



Navigating Health System Margin Challenges with an Integrated Approach

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Executive Summary

As we look ahead to 2025 and beyond, hospitals and health systems will continue facing complex financial challenges and opportunities. While the healthcare sector has shown resilience in recovering from the immediate impacts of the COVID-19 pandemic, ongoing pressures related to rising costs, workforce shortages, regulatory changes, and shifting reimbursement models remain significant concerns. These factors will shape the financial strategies of hospitals and health systems for the foreseeable future. However, innovation in technology, diversifying non-clinical revenue streams, integrated operational models, and industry partnerships also present opportunities for healthcare providers to improve financial sustainability and operational efficiency.

To thrive in this environment, health systems must look beyond traditional cost-cutting measures and explore innovative approaches to drive sustainable financial performance and operational efficiency.

Health System Operating Margin Outlook

S&P Global

Hospital 2024 outlook remains "negative." Some improved revenue, but gains could be matched or outpaced by expenses.

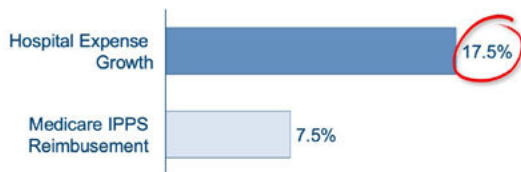
FitchRatings

Margin "resetting" in the range of 1-2%, but the drop likely addressable by individual organizations as per their circumstances.

Trends for 2024 and beyond....

- ✓ Modest volume increases but uneven distribution
- ✗ Labor cost growth to slow but baseline expenses remain structurally higher
- ✗ Base inflation as cost of drugs, supplies, and equipment continue to rise
- ✗ Patient mix changes (e.g., higher Medicare and Outpatients)
- ✓ Business process automation and use of AI
- Regulatory changes are a mixed bag
 - ✗ 340B and Dual eligibility program limitations
 - ✗ Potential staffing ratio requirements
 - ✗ Below inflation Medicare reimbursement and Medicaid disenrollment
 - ✓ FEMA funding
 - ✓ Medicaid managed care reimbursement

Hospital Expense Growth vs. Medicare Reimbursement 2019-2022

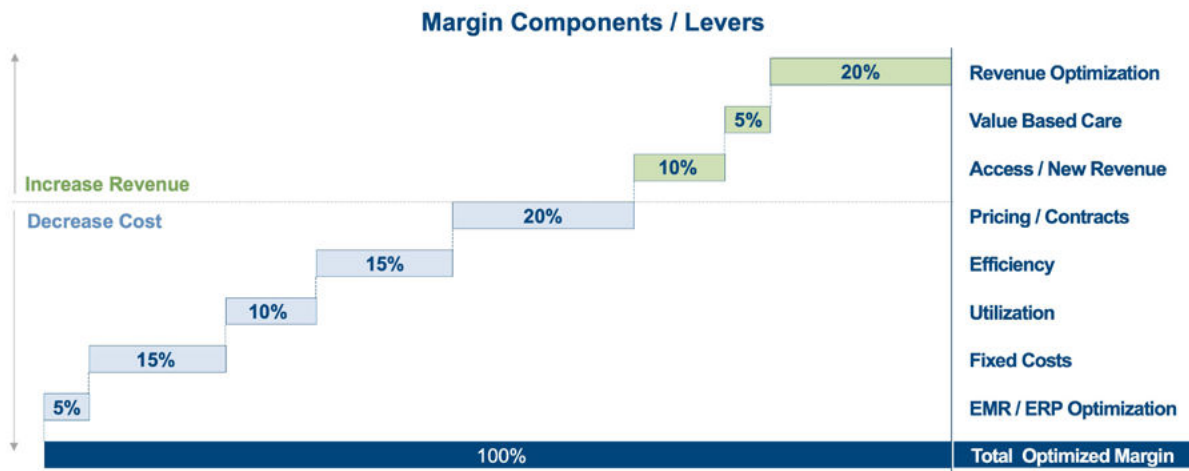


Achieving Greater Efficiencies Through an Integrated Approach

Health systems need to take a holistic approach to margin improvement, focusing on areas such as [workforce optimization](#), [supply chain management](#), [revenue cycle](#), and [clinical care transformation](#). Hospitals are complex organizations where financial, operational, and clinical areas are interconnected. For example, improper clinical documentation leads to coding issues, which leads to increased denials. Workforce shortages in clinical areas lead to capacity constraints and lost revenue.

An integrated approach to margin improvement drives greater efficiencies than siloed efforts that focus on individual components of the organization. Hospitals that take a holistic view of their operations—aligning financial, clinical, and operational goals—are better positioned to achieve long-term sustainability.

An Integrated Approach Drives Greater Efficiencies than a Siloed One



**Impact Advisors' Analysis of Large Margin Improvement Projects*

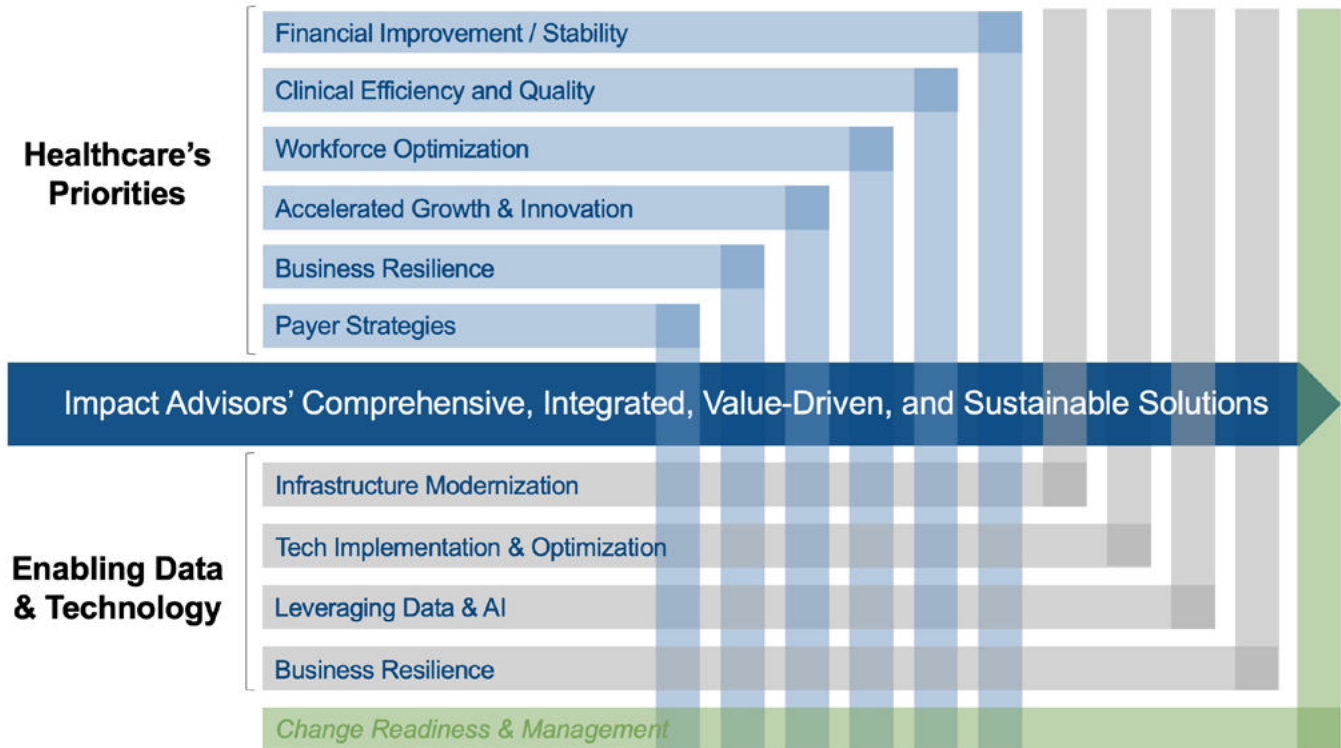
A Purpose-Built Healthcare Partner

Impact Advisors, a leading healthcare management consulting firm, is at the forefront of providing the expertise, tools, and strategies required to address these challenges. With a proven track record of award-winning leadership, technology expertise, and a commitment to healthcare-specific solutions, Impact Advisors is uniquely positioned to guide health systems through this complex landscape.

With a comprehensive suite of services designed to target each of healthcare's strategic priorities, including financial improvement, clinical efficiency and quality, workforce optimization, and more, and leverage data and technology to make improved performance sustainable, Impact Advisors delivers lasting, measurable results that empower hospitals to succeed.

Impact Advisors' Comprehensive, Integrated, Value-Driven, and Sustainable Solutions

Impact Advisors' Integrated Margin Improvement approach is rooted in leveraging a health system's existing infrastructure, particularly its technology portfolio, to drive sustainable margin improvement.

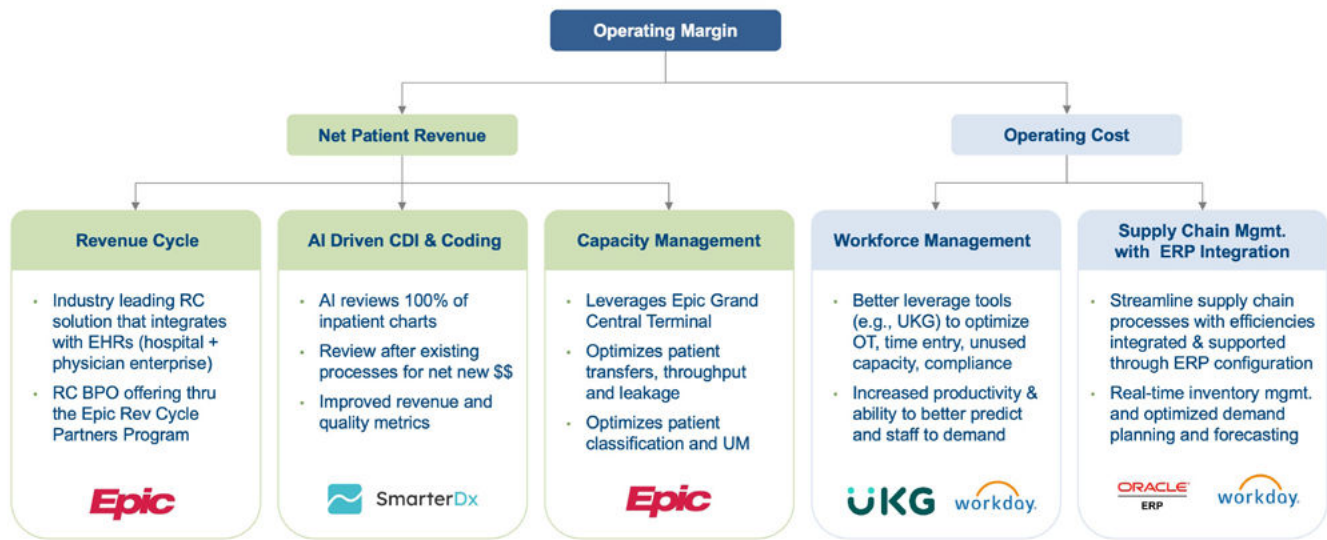


Technology-Connected Margin Improvement

By optimizing the use of existing EHR, ERP, and other digital tools, healthcare providers can drive operational efficiencies, reduce redundancies, and improve patient care outcomes. This enables hospitals to achieve measurable financial gains without requiring significant additional investments in technology.

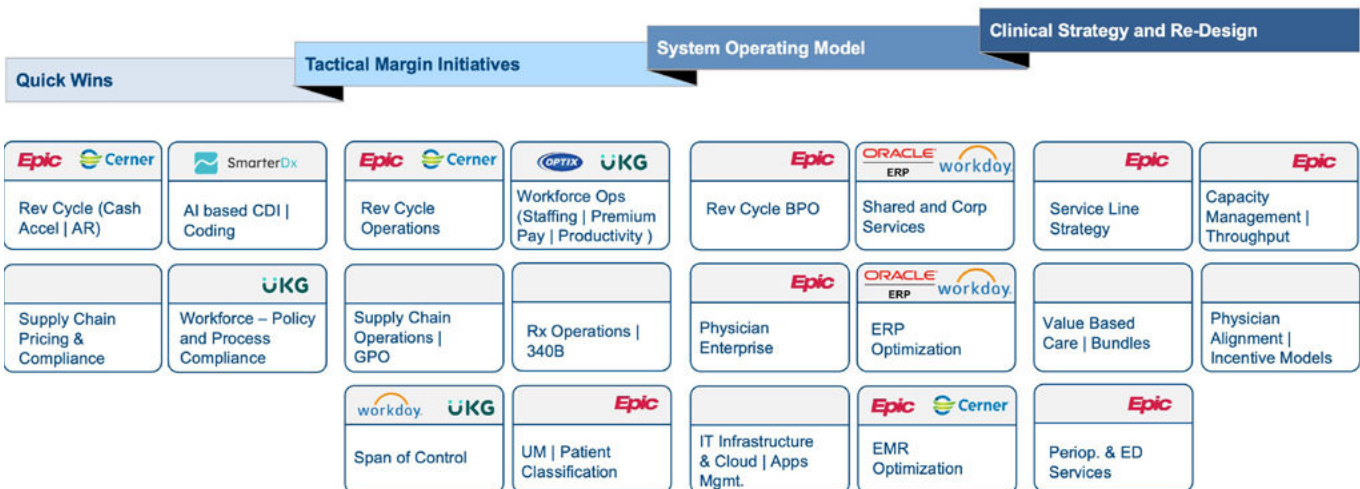
Impact Advisors has an unmatched understanding of electronic health records (EHR) and enterprise resource planning (ERP) systems. This expertise and strong partnerships with vendors in both spaces allows us to integrate technology into the broader margin improvement strategy in ways that maximize its impact. Health systems invest heavily in their EHR and ERP platforms. Our approach focuses on helping clients get the most out of these systems by aligning technology with operational and financial improvement goals. This "technology-connected" approach ensures that improvements are not only sustainable but also scalable across the organization.

Deep Expertise and Vendor Partnerships to Maximize Value of Technology



Tailored Approach Designed to Meet Clients Where They Are

Every health system has different needs, priorities, and ongoing initiatives. Impact Advisors' modular approach to margin improvement allows us to create custom solutions tailored to the unique needs, priorities, and ongoing initiatives of each client. Whether focusing on revenue cycle optimization, clinical care improvement, supply chain efficiency, or all three, our solutions are flexible enough to address the most pressing challenges hospitals face while being adaptable to ongoing organizational changes.



Guiding Principles for Margin Improvement

Impact Advisors' integrated margin solutions are built on a set of **guiding principles** that inform every step of the margin improvement process. These principles are:

▶ **Integrated Margin Improvement Framework and Deliberate Sequencing:**

We use a comprehensive framework that ensures all margin improvement activities are aligned with the health system's overall strategic goals. We follow a deliberate sequence of steps to achieve maximum impact.

▶ **Systematic Approach and Multidisciplinary Planning:**

Effective margin improvement requires input from across the organization. We ensure that all relevant stakeholders—clinical, operational, financial, and technological—are involved in planning and execution.

▶ **Rigorous Project Governance and Data Management:**

Data is at the heart of effective decision-making. We implement strong governance structures and data management protocols to ensure transparency, accountability, and accurate performance tracking.

▶ **Leveraging Best Practices and Toolkits for Implementation:**

Our approach is grounded in proven margin improvement methodologies. We bring a wealth of best practices, toolkits, and templates to guide implementation, ensuring that initiatives are executed efficiently and consistently.

Success in Large Health Systems

Impact Advisors has demonstrated success working with large health systems to achieve overall financial and operational goals. Our clients have realized measurable improvements in areas such as revenue capture, labor productivity, care quality, and supply chain management. By leveraging existing technology infrastructure and focusing on integrated solutions, we've helped health systems achieve their margin improvement objectives without requiring significant new investments.

[Learn more about the value we are delivering here.](#)

Conclusion

As hospitals head into 2025, the healthcare industry is seeing signs of improvement following the disruption caused by the pandemic. Financial pressures, rising expenses, workforce shortages, and increasing regulatory complexities require hospitals to adopt careful management strategies and sophisticated planning. Health systems must focus on integrated margin improvement strategies that leverage existing assets and drive sustainable results. Impact Advisors, with its healthcare-exclusive focus, extensive technology expertise, and commitment to impactful and sustainable performance improvement, is uniquely positioned to help hospitals navigate these challenges.

Contributors



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Let's Talk!

If you'd like to schedule time with Abhi or Roger to discuss opportunities for integrated margin improvement at your organization, reach out to Contact@impact-advisors.com.

About Impact Advisors

Impact Advisors is a leading healthcare management consulting firm committed to solving the industry's emerging and evolving challenges. Our high-performing team of clinical, financial, operations and technology experts collaborate to architect quality solutions and deliver measurable value for our clients. We are the most awarded consulting firm in healthcare, with services recognized among Best in KLAS® for 17 consecutive years and a culture designated "Best Place to Work" by Modern Healthcare for 15 years.

To learn more about our service quality and innovative culture, visit www.impact-advisors.com.

