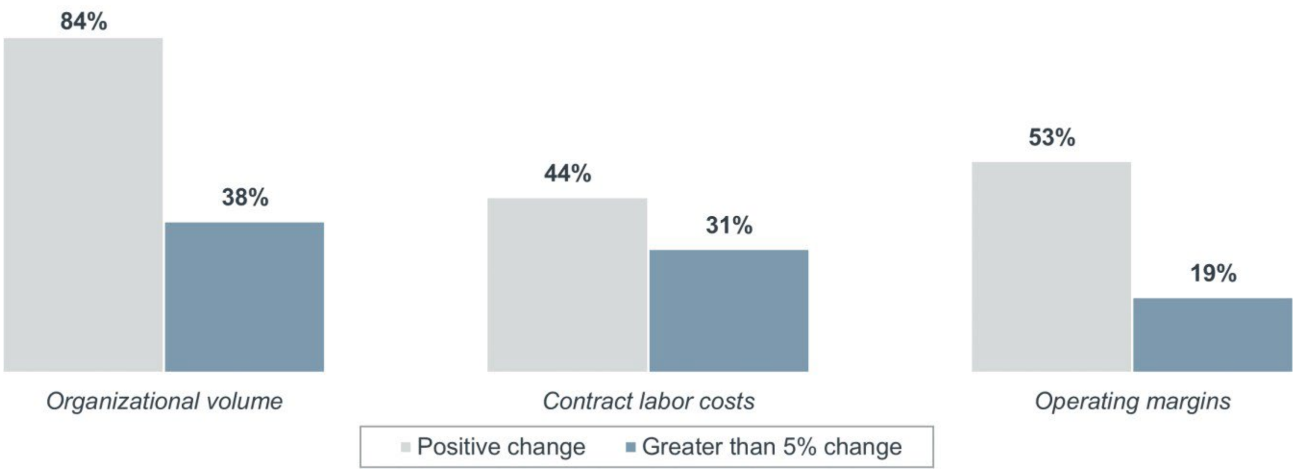
Positive changes to FTE counts, reduced contract labor costs, and returning demand led the majority of respondents in our survey to project organizational-wide volume growth in 2023. However, a significant portion of the sample is not successfully translating volume growth to margin recovery.

On one hand, 84% of our sample expected to achieve volume growth in 2023. And 38% of respondents expected 2023 volume to exceed 2022 volume by over 5%. But only 53% of respondents expected their 2023 operating margins to grow — and most of those expected that the growth would be under 5%. Over 40% of respondents that reported increases in volume simultaneously projected declining margins.

44%

Of respondents who project volume increases also predict declining margins

Percentage of respondents with expected positive change from 2022 to 2023



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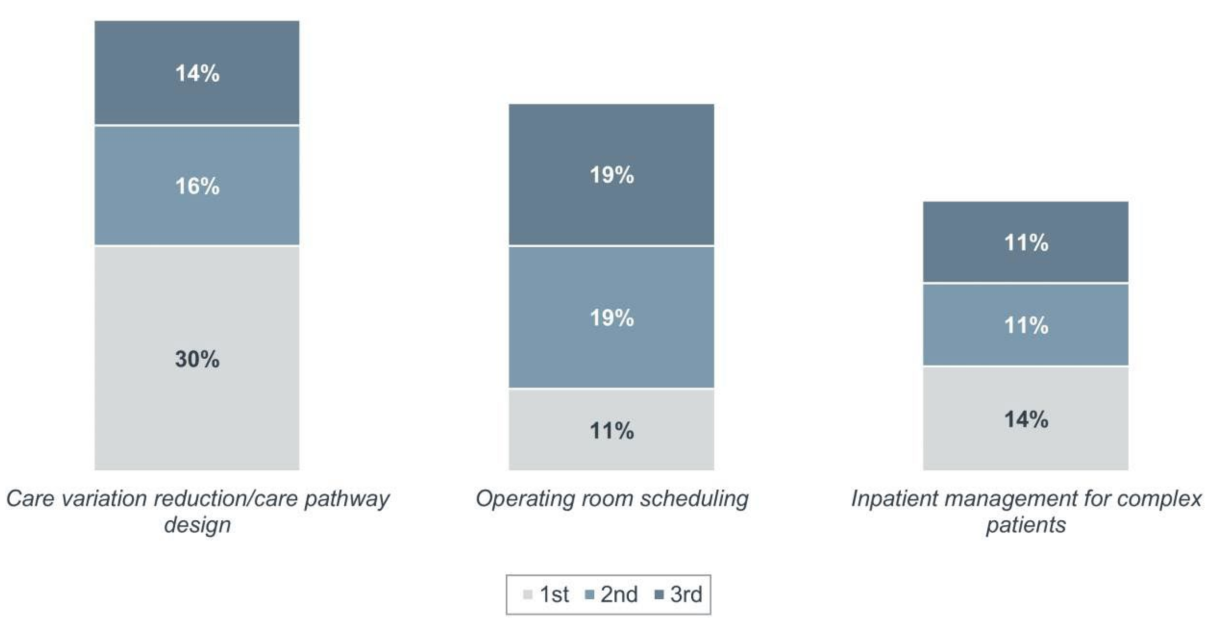
Why does this matter?

Health systems struggled to generate sufficient revenue during the pandemic because of reduced demand for profitable elective procedures. It is troubling that despite significant projected returns to inpatient and outpatient volumes, these volumes are failing to pull their weight in margin contribution. This is happening in the backdrop of continued outpatient migration that is placing downward pressure on profitable inpatient volumes.

There are a variety of factors contributing to this phenomenon. Significant inflationary pressures on supplies and drugs have driven up the cost of providing care. Delays in patient discharge to post-acute settings further exacerbate this issue, despite shrinking contract labor costs. Reimbursements have not yet caught up to these costs, and several systems report facing increased denials and delays in reimbursement for care. However, there are also internal factors to consider. Strategists from our study believe there are outsized opportunities to make improvements in clinical operational efficiency — especially in care variation reduction, operating room scheduling, and inpatient management for complex patients.

Top three opportunities for sustained improvement in clinical operations
Percentage of participants ranking each area in top three



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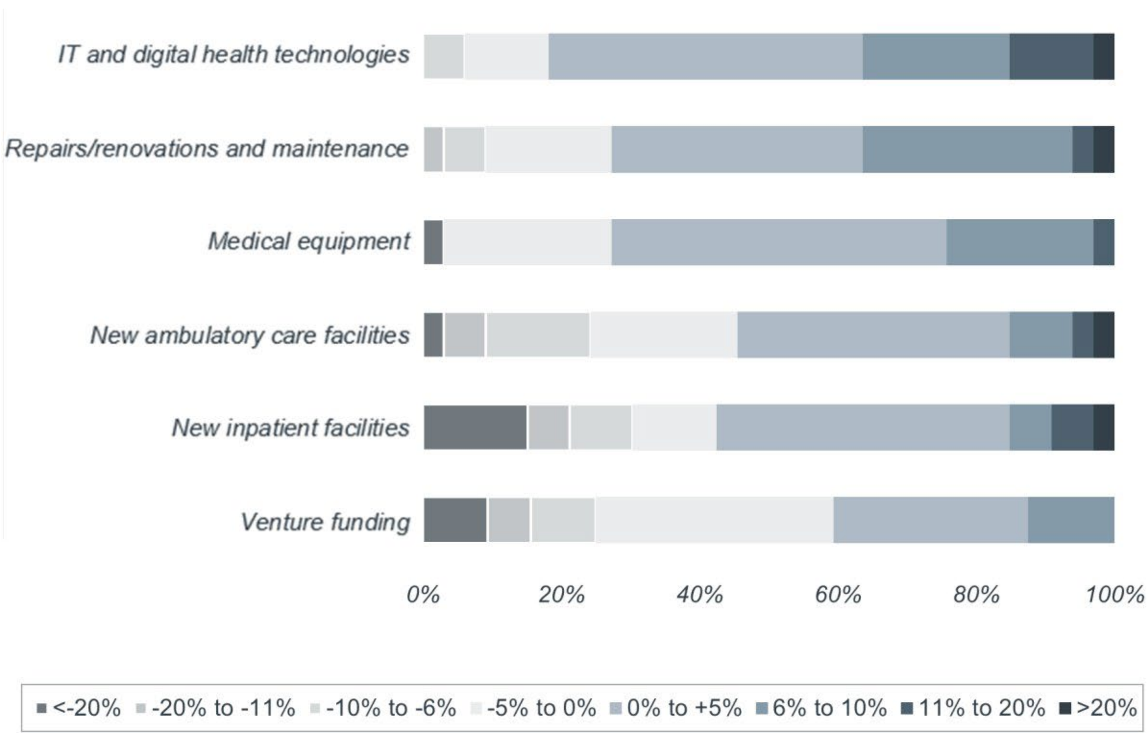
03 Strategists look to technology to stretch capital budgets

What did we find?

Capital budgets will improve in 2024, albeit modestly. Sixty-three percent of respondents expect to increase expenditures, but only a quarter anticipate an increase of 6% or more. With smaller budget increases, only some priorities will get funded, and strategists will have to pick and choose.

Respondents were consistent on their top priority. Investments in IT and digital health remained the number one priority in both 2022 and 2023. Other priorities shifted. Spending on areas core to operations, like facility maintenance and medical equipment, increased in importance. Interest in funding for new ambulatory facilities saw the biggest change, falling down two places.

Expected changes to capital spending



Weighted average priority rank

2023	2022
#1	#1
#2	#3
#3	#4
#4	#2
#5	#5
#6	#6

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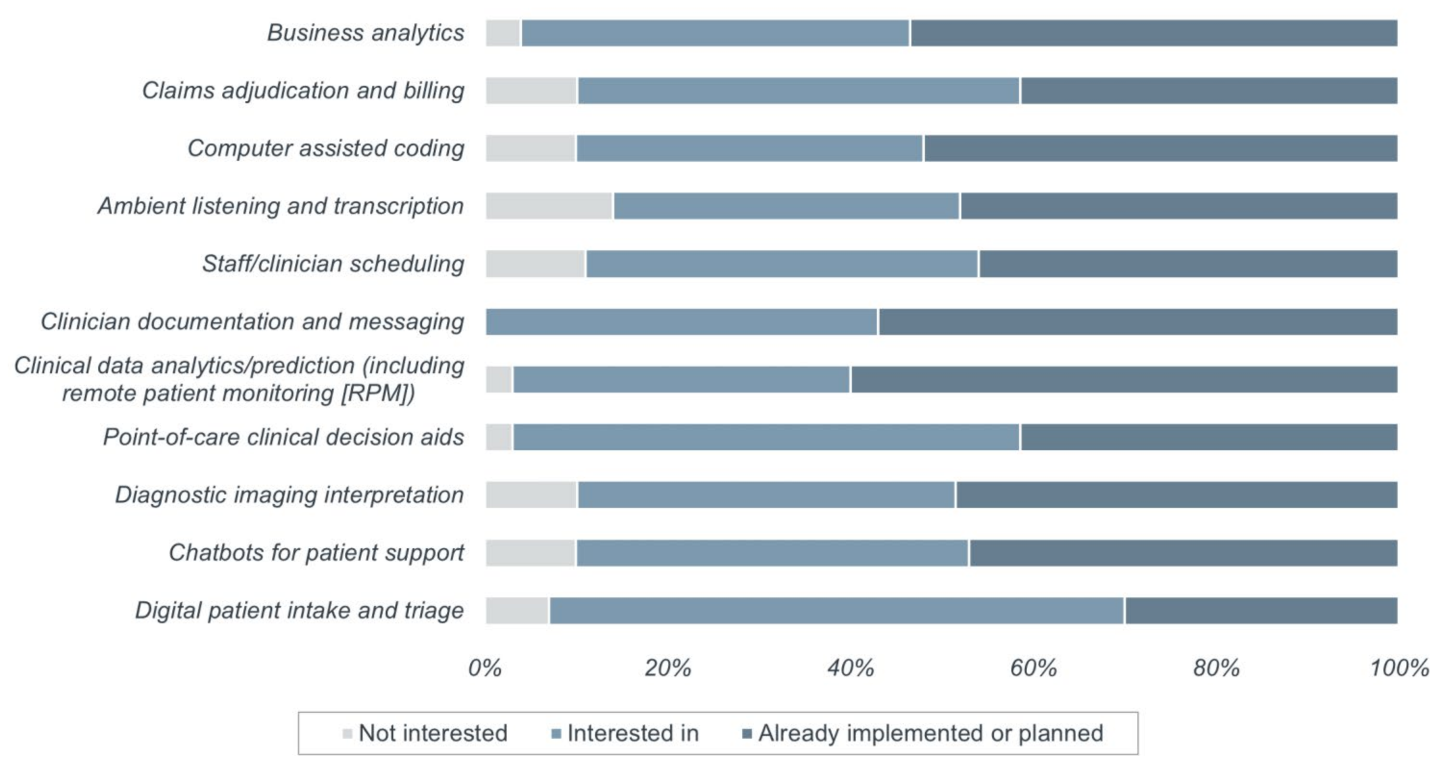
Why does this matter?

Capital budgets for health systems may be increasing, but not enough. With the high cost of borrowing and continued uncertainty, health systems still face a constrained environment. Strategists are looking to get the biggest bang for their buck. Technology investments are a way to do that. Digital solutions promise high impact without the expense or risk of other moves, like building new facilities, which is why strategists continue to prioritize spending on technology.

The value proposition of investing in technology has changed with recent advances in artificial intelligence (AI), and our respondents expressed a high level of interest in AI solutions. New applications of AI in healthcare offer greater efficiencies across workforce, clinical and administrative operations, and patient engagement — all areas of key concern for any health system today.

Percentage of respondents reporting current or planned AI usage



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Project director

Vidal Seegobin

seegobiv@advisory.com

Contributing research team

Elizabeth Orr

Marisa Nives

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655 New York Avenue NW, Washington DC 20001
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