

Healthcare trends for 2022 and the implications for suppliers: margin pressures

Key findings

- Declining operating margins at health systems over the past two years is causing cost to surface as a strategic issue, in addition to an operational issue.
- As a result, health systems' strategic leaders may find that resolving cost and margin issues involves jointly leading transformation workstreams with their financial, operational or clinical colleagues.
- Suppliers can support their provider customers by continuing to look for strategic collaborations on cost management solutions, such as improving total cost of care and operational performance.
- Demonstrating the greater economic impact of new products, enhancements and innovations can help suppliers set the stage for stronger provider engagement and collaboration.

Overview

As the health care industry emerges from adversities of the last couple of years, the outlook in the year ahead requires understanding and clarity of trends that will dictate the greatest attention and judgment of healthcare leaders. Many of these anticipated trends are not necessarily unfamiliar to the industry; however, the recent past has shifted their priority for critical consideration and amplified the need for actions to align with market demands.

Here we look at healthcare provider margin pressures and offer perspective for leaders of medical device, supply and manufacturing organizations to help them best position their organization for driving new, innovative services and products for future care delivery.

With personal protective equipment and labor costs skyrocketing over the past 24 months, it should come as no surprise that average operating margins fell from 5.6% in mid-2019 to 1.5% in Q3 2021. Some providers nervously admit they expect to submit a negative operating margin to their boards for FY 2022–2023.

Vizient® expense management experts foresee that cost likely will bubble up as not only an operational issue but also a strategic one. Hospital strategy leaders may find themselves co-leading transformation workstreams with CFO, COO or clinical leader colleagues. These teams should look at top cost strategies that offer a mix of quick wins (e.g., O.R. efficiency, pharmacy and supply costs) — and longer term but potentially greater impact efforts (e.g., artificial intelligence-enabled central staffing, service redistribution).

Considerations

- For healthcare industry suppliers, margin pressure for your hospital customers is not new — just more intense and requiring new ways to support their cost restraints, short and long term. Are you looking for ways to enable health systems to procure your products and solutions while helping them with new approaches to address cost concerns?
- Industry suppliers should be conscious of health systems' revenue constraints due to the pandemic along with their increasing cost shift toward staffing retention.
- Beyond competitive pricing on products and supplies, we encourage suppliers to offer providers creative purchasing options that reduce the amount of tied-up capital. Consider longer-term arrangements, just-in-time inventory controls and flexibility of negotiated payment terms (e.g., per-click fees). Work collaboratively to identify specific solutions that support short-term margin constraints but offer long-term margin gain opportunities.
- Continue to look for strategic collaborations on cost management solutions, including how solutions and services can improve total cost of care management and operational performance for providers.
- Suppliers should expect an increasing need to demonstrate the greater economic impact of new product enhancements and innovations.

Additional resources

Find economic and global market indicators, along with capital equipment and supply price projections in our July [Budget Impact Projections report](#).

References

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Sg2 Executive Briefing: Fine-tuning Mergers and Acquisitions Focus. 2021; Impact of Change®, 2021; HCUP National Inpatient Sample (NIS). Healthcare Cost and Utilization Project (HCUP) 2018. Agency for Healthcare Research and Quality, Rockville, MD; Claritas Pop-Facts®, 2021; Sg2 Analysis, 2021.



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