



Executive Insights

10th Annual Hospital Study: A Retrospective and a Glimpse Into the Future

L.E.K. Consulting has been conducting our annual survey of health system and hospital executives for the past 10 years with the purpose of understanding provider priorities, provider sentiment and changing relationships with suppliers. The decade during which we have fielded this study has seen extensive, unprecedented changes in the U.S. healthcare system. Consequently, the provider landscape we surveyed in 2019 is very different from that in 2009 on multiple dimensions.

2010s: A retrospective

A retrospective look at the past 10 years of our dialogue with hospital executives highlights some important trends that have persisted and evolved.

- **Value-based payments (VBP) went mainstream.** Despite being considered by some largely a theoretical concept with questionable relevance beyond small pockets of the sector (e.g., payer-providers), VBP became a substantial and growing portion of the revenues of U.S. hospitals. On average, traditional fee-for-service payments accounted for ~57% of a respondent hospital's payment mix in 2014,

declining to ~37% in 2019. Growth in accountability for outcomes has broadened hospitals' perspectives on the cost of care and has impacted decision-making dynamics as well as executives' priorities.

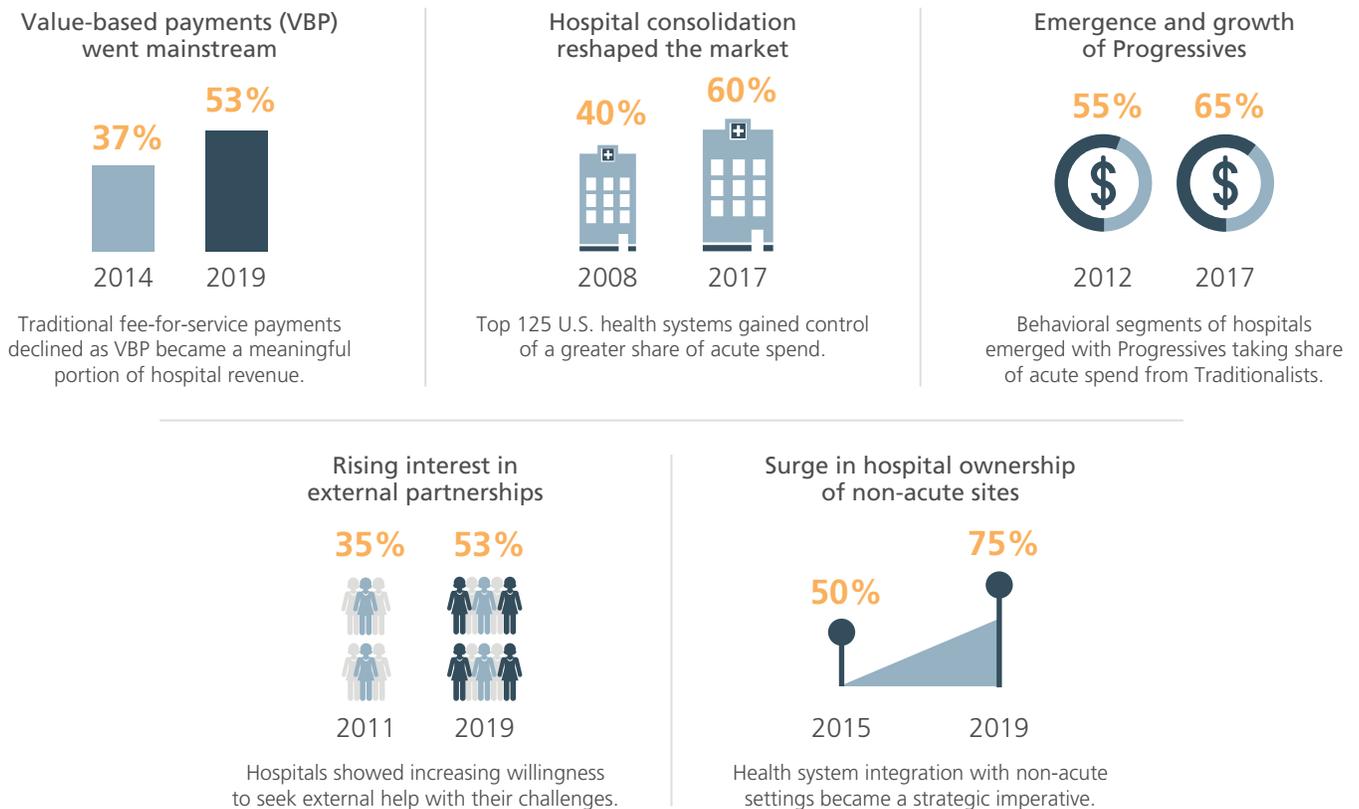
- **Consolidation became the norm.** Announcements of hospital mergers and acquisitions became a near-daily occurrence in the 2010s. Many health systems proactively pursued acquisitions to enhance their negotiating leverage with payers, create economies of scale and strengthen their financials in the face of economic pressure (e.g., declining reimbursement, growth in VBP, volume shifts to other settings). Notably, consolidation fueled further consolidation as health systems began to race to scale in their local markets in order to remain competitive. In 2008, the top 125 U.S. health systems controlled ~40% of total hospital spending. By 2017, this figure had grown to ~60%.
- **Health system integration with non-acute settings became a strategic imperative.** Acquisition and/or organic development of non-acute care sites became commonplace, with particular interest in physician practices (primary and specialty), ambulatory surgical centers and urgent care centers. Whereas ~50% of health system/hospital respondents owned more than 10 non-acute sites of care in 2015, ~75% did in 2019. While the primary driver of expansion into non-acute sites was capturing referral traffic, it increasingly became part of a broader integrated care

10th Annual Hospital Study: A Retrospective and a Glimpse Into the Future was written by **Ilya Trakhtenberg, Jonas Funk** and **Monish Rajpal**, Managing Directors in L.E.K. Consulting's MedTech practice. Chintan Oza, Consultant, was a contributor. This article was originally published in the [MedTech Strategist](#).

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Figure 1
2010s: A retrospective



strategy enabling health systems to engineer themselves for a VBP reimbursement environment.

- Meaningful behavioral segments of hospitals emerged.** While hospitals varied in behavior historically, most of the differences were a reflection of organizational idiosyncrasies, with the most perceptible distinction evident between academic medical centers and community hospitals. During the 2010s, providers displayed substantially different approaches to grappling with market pressures. This led to the emergence of two broad segments of hospitals: the Progressives, which have proactively embraced the path of VBP, scale and integration with non-acute care sites, and the Traditionalists, which have evolved grudgingly and, by and large, sought to maintain the historical status quo. The Progressives have been driving consolidation and become the dominant force in acute care, with their share of hospital spend rising from ~55% in 2012 to ~65% in 2017.
- Healthcare information technology (HCIT) became a consistent and growing priority.** Enhancing HCIT capabilities was the No. 1 spending priority for hospital executive

respondents every year from 2010 to 2019. This reflects the impact of meaningful use legislation passed in 2009 and the rollout of incentives throughout the 2010s for the adoption of electronic health records (EHRs). While EHRs were the foundation and early area of focus, HCIT investment continued and expanded as health systems sought to build analytics capabilities that unlocked the full potential of their data (e.g., improvements in workflow, efficiency, clinical competence).

- Administrators gained significant influence over purchase decisions and supplier engagement.** As health systems gained scale and reimbursement pressures impacted hospital bottom lines, administrators gained greater influence and control over decision-making in provider organizations. Since 2012, hospital executives consistently indicated that administrators have had an increasing level of influence and have elevated the importance of economic considerations on purchasing decisions. In 2015, ~53% of hospital executives indicated that administrators were gaining influence in their organizations. By 2019, this figure rose to ~63%. This dynamic is also reflected in the level of

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hospital standardization of clinical products. In 2015, ~25% of hospital executives believed their organizations demonstrated a high level of standardization in the medical devices and supplies they used. In 2019, this was up to ~45%.

- **Interest in external partnerships expanded.** Historically, hospitals were wary of working with external parties, instead opting to solve their own problems. The 2010s saw a shift in mindset as hospitals confronted an unprecedented array of new challenges — from implementing EHRs to integrating acquired hospitals and managing VBP. Hospital and health system executives increasingly recognized the benefits and necessity of working with external partners to gain the right expertise and capabilities required to address their challenges. In 2011, only 35% of hospital executives indicated interest in working with external partners to solve their most pressing challenges. By 2019, this rose to 53%. Notably, leaders at Progressive health systems have been consistently more willing to work with external partners than their peers at Traditionalist systems.

2020s: A glimpse into the future

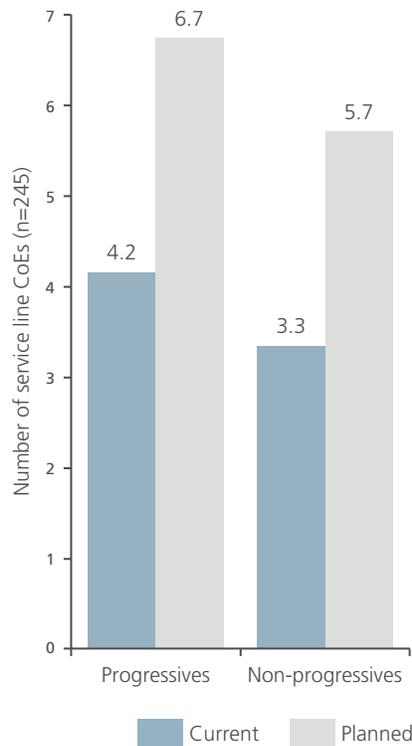
The 2010s were an era of foundation-building as the provider landscape transformed into a smaller set of bigger health systems with growing capabilities. The 2019 survey provides a peek into some of the themes that will shape provider evolution in the 2020s:

- Increased focus on service lines and the development of centers of excellence (CoEs)¹
- Expansion in the role and use of telehealth
- Shift toward data- and analytics-driven care delivery

Service line management and CoE development

Out of the 2010s, health systems are emerging as increasingly sophisticated organizations competing for share in their local markets. The importance of developing areas of specialization

Figure 2
Current and planned number of CoEs by hospital/health system segment (2019)



Source: L.E.K. 2019 Hospital Study

and compelling CoEs has increased as health systems seek to grow (or at least maintain) revenue, capture profitable patients, attract and retain top physician talent, and, in some cases, contract with large employers to provide specific services to their employees (e.g., total knee replacement, spine surgery). Hospital executives indicate that the importance of managing and optimizing their service lines has increased significantly over the past few years — from 58% considering it important three years ago to 85% today.

In 2019, only ~10% of executives reported that their hospital/health system does not currently have and is not seeking to develop a CoE in one or more service lines. Progressive health systems are more likely than Traditionalist systems to already have a service line CoE, but both are seeking to expand this significantly (see Figure 2). Going forward, key service lines such as cardiology, orthopedics and oncology are expected to remain high-priority areas for developing CoEs (see Figure 3).

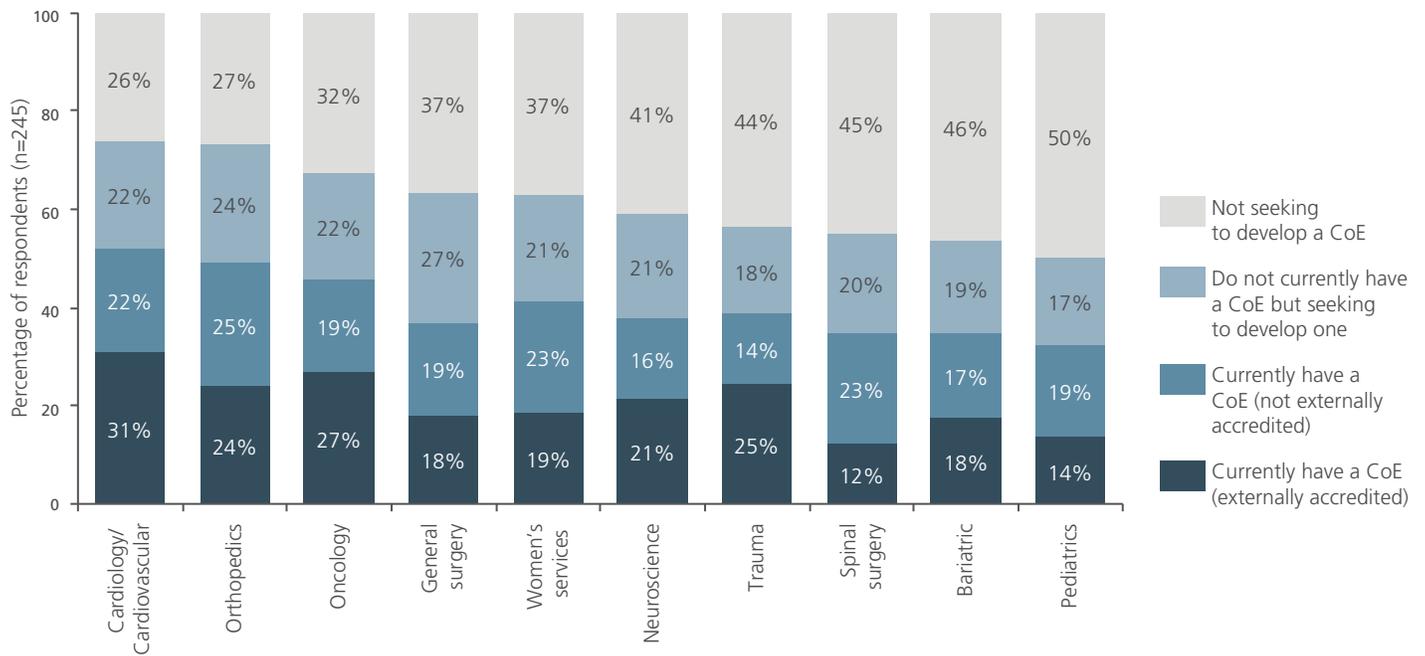
The increasing emphasis on CoE and service line differentiation is also supported by direct-to-patient (DTP) marketing activities. In fact, ~60% of hospital/health system executives report

engaging in DTP, with another ~25% expecting to do so in the future. Progressive health systems are ahead of the curve on this, with two-thirds already engaging in DTP compared to half of Traditionalist systems. These changes point to the increasingly sophisticated nature of competition to be expected between health systems in local markets going forward.

Expansion in the role and use of telehealth

While telehealth has been used in some capacity by health systems over the past five to 10 years, its use is expanding significantly. Health systems are increasingly recognizing the benefits of incorporating telehealth into care delivery (e.g., access, convenience, cost, patient experience, physician experience) and making investments accordingly. In the 2019 survey, ~50% of hospital executives indicated that telehealth is a high priority for their organization, and the vast majority of respondents expected meaningful increases in the use of telehealth over the

Figure 3
Current and planned focus on service line CoEs (2019)



Source: L.E.K. 2019 Hospital Study

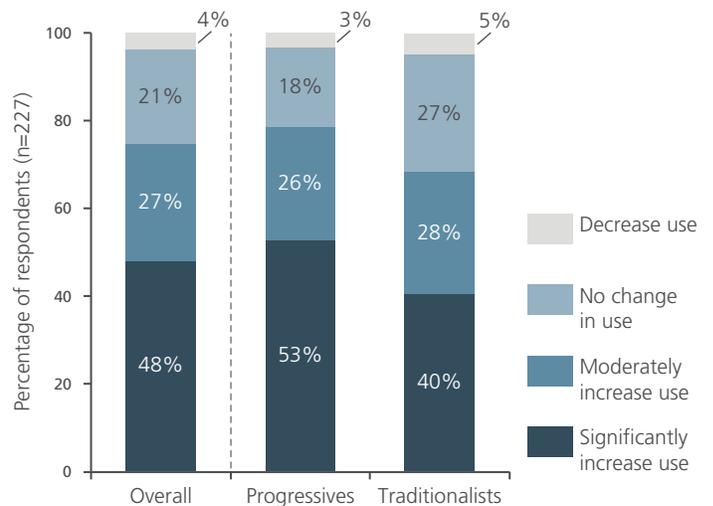
next three years (see Figure 4) across a range of applications, including clinician-to-patient interactions, patient-to-technology interactions and clinician-to-clinician interactions. Executives at Progressive health systems were particularly bullish on increased use of telehealth.

Hospital executives report using telehealth most commonly in behavioral health, imaging and radiology currently (see Figure 5). While increases in use of telehealth are expected across all service lines, notable increases are expected in areas such as women's services and pediatrics (see Figure 6). In addition to the availability of improved telehealth technology options, there is growing recognition from executives that telehealth can be a part of the care continuum for any service line, whether simply to streamline intake processes or to deliver a meaningful portion of care. All indications suggest that we are still in the early innings of telehealth adoption, but the game is earnestly underway.

Shift toward data-/analytics-driven care delivery

While the rollout of EHRs preoccupied many hospital executives in the 2010s, this represented only the first foundational step toward the use of data in care delivery. Hospitals today are

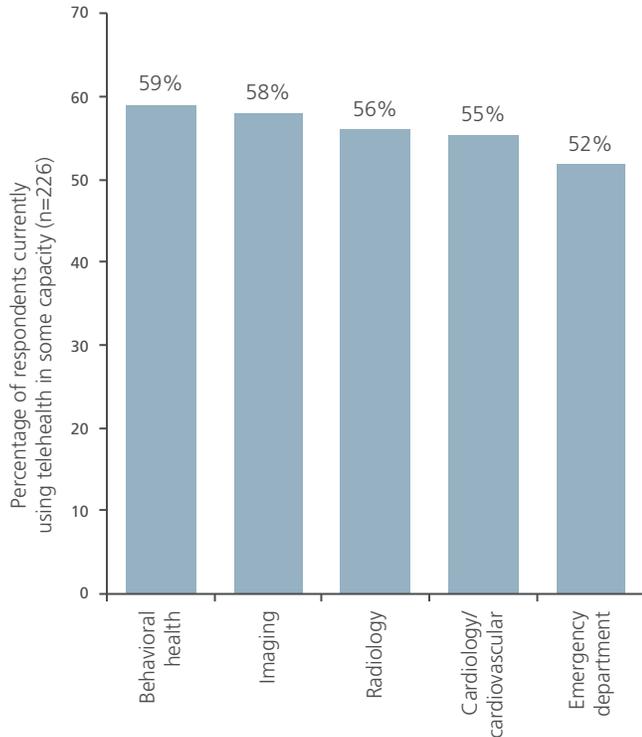
Figure 4
Expected change in the use of telehealth in three years (2019)



Source: L.E.K. 2019 Hospital Study

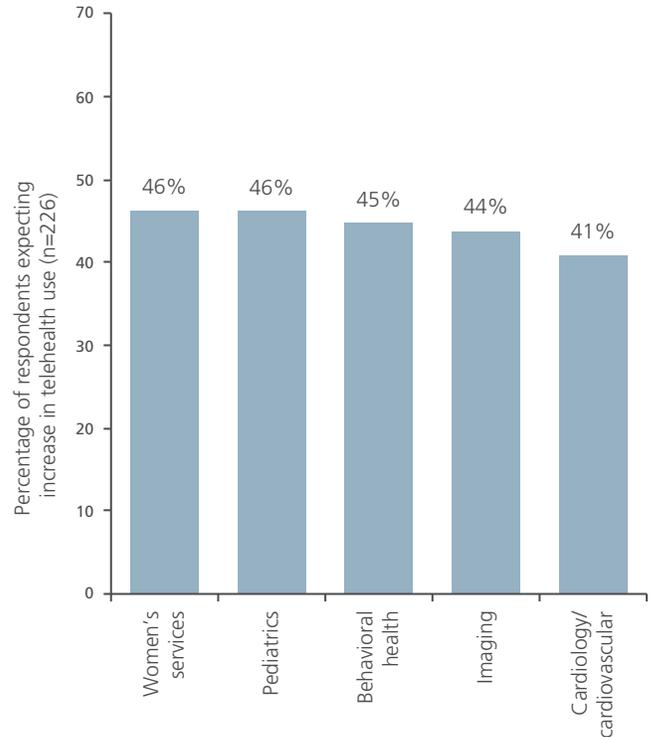
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Figure 5
Top 5 departments/service lines by current use of telehealth (2019)



Source: L.E.K. 2019 Hospital Study Survey

Figure 6
Top 5 departments/service lines by expected increase in use of telehealth (2019)



Source: L.E.K. 2019 Hospital Study Survey

only scratching the surface of the many new possibilities that clean and accurate data enables. These range from being able to enhance the smoothness of the patient experience to using data to optimize treatment protocols for improving and reducing variations in outcomes (including which medical devices and drugs empirically work best) to utilizing artificial intelligence algorithms to free up clinician time to focus on higher value-add activities.

Following this logic, the areas of highest priority for hospitals' near-term investments in HCIT are related to extracting more value from existing platforms, including enhancing the capabilities of their EHRs and integrating data across systems (e.g., finance, supply chain). Next-order priorities are investments in more advanced analytics and AI (see Figure 7).

While the vast majority of health systems indicate high interest and planned investments in HCIT and analytics capabilities, it

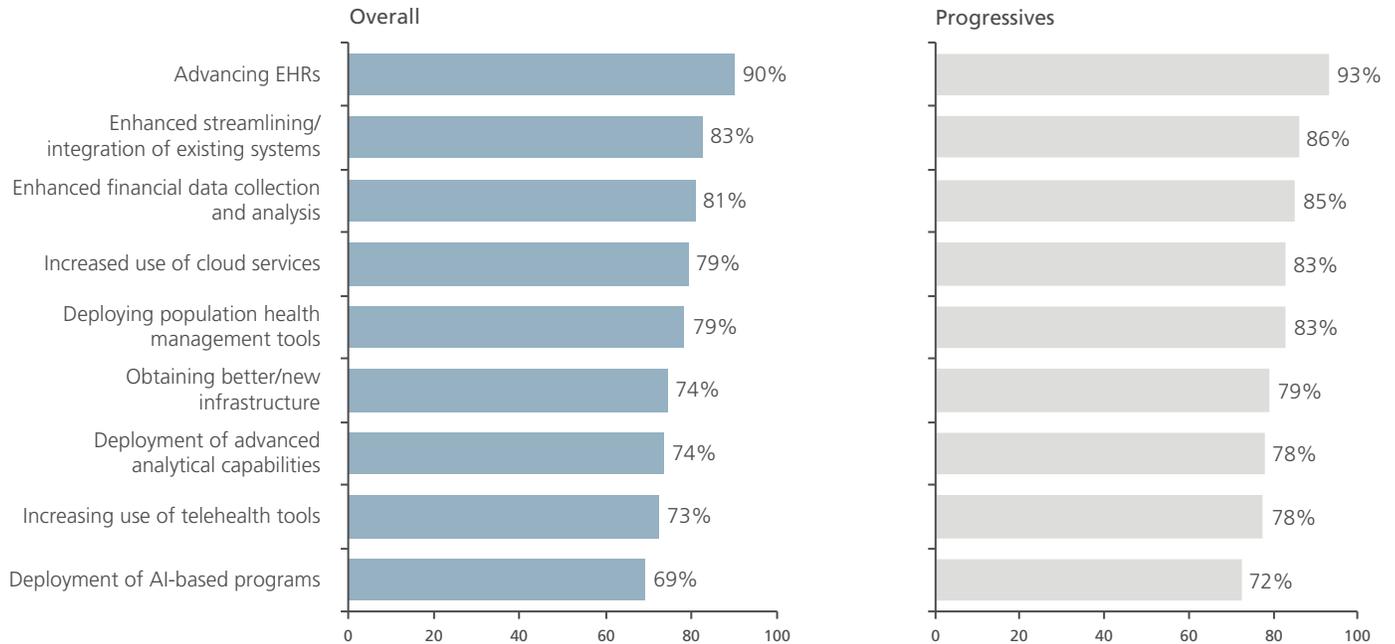
is the Progressives that are leading the way. They place greater importance on all HCIT investment areas than do Traditionalists, and importantly, they are also much more likely to work with external partners. Among Progressives, ~70% of the executives cite a high willingness to work with traditional HCIT companies, compared with ~55% of the Traditionalists. Notably, there is a bigger disparity when considering data analytics firms, which tend to be at an earlier stage and more likely to require collaboration with providers on more nascent solutions. Whereas ~50% of Progressive executives cite high willingness to work with data analytics firms, only ~25% of Traditionalists say the same.

Looking at what Progressive health systems are doing provides insight into where the broader market is moving. While the shift toward data- and analytics-driven care delivery will likely be gradual in the coming years, this will continue to be a priority

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Figure 7
Relative importance of IT priorities (2019)

Percentage of responses scoring 5 to 7 on a 1-7 scale (n=223)



Source: L.E.K. 2019 Hospital Study Survey

and reshape the way health systems operate. As providers work through the foundational challenges of fully leveraging their EHRs and as more sophisticated solutions mature, this shift will likely become more pronounced.

Parting thoughts

The 2010s were a tumultuous decade with tectonic shifts in U.S. healthcare. Regardless of whether new policy changes further alter the landscape after the 2020 election, change will continue

pace as today's health systems mature. Keeping a pulse on the views of hospital executives will remain a key to success for healthcare suppliers as we enter the 2020s.

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¹The term "CoE" is not limited to programs/service lines accredited by third parties (e.g., payers).

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About L.E.K. Consulting

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