



A Siemens Healthineers Company

Controlling Your Destiny: The Reemergence of Competitive Strategy in Healthcare

January 2025

The Courage to Change Healthcare.™

Roadmap



DISCUSSION POINT ONE

Today's reality: key observations about the US healthcare provider market for 2025 and the years ahead

DISCUSSION POINT TWO

Four strategic differentiators for health systems

DISCUSSION POINT THREE

The problem, or the solution?

Today's Reality

Industry financial pressures have abated somewhat—a reprieve that likely is only temporary.

While financial pressures have eased post-pandemic, many US health systems still face challenges in achieving strong financial performance.

- ~ **36%** of hospitals, despite improved performance, have negative margins.¹
- ~ **2%** year-over-year decline in operating margin nationally.¹

Despite areas of improvement, Moody's, Fitch, and S&P all cite continuing pressures and challenges ahead for healthcare.

- ↔ Labor and wages
- ↔ Supply chain
- ↑ Ambulatory demand
- ↑ Revenues/payment
- ↓ Inpatient demand

By 2032, healthcare spending is projected to reach 20% of GDP, and the HITF² may face insolvency. CMS options include the following:

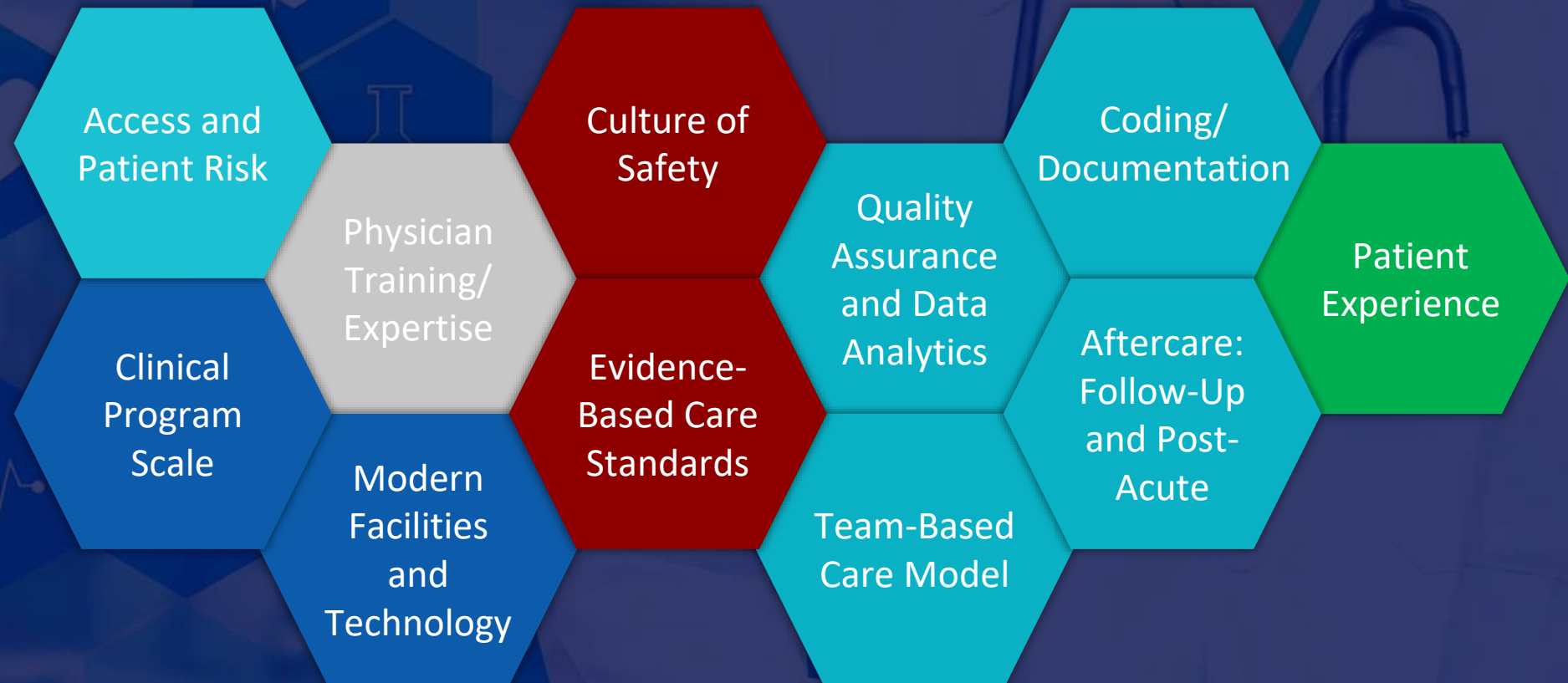
- Reduce reimbursement; HITF could only fund **89%** of today's costs.
- Extend eligibility age.
- Adopt means testing.
- Limit covered services.

¹ Kaufman Hall August 2024 *National Hospital Flash Report*.

² CMS 2023–2032 National Health Expenditure projections.

Getting Clinical Process Back to Gold Standard

Care model transformation requires health system clinical processes and support operations to be a “well-oiled machine.”



Foundational Realities in US Healthcare

Today's Performance Imperatives at US Health Systems



Laser Focus
on Cost



Growing the
Ambulatory
Enterprise



Robust
Physician
Partnerships



Opportunistic
Market
Consolidation



Sustainable
Revenue Model

Universal Objectives of Healthcare Organizations

Margin Improvement

Improved Access and
Consumer Experience

Provider
Alignment and/or
Integration

Strengthened
Market Position

Financial Stability

From Survival to Strategy

“Market players” focus on excelling at the four quadrants on the right; they seek to be as good as their competitors in all four, and ideally better than the competition in at least one.

This is not strategy; it’s survival.

1
Optimize Cost Structure to Deliver a Sustainable Margin

2
Redesign Delivery Network to Win High-Growth Service Lines

Table Stakes

4
Secure Premium Pricing through Scope, Scale, and Relevance

3
Advance Physician Alignment and Integration

The Reemergence of Strategy as a Differentiator

From Market Player to Market Maker

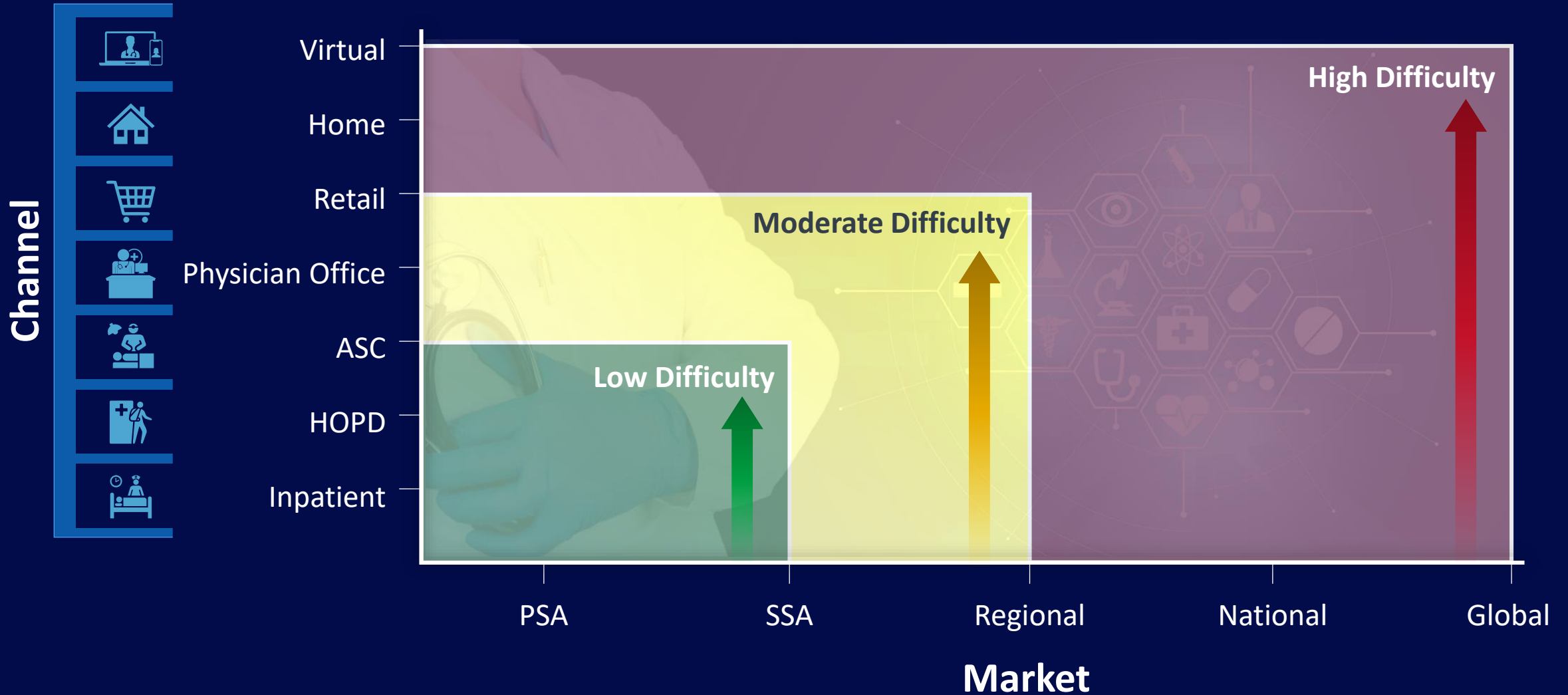
“Market makers” view strategy as a set of decisions, with associated actions, tools, and metrics, to differentiate themselves in at least one of the four quadrants on the right.

They view their role as serving consumers longitudinally versus transactionally.



Entering New Channels and Markets

Strategic Differentiator: Entering New Channels and Markets



The Changing Nature of Competition

Legacy Model

- Competition is the neighboring health system.



KPIs

- Inpatient market share
- Revenue growth in key service lines

Emerging Model

- Competition is any entity targeting the healthcare consumer.

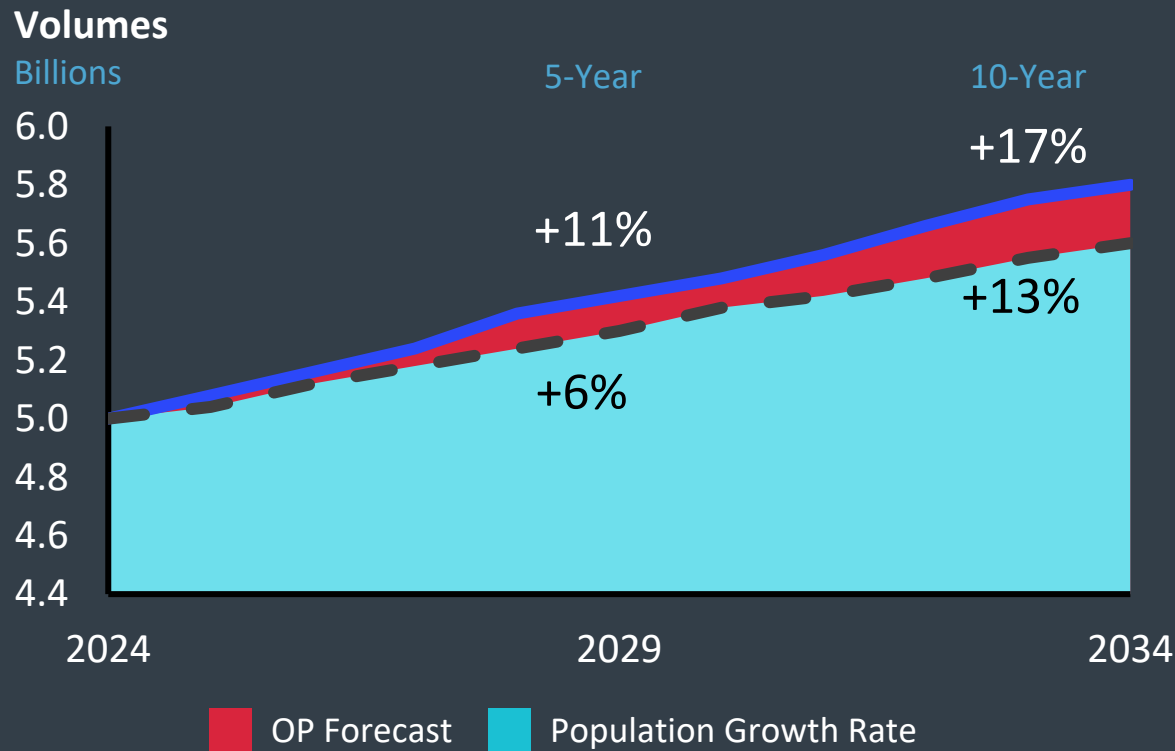


KPIs

- Population market share
- Share of wallet
- Stickiness
- Logins

The future of healthcare is ambulatory—by any metric.

Adult Outpatient Forecast US Market, 2024–2034



Shifting Care Settings: From Inpatient to Outpatient (2024–2034)



Outpatient Growth

+17%



Inpatient Growth

+3%

Ambulatory Surgery Centers (ASCs) on the Rise (2024–2034)

+21% Increase in ASC Volumes to 44 Million

Evolving Care Access and Usage

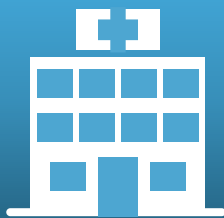
Home health, urgent care, and virtual care are all set for growth.

Integration of digital health solutions.

23% of all E&M visits will happen virtually by 2034.

The majority of US healthcare is still provider-centric.

- Financial success from acute care volumes.
- Patients traveled to system assets.
- Growth via asset construction and acquisitions.
- Integrated patient medical record did not exist.



THE PAST

- Financial success from acute care volumes.
- Patients directed to system assets.
- Growth via provider integration and asset acquisition.
- Partially integrated medical record, controlled by the health system.



THE PRESENT

- Financial success from ambulatory volumes.
- Community health rewarded.
- Care comes to the patient.
- Growth through capabilities.
- Consumer-controlled medical record integration.



THE FUTURE

Those who win will do more than stay afloat—they'll make bold, strategic moves.

Translating Operational Performance into Strategic Advantage

- Leading health systems will take **principled, differentiated bets** that build upon a foundation of **operational excellence**.
- These bets will not be reactive; they will be intentional and based on **data, insights, and strategic priorities**.
 - Expanding into **new markets** (adjacent, regional, national, global)
 - Investing in **emerging care channels** (home, digital, virtual)
 - Assets that bring care **closer to the consumer**
 - Developing **new partnerships and collaborations** (with traditional and nontraditional partners)

Innovation and Change Management as Core Competencies

Strategic Differentiator: Innovation and Change Management as Core Competencies



Engagement Is (Slowly) Improving, but Still Lags

Post-pandemic engagement hasn't rebounded to previous levels. While 50% of roles improved, 20% remain flat, and a third continue to decline.



Leadership Engagement Decline

Leaders are increasingly disengaged, with engagement dropping for the third year in a row—now down 3.7%.



Millennials: Low Engagement, High Potential

Millennials, our future leaders, report lower engagement than any other generation (3.89 versus 4.12 on a 5-point scale).



Turnover Remains High

20% of healthcare employees left their organization in 2023, increasing to 25% for those with two years' tenure or less.

Nursing roles are the most affected group.



The Cost of Turnover on Patient Care

For every 1% rise in turnover, patient experience ratings drop an average of 2 percentile points for inpatient care.

The Disruptive Math of Turnover, Engagement, and Innovation

If your annual turnover is:

Then your entire organization is “new”...

15%

→ Every Six Years

20%

→ Every Five Years





25%

→ Every Four Years

IMPLICATIONS

- Most employees don't know who you were pre-pandemic.
- The locus of engagement is the “job,” not the “organization.”
- The mission, vision, values, and culture need to be constantly taught and retaught.
- Employees do not buy into your long-term strategy.
- The attributes that you think differentiate you . . . do not.
- Innovation does not take hold.

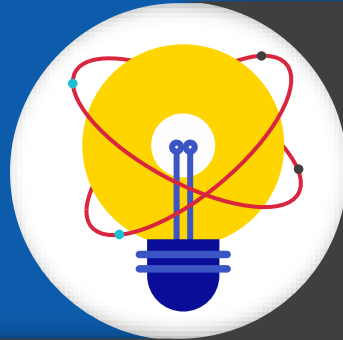
From Engagement to Innovation

-  AI
-  Precision medicine
-  Genomics
-  Predictive analytics



Clinical Innovation

Funds investments in

Creates opportunities for



Business Model Innovation

-  Business transformation at scale
-  Big data/analytics
-  Superregional payment bundles
-  Ambulatory surgery
-  Retail pharmacy

No discussion of innovation is complete without AI.

Significant Growth Forecasted in the Healthcare AI Market



2024: \$19.5 billion → 2030: \$187.8 billion

AI's Pivotal Impact Areas

- Radiologic Interpretation
- Health Records
- Laboratory Testing
- Personalized Medicine
- Drug and Medical Device Development
- Disease Management
- Virtual Nursing
- Cybersecurity
- Pharmaceutical Dosing
- Public Health Screening
- Address Clinician Burnout
- Automate Administrative Tasks



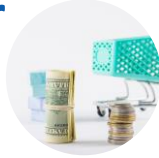
New Smart Hospital Coming to Cypress, Texas

When Houston Methodist Cypress Hospital opens in the first quarter of 2025, it will feature the latest in digital healthcare innovation that will enable the hospital to **create a patient-centered building built for the future of medicine.**

Cost Transformation

Strategic Differentiator: Cost Transformation

Providers are driving higher costs than other sectors in the industry.



- **National Expenditures**
National health expenditures will hit **\$7.7 trillion (19.7% of GDP) by 2032**; providers are responsible for **72% of the cost increase** in the past decade.
- **Cost Surge**
Family coverage premiums increased by **7% in 2024** and are **expected to rise another 7% in 2025**, marking a 47% rise over the past decade, far outpacing inflation.
- **2025 Forecast**
US employers covering healthcare anticipate a **5.8% cost increase**.



Incrementalism is not solving the problem.



- **Regulators**
Rising Costs → Payment Cuts
- **Payers**
 - Steer away from high-cost providers.
 - Move out of network.
 - Increase prior authorizations and denials.
- **Employers**
Direct contract with providers/narrow network
- **Disruptors**
 - Consumer-centric models
 - Cherry-picking favorable patient groups

The industry needs radical transformation.



- Adapting the “shared use” model (e.g., Civica Rx) to other applications
- Rapid adoption of AI to enhance productivity (from “wait and see” to “adopt and improve”)
- Large-scale partnerships to address root causes of poor health (e.g., Healthy State)



Cost Transformation Imperative Also Driven by Demographics and Comorbidities

Despite **declining utilization rates overall**, which will impact lower-acuity community providers the most, the **progressive multichronic and stable chronic** population base will almost double by 2035, **driving up demand for subspecialty services**.

These patients will **require care coordination** across an integrated continuum and delivery network to **mitigate preventable hospital admissions**.



Stratum	Current % of Population	Current % of Spend	2035 % of Population
High-Cost Episodic, Medically Simple	1.1%	12.0%	1.3%
High-Cost Episodic, Medically Complex	1.8%	12.0%	1.9%
High-Cost Terminal	1.0%	7.5%	2.0%
Irreversible Declining	2.0%	20.0%	2.0%
Progressive Multichronic	5.0%	15.7%	10.0%
Stable Chronic	10.0%	18.0%	18.0%
Episodic, Planned	18.0%	8.3%	18.0%
Episodic, Unplanned	12.0%	5.5%	12.0%
Well, At Risk	-	-	15.0%
Well	35.0%	3.0%	15.0%
Not Accessing Care	15.0%	-	5.0%

The remaining margin opportunity is almost entirely within the clinical realm.

Revenue Performance Drivers

- Payer Contracting and Compliance
- Revenue Cycle/Denials Management
- Coding and Documentation

Cost Performance Drivers

- Workforce and Labor
- Pharmacy
- Supply Chain
- Centralized and Shared Services

Clinical Performance Drivers

- Clinical Program Growth
- Provider Network Leakage Mitigation
- Access and Throughput
- Care Standardization
- Clinical Portfolio Rationalization



Regulatory hurdles are harder to clear; four questions are likely to drive future approvals.

Will the Transaction . . .

Pretransaction Imperative

Posttransaction Imperative

1

Lower the Cost of Care (or slow the trend)

Demonstrate that proposed operational efficiencies will **lower costs** for patients and payers, not just the system.

Commit to holding price growth below the annual trend and/or national rate of medical inflation.

2

Improve Population Health

Demonstrate that a consolidated system will better address **preventive care, chronic disease management, and population health** initiatives.

Commit to publishing outcomes on incidence of disease and other public health measures.

3

Enhance Access

Show how consolidation will **expand access** to services, particularly in underserved or rural areas.

Commit to publishing data on access, wait times, etc.

4

Reduce Health Inequities

Prove that the new entity will invest in communities with the greatest needs.

Commit to publishing and improving disparities in access and outcomes across socioeconomic, racial, ethnic, and geographic divides.

Brand Expansion and Redefinition

Strategic Differentiator: Brand Expansion and Redefinition

For most health systems, mission and margin are (still) very much misaligned.

THE PROMISE

To improve the health of the individuals and the communities we serve.

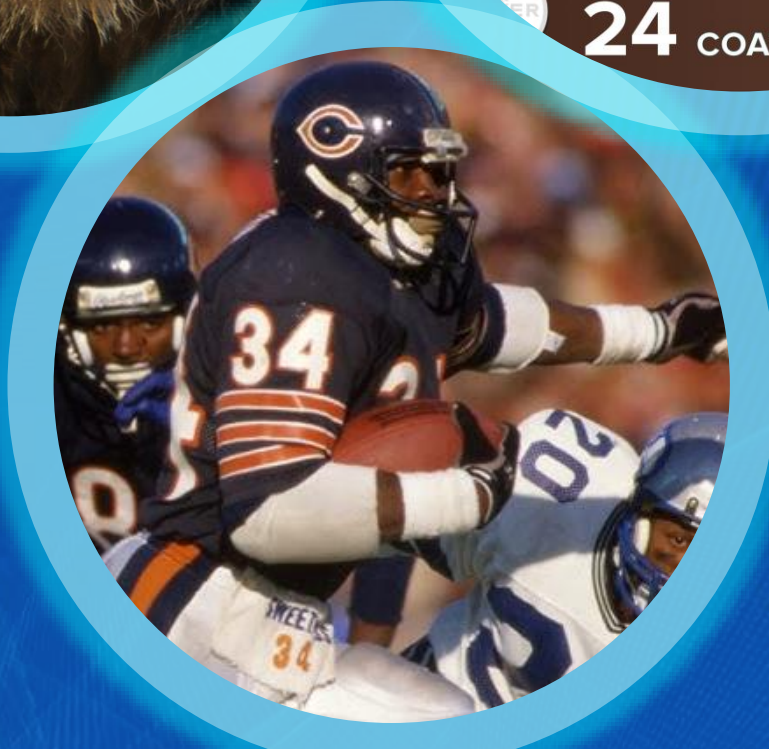
The Reality

- 1 Our top-five revenue-producing service lines are _____
- 2 Our five largest capital investments in the past three years have been _____
- 3 Incentive compensation for our top executive team is based on _____

“Health” Is a Bear Word



An advertisement for Bayer Aspirin. At the top, the word "BAYER" is written in large, bold, black letters on a yellow background. To the right of "BAYER" is the Bayer logo, a cross inside a circle. Below "BAYER" is the text "ASPIRIN (NSAID) PAIN RELIEVER/FEVER REDUCER". In the center, it says "GENUINE ASPIRIN" in large white letters, followed by "the wonder drug®" in smaller white letters. Below that, it says "SAFE PAIN RELIEF + LIFESAVING BENEFITS" in white. To the right of this text is a red heart with a white cross inside, containing the text "325 mg". At the bottom, it says "24 COATED TABLETS" in white. There is also a small warning text: "Talk to your doctor or other healthcare provider before using this product for your heart."



What would a true “health” brand look like?

Most branding today still focuses on diagnosis and treatments.

Diet, nutrition, exercise, sleep, and self-care are all dominated by non-health system brands.

Prevention Focus

Wellness Products and Services

Ease of Use

Omnipresent

No one walks away from an interaction with a health system saying, “that was so easy.”

Apps, push messaging, and emails are rare except for pre- and postvisit interactions.

The gap between most existing health system brands, and the aspiration as expressed in their missions, is a chasm.

The options are few:

1 Change the brand.

2 Change the mission.

3 Accept the consequences of presenting a brand that doesn't match the mission.

Remember *As Good as It Gets?* Are we perceived as the problem, or the solution?

- Financial success from acute care volumes
- Patients directed to system assets
- Growth via provider integration and asset acquisition
- Partially integrated medical record, controlled by health system



THE PRESENT

Defending Status Quo?

- Unresponsive to high cost, poor access, and variable quality
- Scale for our benefit
- Undifferentiated commodities
- Markets rapidly approaching oligopolies

Driving Transformation?

- Addressing cost, access, and quality simultaneously
- Scale for the benefit of patients and consumers
- Differentiated competitors with unique strategies
- Markets that are thriving mechanisms for value creation

- Financial success from ambulatory volumes
- Community health rewarded
- Care comes to the patient
- Growth through capabilities
- Consumer-controlled medical record integration



THE FUTURE

Take Control of Your Destiny

Embrace the Return of Strategy



Create a Uniquely Compelling Vision

Most mission and vision statements are the same except for trivial details and word choices.



Institutionalize Innovation and Change

Culture is everything, and “resilience” is reactive, not strategic.



Choose a Strategic Differentiator

Defending margin and growing core services is not strategy; it’s survival. True success requires more than that.



Strategy Is Not Static

Embrace scenario planning and game theory, not as biannual exercises but as fundamental management disciplines.



A Siemens Healthineers Company

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