SHSMD26 CONNECTIONS

Health Care Marketing, Strategy & Communications

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The Next Five Years Are Not in Your Strategic Plan

Market shifts health systems need to address now

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AHA Events

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The market shifts we're preparing for now

Inpatient care default

Ambulatory expansion

More outpatient capabilities and site-of-care shift incentives push more care to lower-cost ambulatory settings

42%

Increase in outpatient procedure volumes at community hospitals, 1995-2018

Fee-for-service payments

Hybrid payment model

The (slow) adoption of value-based care continues to transform how healthcare services are delivered and paid

9.2 pt

Increase in share of partial or full value-based payments[1] away from FFS payments, 2018-2024

Procedure-centric care

Drug proliferation

Drugs are increasingly the frontier of treatment innovation, shifting care delivery to a more pharmaceutical-centric model

71%

Increase in overall pharmaceutical expenditures in the US, 2020-2025

Demographic balance

Population asymmetry

An aging and sicker population threatens the industry's ability to pool risk and subsidize lower public payment rates

30%

Increase in median age in the US, 1980-2024

1. Category 3 and 4 payments from HCP-LAN framework.

Source: TrendWatch Chartbook 2020, Supplementary Data Tables. American Hospital Association. 2021; Tichy E, et al. National trends in prescription drug expenditures and projections for 2021. American Journal of Health-System Pharmacy. July 9, 2021; Tichy E, et al. National trends in prescription drug expenditures and projections for 2026. Am J Health Syst Pharm. April 30, 2026; APM Measurement Effort. HCP LAN. 2025 & 2019; "Vintage 2024 Population Estimates by Age, Sex, Race, Hispanic Origin". U.S. Census Bureau. June 2025; "1980 Census of Population, Volume 1, Characteristics of the Population", U.S. Census Bureau. 1980.

The market shifts requiring new frameworks

1 - Volume and revenue decoupling from margins

2 - New entrants and technologies competing to solve experience

3 - Persistent site-of-care shifts demanding more from ambulatory care

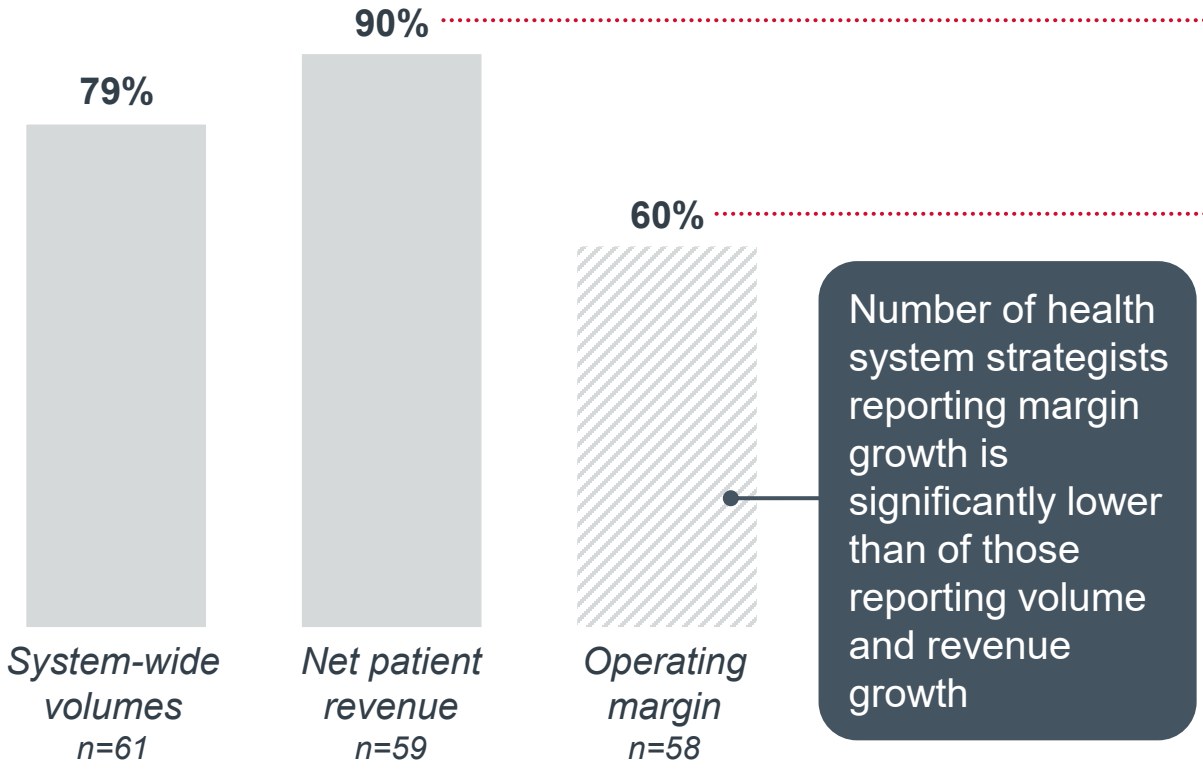
4 - AI influencing utilization and patient journeys

5 - Weakening safety net creating regional interdependencies

1 - Volume and revenue decoupling from margin

Revenue and volume have decoupled from margin

Percentage of respondents who reported growth in volume, revenue, and margin in the last year



Diminishing margin returns on revenue growth

+8%

Change in hospital median **net operating revenue** per calendar day

+1%

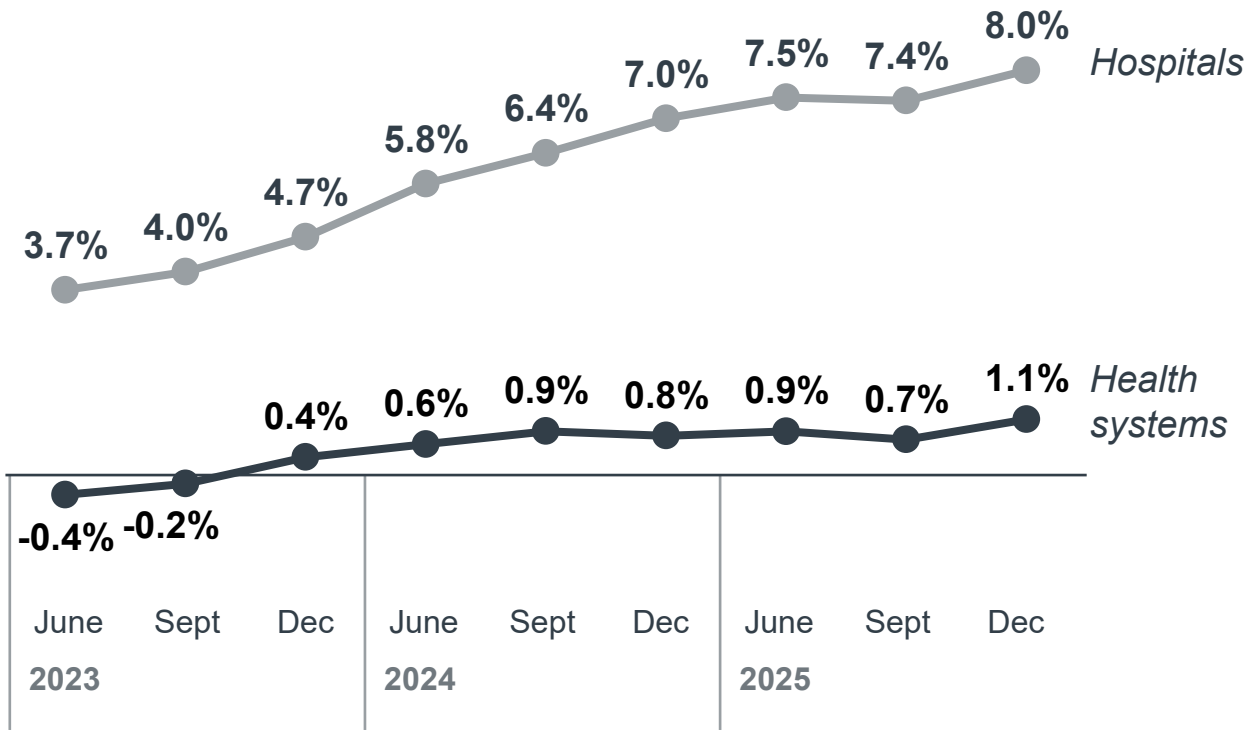
Change in hospital median **operating margin**

Source: 2026 Advisory Board Strategic Planner Survey; Swanson E. National Hospital Flash Report: September 2025 data. Kaufman Hall. November 12, 2025; Trigonoplos P. 3 key insights from our health system margin performance benchmarks. Advisory Board. October 27, 2025.

Funding cuts hit as health systems face tepid recovery

Health system margin still shy of sustainable, despite operating margin recovery

Median health system and hospital margin ,
rolling 12-month average, June 2023-Dec. 2025



- **3.3%** **Year-over-year median growth** in median health system margin
  DEC 2025
- **1.4:1** Ratio of **S&P credit downgrades** to upgrades, not-for-profit hospitals
  JAN 2026
- **35%** Of health systems are **operating in the red**
  DEC 2025

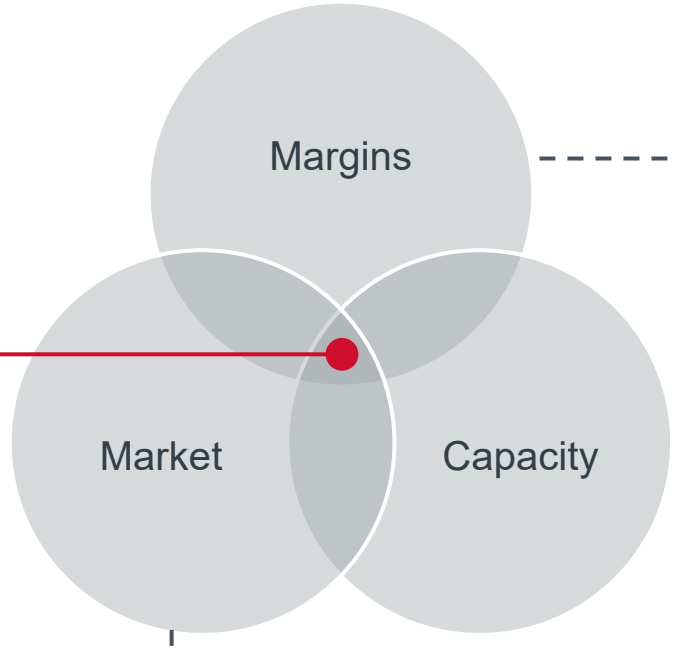
Source: Syntellis Performance Solutions. Accessed March 2026. Goldstein L. Five key takeaways on hospital rating activity moderation in 2025. Kaufman Hall. January 21, 2026.

Eroding assumptions undermine traditional playbook

	Historical assumption	Today's reality	Impact on strategy
Financial	Revenue growth translates to margin growth.	Lagging reimbursement, site-neutral payment policy, VBC and tightening utilization management, increasingly complex care needs, and higher operating costs make margin growth harder to attain.	Not all growth is good for health systems' bottom lines.
Operational	Operational considerations can be considered downstream from growth planning because we can absorb more demand.	Barriers to access, workforce constraints, lack of standardization, and suboptimal distribution of resources across systems accrue costs and tie up capacity.	Growth potential is inhibited by capacity constraints and operational inefficiencies.
Market	Market demand is the strongest indicator of a viable growth opportunity.	Market opportunity is defined by a multitude of dynamic factors beyond projected demand, including competitive opening, consumer behaviors, and population characteristics.	Traditional growth assessments generate strategies designed for stability, not agility.

Reimagine a more empirical and precise growth calculus

The trifocal growth assessment



Where sustainable growth decisions live

Aim for margin growth, not just revenue growth.
Your financial assessments are missing key indicators that drive margin up or down.

Account for true capacity as a core element of strategy.
Capacity is a key barrier to growth, but addressing constraints isn't coordinated between strategy and operations.

Assess multifaceted, rapidly shifting market realities.
Markets move more quickly and dynamically than traditional analysis rhythms account for.

UAB[1] codifies identification of attractive opportunities

GO Index: The purpose of the Growth Opportunity (GO) Index is to identify hospital services with highest volume and contribution margin availability and determine potential new market opportunities.

MARGIN
Growth opportunities are prioritized using sub-service line volume projections and contribution margins.

CAPACITY
Low or negative margin services are reallocated to lower-cost sites after thorough analysis.

MARKET
Market demand and expansion opportunities are assessed using robust travel pattern data, longitudinal claims data, discharge data, and Advisory Board's growth projections from the MSP tool.

1. University of Alabama at Birmingham

Source: Advisory Board interviews.

Aligning priorities reveals sustainable growth avenues

Margin

- UAB prioritizes services with both high volume potential and contribution margin availability.

Market

- The GO Index methodology pinpoints where true, profitable demand exists across the state.

Capacity

- UAB evaluates capacity at a system level and allocates it according to profitability and growth potential.

GI GROWTH BET

- GI emerged as a strategic growth opportunity due to projected increase in endoscopy volumes and high contribution margins, especially in lower-acuity sites of care.
- GI faced significant endoscopy outmigration in fringe markets, but patient travel patterns from those markets demonstrated willingness to travel for quality services.
- Leaders consolidated GI into fewer, lower-cost surgical practices so UAB could meet emerging market opportunity through existing capacity instead of unnecessary new sites.

Source: Advisory Board interviews.

Adapting the growth assessment

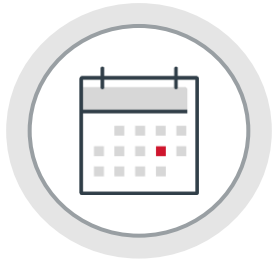
Margin	Capacity	Market
• **Granular analysis**—Calculate procedure- or encounter-level margin to pinpoint sustainable initiatives • **Journey-based accounting**—Examine upstream and downstream interactions that could impact margins to determine holistic profitability of growth initiatives • **Continuous monitoring**—Assess margin across time to remain nimble and adaptable	• **Capacity-constrained indicators**—Examine under-performing operational metrics for hidden growth opportunities, not just demand signals • **Humanized efficiency metrics**—Take a workforce-centric approach to metrics to ensure capacity is functional • **Continuous monitoring**—Monitor across time to catch constraints or inefficiencies early	• **Open lanes**—Identify the niches in your market where you have a competitive advantage and your competitors aren't participating • **Tiered data analysis**—Move below service lines to the procedural or programmatic level to identify nuances that shape growth potential • **Population behaviors**—Use market care gaps, variable utilization rates, outmigration patterns, and consumer travel for more thorough evaluations

2 – New entrants and technologies competing to solve the patient experience

Patients are frustrated with cost, access, and experience

36%

Of adults skipped or **postponed care due to cost** in 2025



31 days

Wait time for a new patient specialty physician appointment in 2025, up 19% since 2022

52%

Of Americans said their symptoms were **"ignored, dismissed, or not believed"** when they sought medical treatment in 2022

Sources: Sparks G, et al. Americans' challenges with health care costs. KFF. January 29, 2026; 2025 Survey of physician appointment wait times and Medicare and Medicaid acceptance rates. AMN Healthcare. Accessed July 14, 2025; MITRE-Harris poll: Many patients feel ignored or doubted when seeking medical treatment. MITRE. December 20, 2022.

New players collide with existing care offerings

Sample lanes of new healthcare ventures relative to legacy incumbents

Women's health
Maven, Midi, Pomelo

Behavioral care
Spring Health, Lyra, BetterHelp, Amae

GLP-1 procurement
Hims & Hers, Ro, Lilly Direct

Specialized coordination
- *Metabolic:* Virta, Noom, Levels
- *Musculoskeletal:* Hinge, Vori

Monitoring tools
- *Wearables:* Oura, WHOOP

General advisors
- *AI Chatbots:* ChatGPT Health, Claude for Healthcare
- *Biomarkers:* Function, Superpower

Expanded options or unnecessary services?

Supportive insights or overwhelming noise?

Tailored guidance or misleading fragmentation?

The future patient experience will look very different

Hypothetical patient journey of the future

"First" medical opinion patients seek 80% of the time is an AI chatbot

50% of specialty care referrals come from digital platforms

Commercial and self-pay patients show up to the traditional system mainly via escalation pathways

Public-pay and uninsured patients remain dependent on the traditional system for the full range of care

Consumer-generated data (e.g., wearables, home diagnostics, chatbot conversations) feeds directly into the EHR

Employers evaluate plans primarily based on their degree of integration with external platforms

Journey may be more convenient but less coherent…

Alternative D2C and D2E care ventures may lead to care that is…

Overutilized

- Convenience-driven consumption
- Over-testing and overdiagnosis
- Additional provider consult time

Redirected

- Clinical decision-making distributed across many players, altering provider or site selection
- Treatment decisions deviate from evidence-based medicine

70% Of global consumers say they have requested or would consider requesting a test, treatment, or prescription based on information they obtained from search engines

6pt Greater share of GLP-1 users discontinuing prescription use who sourced through online providers compared to traditional pathways

n=7,500 global consumers (chiefly across U.S., UK, Ireland, Canada, Australia, Saudi Arabia, France, Italy, Germany, and Switzerland) in April 2026

Underutilized

- Misdiagnosis misses care needs
- Fragmentation causes disconnects

Unmanaged

- Limited mitigation of side effects
- Resistance to following care plan
- Exacerbated conditions

Source: Torre K. How GLP-1s and AI are changing the way consumers interact with healthcare. EY. June 10, 2026.

…or the journey may be more tailored and responsive

Alternative D2C and D2E care ventures may lead to care that is…

Predictive

- Earlier intervention prevents needs from escalating
- Targeted screening identifies previously unmet needs

Guided

- Navigation directs consumers to appropriate care settings
- Digital touchpoints connect episodic care into an ongoing journey

7.1x Higher odds of initiating therapy for consumers who used clinical care navigation within Spring Health's digital mental-health platform compared to consumers who didn't use care navigators

57% Higher odds of attending multiple sessions for consumers using clinical care navigators than matched nonusers

n=36,964 participants across 2,045 U.S. employers from 2018-2023

Tailored

- Care recommendations reflect patient needs and preferences
- Engagement strategies adapt to individuals' circumstances

Monitored

- Engagement extends beyond the initial transaction
- Adherence, outcomes, and emerging care needs are tracked

Source: Ward EJ, et al. A remote care navigation solution associated with improved utilization and outcomes of mental healthcare: A nationwide cohort study in the USA. PLOS One. September 18, 2025.

The modern view of ~~access~~ experience

Core tenets remain, but patients' definition of value is shifting

*Traditional **access** paradigm*		*Emerging **experience** paradigm*
Appointment wait times, location convenience	**Availability** →	Time to address concerns and resolve needs
In-network providers, patient cost burden	**Coverage** →	Transparent all-inclusive pricing
Paperwork reduction, data access, patient front door	**Logistics** →	Seamless omnichannel handoffs to human staff
Treatment decisions based on clinical quality guidelines, referral recommendations	**Guidance** →	Customized, simplified support to select among curated care choices
Post episode follow-up, appointment reminders	**Engagement** →	Ongoing behavior change, longitudinal coordination

Steps to meet the patient preferences of tomorrow

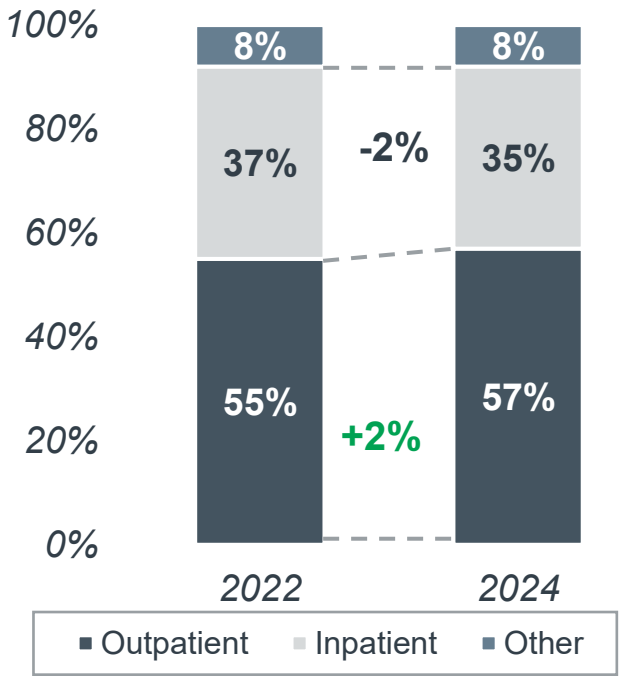
- Measure patient time to see **meaningful progress**
- Prioritize patient **financial experience**
- Integrate **digital and in-person** care journeys
- Build **appropriate variation** into care pathways
- Monitor and course-correct patient health **continuously**

3 – Persistent site-of-care shifts demanding more from ambulatory care

Site-of-care shifts an unstoppable force

Outpatient is becoming a bigger part of health systems' revenue and volumes

Change in health system revenue by source



$50B

Annual estimated loss of hospital revenue due to outpatient shift

Purchasers push toward an ambulatory future

Private payers eye outpatient cost savings

77%

Increase in U.S. **employer investment in virtual care**, 2023–2026

$265M

Annual health plan savings if 10% more joint replacements shift to ASCs

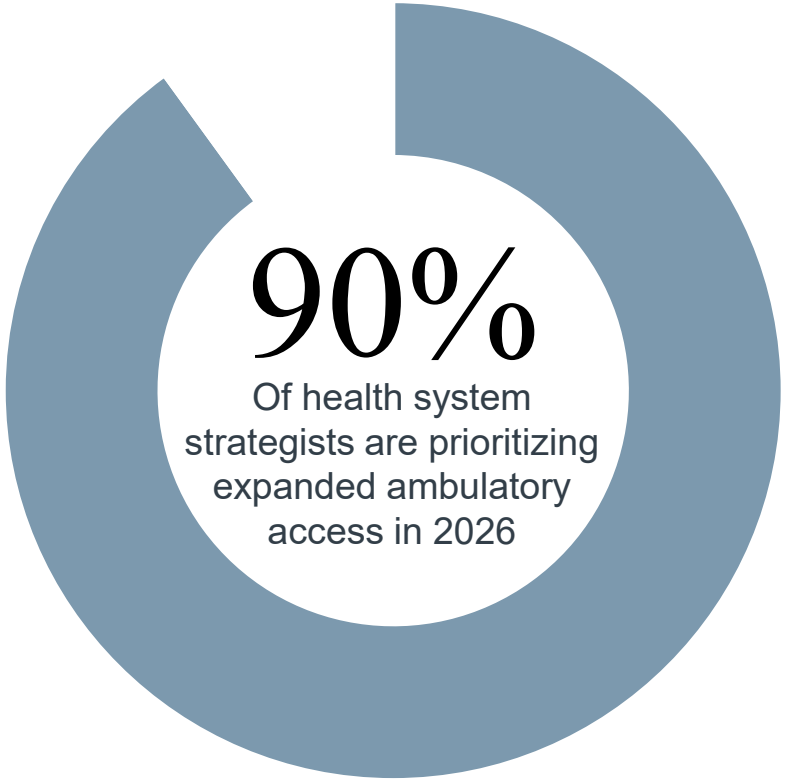
CMS takes action on site-neutral policies

- **Medicare inpatient-only list phase out** starting in 2026
- **ASC covered procedures list expanded,** including 271 codes from inpatient-only list
- **Site-neutral payments** initially target drug administration, CMS signaled interest in expansion to high-volume, high-cost services

Sources: Advisory Board analysis of Strata data. Accessed April 21, 2025; Beckmann S, Hula N, Site-of-care shifts: Healthcare's $50B opportunity. Advisory Board. November 27, 2024; Market Scenario Planner. Advisory Board. January 15, 2026; Kawamoto D. Enthusiasm for virtual healthcare is waning, but investments continue. HR Executive. September 21, 2023; Davis J, Godes D. The wait is over: The CY 2026 OPPS final rule is finally here. McDermott+, November 25, 2025.

Leaders pursue ambulatory with lingering reservations

Ambulatory is a widely agreed upon priority



Assumptions we need to question

Ambulatory services are loss leaders

Many ambulatory services cannot pay for themselves. Clinics present an intractable operational challenge.

Ambulatory exists to feed hospital care

The primary value of ambulatory networks is to funnel patients to more complex, acute services.

Hospital-based ambulatory is always preferred

Hospital outpatient department should remain the default for ambulatory care investment for the foreseeable future, or else they will dilute margins further.

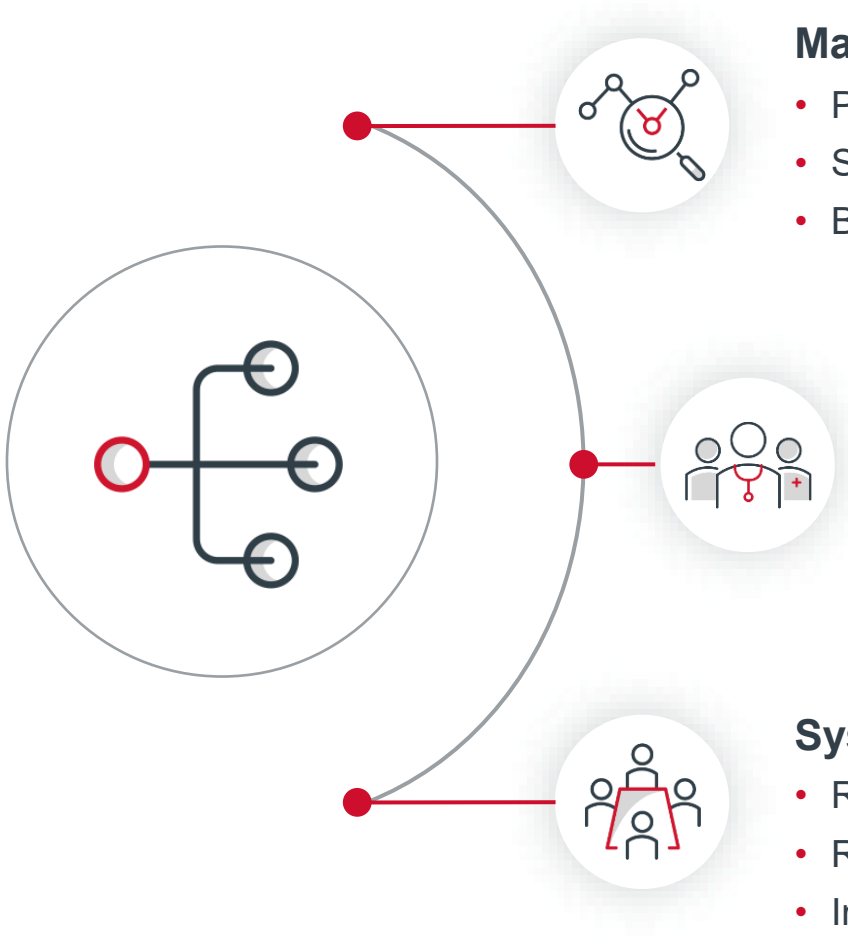
Many health systems delay or constrain ambulatory investment not because they doubt the long-term shift, but because **existing financial structures reward** preserving hospital margins.

Source: Advisory Board strategic planner survey data.

Take a portfolio approach to ambulatory investment

Service type	*Examples*	*Primary value*	*Secondary value*	*Organizational roles*
Margin drivers	• Specialty surgery • Imaging • Interventional (cardiac, vascular, GI, pain)	Contribution margin	Capacity leverage	• Generate predictable, scalable margin • Subsidize lower-margin access points • Absorb site-of-care shift
Volume and access engines	• Consult-heavy medical specialties • Primary care • Urgent care	Demand creation and downstream retention	Market defense and share protection	• Create front-door access • Shape referral patterns • Influence patient choice over time
System stabilizers	• Behavioral health • Chronic care • Specialty coordination clinics (CHF, oncology)	Cost avoidance and capacity arbitrage	Value-based care	• Reduce ED utilization and avoidable admissions • Reduce downstream care acuity • Enable downside risk models

Capabilities should earn their keep differently



Margin drivers must over-perform

- Produce surplus contribution margin
- Scale volume efficiently
- Beat the market on access

Growth and access engines must demonstrate value for system

- Retain patients for downstream services
- Grow panels and new patients
- Reduce network outmigration

System stabilizers must demonstrate cost avoidance

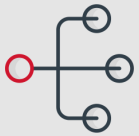
- Reduce avoidable admissions
- Reduce ED utilization
- Improve inpatient case mix

4 – AI influencing utilization and patient journeys

AI will affect growth and market dynamics

Use cases that span the care journey — from pre-visit triage to post-discharge follow-up

Tools that support, augment, or influence clinical judgment

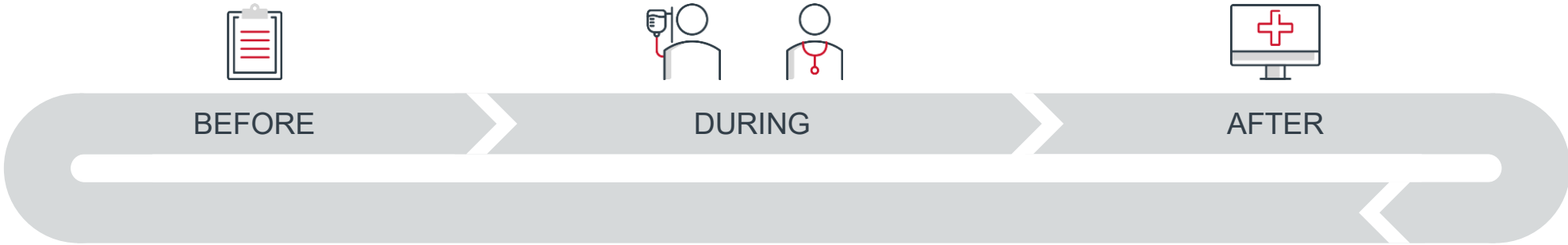


“Admin” tools that produce downstream clinical and operational effects

Use cases that alter the patient experience, for better or worse

The technological transformation of the clinical journey

The implementation of AI and automation across the journey of patient-clinician interactions



AI & AUTOMATION USE CASES	BEFORE	DURING	AFTER
Reduced burden	• **Scheduling and intake** • Eligibility checks • Prior authorization requests	• Ambient listening scribes • **Evidence-based medical necessity criteria review**	• In-basket messaging management • Visit summary documentation
Expanded capability	• **Patient triage** • Customized medical history summarization and formatting • **Adapt capacity for predicted utilization**	• **Documentation and quality gap opportunity prompts** • **Decision support with future outcome prediction**	• **Real-time risk monitoring (for falls, sepsis, HACs,[1] etc.)** • Tailored patient communication and check-ins

1. Hospital-acquired condition.

Patient AI use can change clinical decision-making

How AI could alter patient behaviors before, during, and between visits

AI influences patient choices before clinicians are involved

Recommendation engines and public-facing generative AI tools steer patients toward actions and sites of care even before they speak with a clinician.

AI expands the information patients bring into the clinical encounter

Patients arrive with AI-generated summaries, symptom interpretations, and wearable devices that influence the starting point of shared decision-making.

AI transforms the touchpoints where patients and physicians engage

Remote monitoring alerts, consumer chatbots, and automated triage tools create new moments for guidance and intervention outside the traditional physician office visit.

Looking forward

Patient-facing AI tools are likely to:

- Shape patient expectations for speed and clarity
- Create more negotiation in the exam room
- Expand non-visit decision points that clinicians must manage (if they identify them)

Strategy and growth implications of clinical AI

AI Function	**Consumer-facing AI**	**Triage and Routing**	**Scheduling and Capacity**	**Clinical Decision Support**	**Navigation and Follow-Through**
Planning import	Changes market share and referral patterns	Changes who receives care and where	Changes access, productivity, and capacity management	Changes treatment decisions, referrals, pathways, and service mix	Changes patient retention and leakage
Current and emerging examples	• ChatGPT et al. • Symptom checkers • Digital navigators • AI health assistants	• Symptom assessment • Level of care recommendation • Urgency categorization • Care setting suggestions • Automatic scheduling	• Appointment matching • Schedule optimization • No-show prediction • Waitlist management • Dynamic capacity allocation	• Guideline-adherent care • Earlier intervention • Clinical necessity • Drug utilization • Referral recommendations • Site-of-care steerage	• Automated care navigation • Follow-up coordination • Prior authorization • Referral management • Post-discharge monitoring

5 – Weakening safety net creating regional interdependencies

Federal policy changes disrupt pillars of access

Pillars of community access and recent challenges

Safety net insurance

OBBBA[1] reduces **funding and enrollment eligibility** for Medicaid and ACA

Rural health systems

OBBBA-related funding and coverage shifts accelerate **rural rationalizations and closures**

Local pharmacies

Reimbursement and price pressures push **pharmacy footprint rationalization**

Academic medical centers

Federal research and funding cuts **pressure research, medical education, and care delivery**

Urban safety net systems

OBBBA-related Medicaid funding and enrollment shifts **threaten safety-net status and viability**

Increased uncompensated care, capacity challenges, and competition; declining population health

1. One Big Beautiful Bill Act.

Pharmacy closures send shock waves across the industry

Pharmacy closure

Lower patient medication use

- Reduced access to preventive services
- Decreased medication adherence

24% of statin users did not refill their prescription in a 12-month period after pharmacy closure

Greater pharmacist burden

Pharmacists absorb more prescriptions from closures, which increases workload and burnout and decreases time for care

CVS acquired prescription files of **625** Rite Aid pharmacies across 15 states after closures

Health system capacity pressure

Delays and unfilled prescriptions lead to increased usage of the ED[1] and readmissions

33% of medication-related ED visits related to underuse or noncompliance

Reduced quality and outcomes

Nonadherence and medication delays lead to increased medical costs and reduced quality scores

20% readmission rate among patients with poor medication adherence

Sources: Park S, et al. Prevalence and predictors of medication-related emergency department visit in older adults: A multicenter study linking national claim database and hospital medical records. *Frontiers in Pharmacology*. October 13, 2022; Medicare 2025 Part C & D Star Ratings Technical Notes. Centers for Medicare & Medicaid Services. October 3, 2024; 2024 National Pharmacist Workforce Study: Final Report. American Association of Colleges of Pharmacy. May 27, 2025; Viswanathan M, et al. Interventions to improve adherence to self-administered medications for chronic diseases in the United States: A systematic review. *Annals of Internal Medicine*. December 4, 2012. Rosen OZ, et al. Medication adherence as a predictor of 30-day hospital readmissions. Patient Preference and Adherence. April 20, 2017.

1. Emergency department.

Pressures on any one actor ripple across an ecosystem

Rural hospital closures create regional problems

Reduced access to primary care

8.6% average decrease in local PCP supply post-closure

Strained capacity at nearby facilities

10% average increase in ED visits within two years of nearby rural closure, compared to 3% average growth rate pre-closure

Increased cost of care for providers and payers

5.2% increase in length of stay for emergency conditions at urban facilities related to rural closures

> “[Rural closures are] **impacting our daily capacity challenges and access needs.** We already had challenges; now even more demand is coming at us.” – COO, AMC in the Northeast

Sources: Mills CA, et al. The impact of rural general hospital closures on communities—A systematic review of the literature. The Journal of Rural Health. November 2023; Ramedani S, et al. The bystander effect: Impact of rural hospital closures on the operations and financial well-being of surrounding healthcare institutions. Journal of Hospital Medicine. September 16, 2022; Gujral K, Basu A. Impact of rural and urban hospital closures on inpatient mortality. National Bureau of Economic Research. June 2020.

Interdependencies spur innovative rural partnerships

Sample rural health partnership opportunities

EXAMPLE PARTNERSHIP	**CommonSpirit's Collaborative Care Model** transfers stabilized patients back to rural hospitals and rotates surgeons to perform procedures in rural hospitals	**Rough Rider Rural Clinically Integrated Network** negotiates value-based care contracts on behalf of 22 independent rural hospitals in North Dakota	**HERO program at the University of New Mexico** funds and deploys university-employed agents who support rural CBOs and address local health and social needs
KEY GOAL	 *Keep care localized*	 *Innovate payment models*	 *Address social drivers of health*
	• Improves rural hospital **margins** • Improves CommonSpirit hospitals' **capacity**	• Boosts commercial **reimbursement** for rural providers • Preserves **access** to quality care for rural members	• Develops **healthier**, more vibrant rural communities • Reduces **preventable utilization** at UNM
IMPLICATION FOR REGION	**Altered referral patterns, payment landscape, and patient affinities**		

Source: Burns A. Defining what it means to be a best-in-class rural health system. Advisory Board. Feb 2024; Kaufman et al. Health Extension in New Mexico: An Academic Health Center and the Social Determinants of Disease. Annals of Family Medicine. Jan 2010.

Leaders must make trade-offs around control

TAKE CONTROL

CEDE CONTROL

	Own	**Collaborate**	**Exit**
Strategic question	Where do we have market need and opportunity to assert control?	Where do we need partners to enable collective success?	Where are we expending resources without strategic focus?
Sample activities	*Hire community health workers to preserve Medicaid enrollment.* *Launch chronic disease management programs in select prevalent conditions.*	*Partner with rural hospitals to preserve access to care.* *Partner with tech companies to develop clinician-approved AI.*	*Scope service line growth to market competitive offerings.* *Embed greater discipline into capital allocation processes.*

How we can help with your strategy and planning

State of the Industry and Market Trends

Annual exploration of the top trends impacting healthcare – and the implications for your strategy

Foundational Market Analytics

Forecasting, demographics, physician supply and demand, facility and market benchmarking

Cross-continuum Market Intelligence

All-payer volume and market share data for any geography in the U.S.

Strategic Growth Research

Deep-dive explorations of a broad spectrum of growth opportunities and proven case studies from leading organizations

Learn more:

Scan the QR code or email Mandy Johnson at **BoorA@advisory.com** to request a demo or to learn how we can support your strategic planning efforts.