PREMIER®

Beyond Cuts: A Strategic Guide to Margin Management in Healthcare

Four Strategies to Eliminate Waste and Position Your Organization for Meaningful Growth

Executive Foreword

Every healthcare organization is facing *crushing pressures* to do more with less — to cut costs, raise performance and protect clinical excellence in the face of relentless financial headwinds.

Labor shortages, supply chain volatility and shifting reimbursement models are reshaping balance sheets. *Inflation*, *policy reform* and rising consumer expectations are rewriting the rules of engagement. And fragmented data, limited physician alignment and organizational fatigue make every efficiency gain harder to achieve, even as each misstep becomes more expensive.

As healthcare organizations work to balance rising costs with evolving patient and payer demands, several key forces — and our collective ability to adapt — are shaping the macro environment and creating the urgent need for a renewed focus on total margin management. For instance, in the year ahead, Premier predicts that:

- **Margins will remain under siege.** Rising labor costs, ongoing workforce shortages and wage competition from other industries will continue to compress margins. Meanwhile, inflationary pressures — on supplies, pharmaceuticals and technology — will persist even as reimbursement rates lag. As a result, many health systems will face "marginless growth," where volumes may rise while profitability stalls.
- **Payer mix will deteriorate in ways that outpace revenue strategies.** *Medicare* and *Medicaid* enrollments are on the rise, driven by an aging population and coverage shifts. These programs reimburse at *lower rates* than commercial payers, creating structural margin challenges for providers. In the year ahead, health systems should expect commercial rates to become harder to negotiate as payers push back on reimbursement rates, requiring organizations to rethink where and how margins are generated.
- **Value-based care models will grow, but not quickly enough to offset shortfalls.** More providers will move into risk-bearing models to stabilize more predictable revenue streams. The catch? The level of adoption and margins will vary widely. Organizations with strong data, care management and physician alignment will gain an edge. Meanwhile, organizations without the necessary scale or infrastructure may struggle to turn risk into reward or end up subsidizing performance gaps they cannot close.
- **Outpatient and ambulatory migrations will accelerate inpatient margin erosion.** Payers and employers will continue steering patients toward lower-cost, non-acute care settings, eroding inpatient margins while opening new growth lanes in ambulatory, home and virtual care. Systems that diversify operations for growth will be better able to manage the revenue threats ahead of those that stand firm on hospital-only care services.

- **Technology investments will create near-term drags before generating lift.** Artificial intelligence (AI), automation and digital front-door tools may create efficiencies in the long-term, yet near-term costs for implementation, training and integration will weigh heavily on margins. Leaders who target investments toward specific bottlenecks — workforce, coding accuracy, revenue integrity, etc. — will see materially stronger returns.
- **Consolidation will continue as a survival strategy.** Health systems, physician practices and post-acute providers will keep merging to build scale, negotiate favorable rates, spread fixed costs and preserve competitiveness. Meanwhile, independent, smaller organizations will likely face steeper financial pressures and a shrinking operational buffer.
- **Policy will redraw the financial map.** Federal and state reforms, such as site-neutral payment policies, drug pricing legislation and value-based care incentives, will continue to reshape revenue streams. Strong advocacy will be critical to ensure margin-stabilizing policies, including extensions of Advanced Alternative Payment Model (APM) incentives and adjustments to Medicare Shared Savings Program (MSSP) changes.

This is not business as usual. It's a pivotal moment that demands new thinking, bold moves, and a shift from incremental cost-cutting to margin management for total value creation.

To survive and succeed in the long-term, organizations must not only eliminate waste but also build smarter, stronger and more connected systems that support new sources of revenue.

The situation may be urgent. But with the right strategies, tools and alliances, savings are just the beginning. Premier is your ally in that transformation, equipping leaders with the insights, data and scale to turn cost control into a competitive advantage.

Note: *With permission from our members, throughout this e-book, we've included several examples of the deployment of Premier solutions by hospitals and health systems to demonstrate how successful margin management can improve operations.*

Addition by Subtraction: Control Supply Costs

Hospitals and health systems are facing unprecedented financial pressure. Shrinking reimbursements, inflation, tariff exposure and geopolitical volatility have combined to form a margin-eroding storm. And while many cost drivers seem fixed or uncontrollable, supply spend remains one of the few levers where decisive action can deliver immediate and sustained impact.

For financially-minded leaders, the question isn't whether supply costs can be reduced — it's whether supply strategy can be reimagined as a source of competitive advantage. With the right combination of operational discipline, empowered partnerships, targeted investments and engaged clinicians, the answer is unequivocally yes.

Reduce Hard Costs with Supply Chain Optimization

In this era of margin compression, the supply chain has evolved beyond logistics to become a strategic engine that drives quality, efficiency and resilience. Supply chain optimization is essential: To succeed, healthcare organizations must re-engineer the current model to make their supply chain a value engine that connects financial stewardship with clinical excellence.

> **Your supply chain is a powerful lever for cost control and standardization. Holistic, data-driven supply chain strategies breed long-term success.**
>
> **Jeff Ashkenase**
> Premier's Managing Director and Practice Lead for Supply Chain Optimization

The following are proven levers to reduce expenditures across the supply chain:

- **Maximize value with group purchasing organization (GPO) leverage:** Enabling both supply chain and financial resiliency, Premier's industry-leading supply chain offerings create a collective shield that helps members minimize risk, strengthen their supply chains and maximize their purchasing power. Galvanized by *more than 3,000 negotiated contracts* with leading suppliers, our comprehensive national contract portfolio delivers flexibility and value, helping organizations save money on thousands of products across all care settings. In addition, Premier's contracts are often fixed for the lifetime of the agreement, which helps protect members from temporary pricing shocks to the system that may arise from tariffs and shortages.
- **Create and implement a physician-led value analysis process:** By systematically partnering with key stakeholders, identifying opportunities, evaluating new technologies, driving efficiencies and determining the best practices for delivering patient care, healthcare organizations can unlock significant cost savings, improve patient outcomes and better allocate resources.

For proof, look no further than *Kaleida Health*, a leading New York-based health system. Kaleida partnered with Premier to align clinical, financial and strategic organizational goals with a value analysis process to deploy a systemwide, physician-led governance system. The approach proved to be a gamechanger: With Premier's help, Kaleida implemented cost, quality and outcome initiatives, inclusive of supply standardization and evidence-based product selection, that yielded $17.7 million in savings in a single year.

- **Commit to strategic *purchasing programs*:** Committing volume across vendors and categories creates powerful leverage and is one of the cleanest ways to capture guaranteed savings. By standardizing and rationalizing the vendor footprint, Premier's national committed purchasing programs reduce duplication, ensure consistency and deliver measurable savings without compromising care.

  Consider *Bayhealth*, central and southern Delaware's largest healthcare system: By actively engaging in Premier's committed purchasing programs, first through Ascend, then AscendDrive and finally SURPASS, Bayhealth drove additional value from its purchasing portfolio. Collectively, these programs yielded more than $7.5 million in verified savings. In addition, Bayhealth realized over $2 million in aggregated group savings and secured more than $1.3 million in value through the national portfolio alone.

- **Invest in resiliency:** Since 2020, healthcare *supply chains* have faced nonstop turbulence, from pandemic shortages to geopolitical instability. Each breakdown — no matter how small — ripples through operations, inflates costs and has the potential to disrupt care. Premier's Disaster Preparedness and Response team offers dedicated support for members during an emergency or disruption, providing real-time intelligence and key resources to minimize impacts on patient care. In addition, Premier leverages comprehensive, real-time demand data and market intelligence to pinpoint supplies at risk of shortage. This, in turn, enables its health system members to better plan for inventory fluctuations. Combined, these efforts protect health systems from market volatility, pricing shocks and stockouts that could affect both financial and clinical outcomes.

- **Focus on pharmacy:** Pharmacy has become one of the *most volatile* and strategically consequential domains in healthcare. And in 2026, health system leaders must either get ahead of the changes in this segment or pay the price for being reactive. The most resilient health systems will take a proactive, multi-pronged approach to the pharmacy supply chain by leveraging commitment programs, technology solutions and GPO contracts to manage brand, biosimilar, generic and specialty products. Centralizing procurement across outpatient clinics and hospitals, coupled with GPO contracts and management services, is also a key lever for purchasing leverage and reduced variability in costs. Premier's comprehensive suite of pharmacy contracts, advisory expertise, private label and shortage programs — all underpinned by technology enablement — have been consistently shown to reduce health system pharmacy spend by 3 to 6 percent.

- **Optimize purchased services:** Non-direct labor expenses typically account for *more than 30 percent* of healthcare operating budgets, making purchased services a major factor in total margin management. But third-party services spend is often spread and siloed across facilities, making it challenging to pinpoint areas for improvement and eliminate waste. As hospitals and health systems are increasingly forced to do more with less, they must flip this narrative, turning purchased services into an engine for cost savings.

  Premier takes a holistic approach to purchased services optimization, integrating best-in-class contracts with unparalleled technology and expert-level support. For example, when Kaleida Health recognized purchased services as an untapped opportunity for margin improvement, they turned to Premier to reference their services pricing, develop centralized processes and aggregate spend for best price contract negotiations. Kaleida's optimization of purchased services contract categories alone drove $1.1 million in savings in 2023.

- **Tech-enable routine operations with AI:** AI-enabled demand forecasting and inventory optimization can help health systems reduce safety stock, eliminate expired items and smooth purchasing cycles, often reducing product waste and expiration write-offs by 20 to 30 percent without increasing risk. Similarly, supply chain leakage often occurs in the friction between purchasing, accounts payable, receiving and inventory management. For larger health systems, automating procure-to-pay (P2P) including contract activation, order entry, three-way match and invoice reconciliation using AI and digital solutions may eliminate thousands of hours of manual work annually.

New York-based Kaleida Health's cost-cutting initiatives yielded $17.7 million in savings in a single year.

Success Story

Case in Point:
Building a Data-Driven, Clinically Integrated Supply Chain

Virginia Commonwealth University (VCU) Health, a large academic health system, ***revamped its supply chain*** in just two years — transforming it into a data-driven, clinically integrated operation built around collaboration and industry best practices.

With Premier as a key partner, VCU Health adopted a "GPO-first" mindset to better leverage national contracts, peer collaboratives and advisory groups. Data integrity served as a focal point: Improving invoice match accuracy enabled stronger financial stewardship.

Clinician engagement also played a key role. Through the physician–led value analysis process and collaboration with surgeons and service line leaders, VCU Health completed 16 product conversions in the first year, balancing cost savings with clinical outcomes while preserving provider trust.

The impact has been both measurable and far-reaching. VCU Health achieved multi-million-dollar savings across fiscal year (FY) 2024 through FY25. Resiliency efforts included pandemic stock reserves, real-time backorder monitoring and proactive substitution protocols. Meanwhile, workforce investments led to over 140 interviews across two hiring events and the launch of a Supply Chain Academy focused on staff development and advancement. Now entering its next phase — expanding the use of ***Premier's SURPASS contracting portfolio*** and aligning capital project contracts — VCU Health continues to evolve its supply chain as a critical driver of quality care and long-term value.

Employ Technology to Enable Clinician-led Stewardship

Historically, health system financial leaders have struggled to engage clinicians as equal partners in cost containment efforts. But clinical decisions — including prescribing choices, supply utilization, admission status and discharge dates — carry direct financial implications, because they can lead to waste, inefficiency or suboptimal outcomes if not carefully managed.

In a complex healthcare landscape, cost containment is foundational to how hospitals deliver and sustain care.

Effective management of healthcare costs depends on having the right information at the right moment. Yet, many health systems struggle to provide clinicians and leaders with integrated views of patient needs alongside cost and quality data. The result? Care teams working in silos, potentially making clinical decisions without the full picture or a complete understanding of the ripple effects of those choices.

Premier's Stanson Health Stewardship solution addresses this gap. Seamlessly integrated with any electronic health record (EHR) via a lightweight, non-intrusive ribbon overlay, this *clinical decision support (CDS)* technology delivers cost and quality insights directly into the clinician's workflow, bringing timely, context-rich guidance that helps align care decisions with broader resource stewardship goals.

Using Premier's Stewardship solution, providers can see value-based alternatives for medications, labs and imaging in real time, empowering them to select options that maintain quality while reducing unnecessary spending. Providers also receive real-time insights on iatrogenic risk data, helping protect patient safety while addressing waste. Meanwhile, healthcare leaders gain continuous visibility into operational performance through analytics on resource use, length of stay (LOS) and readmission patterns.

By making Stewardship part of everyday decision-making, health systems can strengthen both quality and sustainability — ensuring resources are used wisely, outcomes consistently improve and financial performance remains resilient.

Success Story

Case in Point:
Unlocking Smarter, More Cost-Effective Care with Stewardship

MultiCare Health System, a 2,064-bed provider based in Tacoma, Washington, sought to eliminate wasteful practices *by partnering with Premier to embed the Stewardship app at the point of care.*

The health system implemented the Stewardship app, designed to reduce unnecessary medications, labs and imaging tests. Unlike traditional CDS tools, the Stewardship app delivers precise, patient-specific nudges only when clinically appropriate, surfacing cost-effective alternatives while preserving provider autonomy.

The result? Stronger provider engagement, with a 26 percent acceptance rate (including 23 percent for medications and 36 percent for labs) driven by an unobstructive design that avoids alert fatigue and respects clinician workflows.

The initial rollout was conservative yet delivered clear early returns. Starting with four medications and three lab tests, MultiCare saw average savings of $179 per accepted recommendation and approximately $81 per discharge.

Backed by oversight from MultiCare's CDS governance committee and requiring minimal information technology (IT) lift, the Stewardship app was implemented with minimal disruption — an important consideration for health systems balancing tight resources and EHR transitions. The next phase of deployment will extend these benefits across additional departments and care settings.

With Premier's Stewardship app, MultiCare saw average savings of $179 per accepted recommendation and approximately $81 per discharge.

Lean into Advisory Services to Turbocharge Cost Containment

To achieve truly meaningful savings on supplies and purchased services, hospitals and health systems must overcome tremendous internal and external challenges. But they don't have to do it alone: Advisory-led supply chain services help organizations reduce waste, improve service levels and enhance overall performance.

When it comes to better management of hard costs, Premier's Healthcare Supply Chain Optimization advisors are execution partners, working directly within health systems to embed operational discipline and financial rigor across the enterprise. With deep expertise in financial performance improvement, Premier's on-the-ground support helps redesign processes, build governance models and implement sustainable savings strategies that have been proven in the real world, including:

- Building alignment between clinicians, finance and supply chain.
- Creating or refining a physician-led value analysis process, engaging in committed purchasing and contract standardization processes to reduce variation and capture savings without compromising care.
- Leveraging group purchasing power, analytics and sourcing diversification strategies for supply chain and financial resiliency.
- Implementing technology solutions to automate routine tasks such as contract activations, compliance purchasing and procure-to-pay processes. For example, one large health system used *Premier's robotic process automation (RPA) technology* to activate more than 800 contracts while saving more than 30 hours of manual data entry.

Premier's expert advisors combine deep industry experience with proprietary data to build, test and scale strategic solutions side-by-side with health system leaders. Whether redesigning care delivery to shorten hospital stays, driving payer strategy and revenue integrity, or eliminating supply chain bottlenecks and inefficiencies, Premier's advisors partner end-to-end with healthcare providers to deliver transformational cost control and measurable, lasting impact.

Even high-performing systems have room to improve. Premier advisors recently uncovered $200 million in financial performance opportunities at a $4 billion health system — erasing 5 percent of the system's total expenses and achieving an eight-to-one ROI associated with a large-scale engagement with Premier.

Manage Labor Resources: Crack the Low Supply, High Demand Code

In a classic case of the law of supply and demand, labor costs continue to be a significant driver of margin pressure for health systems. One *study* projects a shortage of about 100,000 critical healthcare workers by 2028, straining a system already fraught with highly manual, inefficient processes.

Faced with a thinning talent pool, healthcare organizations are paying a premium to recruit clinical staff. A *data analysis* prepared by Premier's advisory services team revealed that while annual growth in hospital labor expense slowed in 2024, it remains higher than pre-pandemic levels. According to the analysis, hospital average hourly wage rates have increased by 34 percent since 2019, and agency rates have increased by 63 percent.

Retention is another pain point despite above-average compensation, with widespread burnout leading to high turnover that costs organizations an average of approximately *$46,000* per nurse. This can quickly add up when turnover ranges from *8.8 percent to 37 percent*, depending on geographic location and nursing specialty.

Chronic shortages of nurses, technicians and other staff have not only inflated costs but also created bottlenecks that delay care, reduce patient access and strain operational throughput. Premier data highlights the consequences: Physician turnover across key specialties can cost systems *over $1.2 million per physician*, while new patient appointment wait times now exceed 30 to 40 days, with a *53 percent increase in lead times* since 2020.

The implications are clear: Workforce shortages and high turnover rates squeeze margins, hinder growth and limit market expansion. Coupled with misaligned incentives and operational inefficiencies, these factors have driven a *13 percent decline in operating margin per provider* despite growing patient volumes.

But when hospitals and health systems can confidently predict and prepare for labor shortages before they occur, they become better positioned to address them.

Addressing these challenges requires a data-driven, systemwide approach that integrates labor planning with physician enterprise management, operational analytics and patient flow optimization.

Predict Labor Bottlenecks Before They Occur

To combat workforce-related inefficiencies, health systems must develop targeted strategies to optimize labor deployment based on robust operational data, such as *Premier's AI-powered workforce analytics*. Integration of physician enterprises and other care settings is equally important to maximize productivity and enhance patient flow.

Getting ahead of this challenge often requires data and advanced analytics to see developing labor trends and forecast their impact before they become issues affecting patient care. These can include:

- **Predictive models:** Premier's technology platform leverages machine learning (ML) to predict whether a specific department will face a shortage of clinical staff within the next eight weeks.

- **Productivity benchmarks:** Premier's tools can give healthcare providers productivity benchmarks against specific peer groups to uncover areas of suboptimal performance and manage patient care demands. Take Delaware's Beebe Healthcare, for example: Like many healthcare providers, Beebe faced rapid community growth, a shrinking workforce, rising labor costs and operational efficiencies. Premier's *OperationsAdvisor®* helped Beebe benchmark operational performance against peers, track productivity trends and identify areas for improvement. The technology's data insights also laid the groundwork for Beebe's 2025 transition to a new electronic medical record (EMR) system. Overall, Beebe's partnership with Premier generated $15 million in savings in FY 2024 alone.

- **Physician group performance insights:** *Premier's Performance Insights Value Optimization Tool (PIVOT)* enables health system leaders to minimize variation, learn from leading internal and external practices, and benchmark operations in real time against industry standards. PIVOT provides a detailed, comprehensive view of medical group performance, from systemwide insights to individual provider analytics. With this platform, savvy health systems can:

    - Meet patient demand effectively by optimizing provider capacity and services.
    - Improve the efficiency of patient access and throughput systems.
    - Deploy staffing models and skill mixes to boost agility and productivity.
    - Foster collaboration among physicians and advanced practitioners for improved care.
    - Analyze physician and advanced practitioner compensation trends and align with productivity goals.
    - Understand patient demographics and complexity to tailor services and address community needs effectively.

Employ Technology to Extend Scarce Labor

Organizations should streamline processes and eliminate inefficiencies to both free up scarce resources for patient care and cover the added expense of higher salaries in a hypercompetitive market. This means eliminating tasks that could be delegated to non-clinical staff and tech-enabling processes that are eating into clinical caregivers' time.

The following measures can enhance automation and help organizations better leverage labor resources:

- **Employ documentation and coding solutions:** Comprehensive coding solutions within Premier's CDS suite reduce the administrative burden on already overworked staff, optimizing patient care while streamlining documentation and coding processes. Premier's *CodingGuide* helps providers accurately capture Hierarchical Condition Category (HCC) codes at the point of care, while Premier's *CodingCare* enhances coder and Clinical Documentation Improvement (CDI) workflows.

  When central Indiana's Community Health Network (CHN) implemented CodingGuide, it saw greater accuracy, coding outcomes and results. But providers also experienced profoundly *improved efficiency* in their workflow thanks to the technology's AI-driven assistance: Providers posited that no amount of manual review could match the depth and speed of the CodingGuide analysis. Moreover, the seamless integration and minimal disruption to workflows made the switch an easy choice for CHN.

- **Streamline tracking and reporting of quality measures:** Performance improvement has never been more critical for healthcare providers. But faced with multiple public healthcare ratings programs assessing different metrics, healthcare providers may feel challenged to pinpoint the best place to start their improvement journey. Meanwhile, fragmented or manual reporting can be a daunting, time-intensive task for even the most experienced teams.

  Premier's end-to-end *quality improvement platform* helps organizations benchmark against top performers, track key quality metrics and execute transformative strategies. Using a single feed of information, our comprehensive solutions streamline performance improvement with risk-adjusted benchmarks from more than 40 percent of U.S. hospital discharges. Providers are empowered to improve care delivery, reduce variation and meet the demands of value-based care.

- **Introduce automated infection surveillance:** *Premier's Clinical Surveillance*, powered by TheraDoc®, helps leading health systems detect risks more quickly, document and report infections and streamline pharmacy workflows. Capabilities not only drive safer care, but they also save time. Providers can cut daily surveillance time by up to 40 percent, connect directly to EHR systems for full clinical context without switching platforms, and more.

- **Adopt electronic prior authorization (PA):** *Premier's AI-driven PA solution* automates approvals using evidence-based criteria, reducing administrative burdens and delays. This enhances operational efficiency and patient access, creating a more collaborative and efficient workflow that streamlines processes for both payers and providers.

- **Tech-enable routine processes:** To extend scarce labor, automate those processes that are traditionally manual — both to remove inefficiencies and improve employee productivity and satisfaction. For example, the *accounts payable (AP) process* is ripe for enhancement. Time-intensive, paper-based and error-prone processes have bogged down the supply chain — and healthcare finances — for far too long.

  As one of the best tools to help drive savings and labor efficiency, AP automation technology can be deployed at any time. In the event of a planned enterprise resource planning (ERP) system upgrade or transformation, providers should consider *implementing these changes together*, helping ensure scale and a systemic approach to automation.

- **Lean into workforce collaboratives:** *Premier's Workforce Innovation (WIN) Collaborative* helps participating members tackle tough labor challenges. Through increasing retention, optimizing talent acquisition and building resilient teams, members can reduce turnover and overall labor costs.

A word of caution: Ill-fitting or poorly integrated technology may fail to have the intended effect on labor challenges, leaving clinicians overworked and increasing an organization's reliance on costly overtime or agency staff. That's why it's paramount to deploy the right tools, seamlessly integrated into human workflows to predict demand, balance workloads, fulfill clinician preferences, optimize coverage and more.

The result? Enhanced staff satisfaction, reduced burnout and improved operational efficiency.

Quality that Pays Off, Clinically and Financially

32 percent reduction in sepsis mortality at Cone Health using Premier's Quality Enterprise.

16 hours per month saved by WakeMed after automating data reporting with Premier INsights.

$17 billion estimated collective annual cost of avoidable Medicare readmissions.

4X increase in operational improvement velocity at North Mississippi Health Services.

> **With Clinical Surveillance, we've achieved an estimated $420,000 in annualized cost savings. Increased pharmacy interventions and smarter use of anti-infectives saved over $160,000, while improved infection prevention workflows and avoided HAIs contributed another $259,000 in savings.**
>
> **Health System Leader**
> Billings Clinic

Connect with Community Partners to Streamline Efforts and Eliminate Redundancies

Health systems face increasing pressure to improve quality, lower costs and succeed amid persistent workforce shortages. Against this backdrop, many hospitals and health systems will need to rely on community partners if they hope to succeed.

Partnerships with local health departments (LHDs) and community-based organizations (CBOs) bring strategic advantages: They serve the hardest-to-reach populations, offer credible networks to close care gaps and act as early warning systems for emerging threats, from infectious disease to environmental health risks.

For providers, these partnerships can serve as extensions of their core operations. By coordinating outreach, aligning services and integrating community insights into enterprise planning, health systems can reduce duplication, improve efficiency and maximize the impact of population health initiatives.

Consolidate Community Health Data to Coordinate Outreach Efforts

Sharing and integrating community health data helps health systems and partners coordinate outreach more effectively: A ***recent study*** conducted by Premier, in partnership with STAT Brand Studio, found that 63.8 percent of healthcare organizations now share clinical data with local health departments.

The study suggests two things: improved data security technologies and a growing recognition that advancing population health will take a collective effort. Furthermore, consolidating community health data from LHDs and CBOs into enterprise dashboards and joint planning platforms allows leaders to anticipate emerging needs, target interventions and avoid overlapping programs.

Integrate Public Health Insights into Strategic Planning

Strategic partnerships with LHDs and CBOs foster opportunities to align policy, workforce development and programmatic efforts: With ***73.8 percent*** of organizations already partnering with local health departments, collaborations are becoming standard practice rather than the occasional experiment. Integrating public health insights into planning ensures programs complement rather than duplicate one another. Integration also enables health systems to extend the reach of value-based care, close care gaps and maximize community impact.

Leverage Advisory Expertise for Tailored Outsourcing and Redesign Strategies

Premier's advisors channel deep insights into measurable results, partnering with provider organizations to co-design and implement strategies tailored to their unique needs. For example, careful outsourcing addresses the high cost of labor, while reimagined care pathways and workflows can help reduce clinical variation that fuels inefficiencies. Staffing models and skill mixes designed to boost agility and provider productivity also enable hospitals and health systems to engage and optimize the talent they have.

- **Outsource where it makes sense.** With flexible workforce enhancement, third-party experts can join forces with a health system's internal team to fill staff vacancies, supporting continuous improvement and growth. Short- or long-term engagements can focus on supply chain fundamentals such as increased efficiency and cost management as well as broader redesign and value creation opportunities in digitization, sustainability and transformation. Consider Bayhealth, central and southern Delaware's largest healthcare system: Through a *co-management model*, Premier staff assumed operating room (OR) materials management. Within the first year of the engagement, they identified an estimated $8 million in savings by eliminating expired inventory, physically reorganizing to enhance workflow and improving operational efficiency — benefits that all can benefit the bottom line.

- **Address care variation.** Care variation has become a top priority in the *value-based care (VBC)* era. But for many healthcare organizations, it also represents one of the toughest hurdles. Data analytics can help generate insights into evidence-based care programs and identify widespread opportunities for improvement. This, in turn, helps providers deliver the highest quality care at the lowest possible cost.

  Premier's advisors help reduce care variation and enable efforts at peak efficiency by empowering multi-disciplinary teams to achieve consistency in care pathways using data and literature. This helps teams deliver improved outcomes while reducing unnecessary treatment and avoidable errors and shortening length of stay.

  St. Luke's University Health Network (SLUHN), a not-for-profit health system serving Pennsylvania and New Jersey, worked with Premier to launch an *initiative* aimed at improving quality and outcomes by eliminating unnecessary variation in care. SLUHN effectively decreased variation in clinical care and recorded strong performance in value-based payment programs — earning A ratings from the *Leapfrog Group* across all hospitals and recognition through *Premier's 15 Top Health Systems® program*.

Avoid Payment Penalties and Maximize Reimbursement

Hospitals across the country are operating in a financial environment where sub-par performance is no longer a mere quality concern — it is a strategic threat. Under Centers for Medicare & Medicaid Services (CMS) value-based payment programs, even small missteps can trigger payment reductions that put nearly *6 percent* of all Medicare payments at risk.

While health systems may have had the wherewithal to absorb these reductions in the past, the *One Big Beautiful Bill Act (OBBBA)* cuts to Medicaid and the Affordable Care Act (ACA) subsidies sharpen their impact.

To manage these pressures, most systems are pursuing a dual approach — improving quality outcomes to avoid payment penalties in fee-for-service programs while simultaneously investing in value-based care and alternative payment contracts that provide upside bonuses for the achievement of certain cost and quality outcomes.

For health systems that recognize this and align accordingly, the opportunity lies not only in avoiding penalties but also in converting a performance advantage into competitive differentiation in value-based markets.

Strive for a Culture of Zero Failures

In today's value-based healthcare environment, aiming to simply reduce failures is no longer sufficient. Healthcare systems must pursue zero failures — which means eliminating process breakdowns, human errors, clinical missteps and delays that subject hospitals to the cascading payment penalties tied to poor quality, readmissions and hospital-acquired conditions. The good news? With Premier's support, systems can deploy a comprehensive set of strategies to make that ambitious goal both tangible and sustainable.

- **Data-driven oversight and analytics:** Premier's performance insights and analytics platforms aggregate quality, financial and operational data to identify failure points early. These include missed follow-ups, delayed transitions and/or high-risk patients who slip through care gaps. By bringing those insights into clinician and operational workflows, systems can close loops before penalties hit.

- **Workflow embedded decision support:** Through CDS tools, Premier embeds evidence-based guidance in the care process. This means clinicians receive alerts and alternatives at the point of care, helping reduce unnecessary variation, prevent errors and align care with best practice — all of which support zero-failure outcomes.

- **Process standardization and value analysis:** Premier's physician-led value-analysis frameworks equip organizations to standardize clinical practices, supplies and workflows across service lines. Standardization drives reliability, which is foundational for failure elimination. When every unit follows a proven process, the chance of avoidable variation — and thus failure — drops significantly.

- **Cross-continuum alignment:** A zero-failure strategy cannot end at discharge. Premier helps health systems integrate post-acute, ambulatory, home care and community partnerships, helping make care transitions seamless and suppressing risks of readmissions or complications. This broader ecosystem view is essential, because many penalties arise from care breakdowns outside the hospital walls.

By moving toward zero failures, health systems can protect margins. In turn, they can also avoid CMS penalties, enhance their reputation with improved quality scores and public ratings, and free up resources to reinvest in innovation rather than remediation.

Premier's clinical excellence solutions comprise vast data, AI-enabled technologies and expert advisors to help providers navigate the complexities of reliable, high-quality performance. To name a few:

- **Clinical and quality improvement technologies** include actionable analytics and clinical benchmarking, clinician performance management, chart-abstracted measures reporting, quality ratings tracking, and hospital and clinical electronic quality reporting programs.

- **Strategic collaboratives** include Premier's 100 Top Collaborative and condition-specific collaboratives focused on oncology, women's and infant care, and others.

Smart, Sequenced Moves into Value-Based Care

The Medicaid and ACA cuts in OBBBA may leave hospitals with a higher share of uninsured and underinsured patients, meaning more care delivered with little or no fee-for-service (FFS) reimbursement. As a result, health systems should start to see *value-based care (VBC)* not as a choice but as a survival strategy to avoid "death by a thousand cuts" in an increasingly restrictive payment landscape.

VBC models, by contrast, offer not only protection from these FFS penalties but also a pathway to meaningful upside. Through accountable care organizations, bundled payments and population-based contracts, providers can be *rewarded* for care coordination, chronic disease management and prevention — strategies that convert clinical excellence and operational discipline into predictable financial reward.

These models also have ancillary benefits. Alternative payment models create opportunities to diversify revenue streams, reward proactive population management and stabilize financial performance during periods of utilization volatility. Simultaneously, they create greater alignment with primary care and specialist physicians. Furthermore, they fuel incentives for the creation of social support structures that help uninsured or underinsured patients better manage conditions to avoid expensive care settings.

For health systems facing margin pressure, workforce shortages and the growing need to invest in digital transformation, these value-based care dollars matter now more than ever.

Premier's work with leading health systems nationwide highlights a consistent pattern: Organizations that lean into value-based care arrangements are outperforming their market peers on both margins and quality. They're leveraging data to close care gaps, redesigning care pathways to reduce unnecessary variation and partnering more deeply with physicians to align incentives. And the organizations that start early — before mandates force action — capture the greatest gains.

But shifting to a VBC model can be bumpy, requiring upfront infrastructure investments, cultural transformation and longer revenue cycles as payments are reconciled against year-end performance metrics.

To prepare, health systems must conduct a clear-eyed assessment of where they stand today from both a contractual and operating capabilities perspective. This means understanding what portion of contracts already tie payment to performance, how financially and operationally ready they are to take on risk, and which patient populations they're best positioned to manage. Providers in the VBC landscape should also actively explore how *Section 1115 Medicaid waivers* can facilitate innovative approaches to care delivery and payment reform.

Additionally, the transition to a VBC model requires investment in analytics tools and registries to track chronic conditions. It also requires embedded care coordination models that reach into partnering physician groups (both owned and out of network) and other providers across the care continuum. The shift demands a redesign of clinical workflows — moving from episodic care toward team-based, longitudinal models that prioritize prevention, care transitions and virtual engagement. Internal incentives should align with these new priorities, just as contracts with payers evolve to include shared savings, bundled payments or capitation.

While the transition can be daunting, those making the move are best advised to consider data-driven collaborative models, where they can learn from early pioneers who have already adopted and are succeeding in VBC arrangements.

Value-based care isn't just gaining traction — it's delivering measurable results. As OBBBA and other drivers accelerate the shift away from fee-for-service, Premier's Population Health Management Collaborative (PHMC) is showing what's possible.

CMS recently announced that 476 Accountable Care Organizations (ACOs) participating in the 2024 MSSP delivered *$2.5 billion in net savings to Medicare*. This marks the most successful year in the history of the MSSP, with ACOs continuing to provide high-quality, coordinated care to *more than 10 million beneficiaries*.

Since 2017, Premier's PHMC members have consistently outperformed the nation in total cost of care models and have been leaders in MSSP since its inception. For *Performance Year (PY) 2024*:*

- PHMC members earned over $500 million in shared savings (and over $919 million in savings).
- PHMC members earned shared savings at a higher rate than other hospital/health system high-revenue ACOs, 71 percent compared to 61.5 percent for non-PHMC member high-revenue ACOs.
- PHMC members also achieved an impressive average quality score of 84.76, outperforming the national average quality score of 81.53 for all ACOs. PHMC members had standout performance in diabetes and blood pressure control, depression screening and patient experience — areas where MSSP ACOs outperformed non-participating clinician groups.
- Overall, the MSSP achieved a record $4.1 billion in total shared savings payments earned across all ACOs.

*Based on Premier's internal analysis of the 55 ACOs that were in the PHMC in 2024.

As they did in 2023, Premier's PHMC members achieved record savings, demonstrating how collaborative, data-driven strategies can turn momentum into real-world outcomes for hospitals, health systems and the patients they serve. Accounting for 1.7 million attributed beneficiaries in 2024, Premier PHMC ACOs represent one in 10 MSSP patients nationwide — a powerful footprint in advancing value-based care.

Optimize Your Supply Chain to Prevent Shortages and Protect Quality

As another line of defense, supply chain optimization helps prevent shortages that may increase a hospital's average length of stay and readmission rates and negatively impact overall quality of care — and reimbursement rates. By ensuring providers have the right resources at the right time, a resilient healthcare supply chain reduces disruptions and enables better patient care across the healthcare continuum.

When South Carolina's Prisma Health made a ***systemwide transition*** to Premier's GPO, it leveraged Premier's advanced data and technology solutions, unlocking actionable insights that connected clinical and operational leaders. This empowered Prisma Health to track quality performance, monitor compliance and prioritize areas for improvement.

"This was a turning point for us," said Dr. Catherine Chang, Vice President and Chief Quality Officer, Ambulatory and Clinical Councils at Prisma Health. "Premier brought the data transparency and business intelligence we needed to connect clinical and operational leaders in ways that hadn't been possible before."

Premier's embedded advisory team helped Prisma Health integrate technology and data-driven solutions to enhance performance and outcomes — both critical for avoiding payment penalties and maximizing reimbursement.

Tech-Enable Processes to Bridge the Provider-Payer Gap

Claims adjudication costs continue to soar, as do the administrative costs associated with denials. According to a *voluntary, national survey of member hospitals* from August 8, 2024, to February 4, 2025, Premier found that claims adjudication cost healthcare providers more than $25.7 billion in 2023, a 23 percent increase over the previous year. Seventy percent of denials were ultimately overturned and the associated claims were paid, but only after multiple, costly rounds of review. What's more, the average cost per claim increased from $43.84 in 2022 to $57.23 in 2023. Added labor was responsible for 90 percent of claims processing expenses incurred by providers.

Automation and novel technologies provide more direct solutions to reimbursement headaches: They can be used to check payer policy changes, alert staff when prior authorization is needed, gather relevant documentation and review authorization requests for accuracy.

Tech-enabling the reimbursement process significantly reduces staff burden and lowers the risk of claims submission without the necessary authorizations in place. Streamlining reimbursements also benefits payers, as increasing the rate of "clean" claims submission reduces the need for manual reviews and subsequent rounds of adjudication expense.

To combat the high cost of claims adjudication, Premier's solutions help bridge the gap between payers and providers, optimizing resource utilization, streamlining administrative processes, and enabling efforts to ensure accurate reimbursement and improve outcomes.

- **Clinical decision support:** Premier's *Gaps app* seamlessly integrates real-time gap closure in the provider workflow. An easy-to-implement, EHR-agnostic tool, this CDS technology is a provider-friendly way to present health plan insights and next-step actions while the patient is present. Customized to each payer, the Gaps app focuses on what matters most for each patient. Real-time nudges help deliver measurable changes in behavior, benefiting provider capture of available incentives as well as the health plan.

- **Prior authorization (PA):** *Premier's AI-driven PA solution* automates approvals using evidence-based criteria, reducing administrative burdens and delays. This enhances operational efficiency and patient access, creating a more collaborative and efficient workflow that streamlines processes for both payers and providers.

Enlist Expert Help to Navigate Unprecedented Volatility

Compressed margins, persistent inflationary pressures and payer mix shifts are creating a collective pressure cooker for hospitals and health systems, leaving many prone to marginless growth. Left unchecked, skyrocketing claims adjudication costs could become the proverbial straw that breaks the camel's back.

Overcoming these challenges is certainly possible, but it can't happen in a vacuum. Premier's seasoned team is purpose-built to help health systems avoid payment penalties and achieve sustainable margin improvement. Our team has decades of expertise in:

- Revenue cycle and margin improvement.
- Payer contracting and dispute resolution.
- EMR and tech-enabled workflow optimization.
- Denials prevention and patient financial engagement.
- Operational alignment and financial strategy for provider organizations.

Premier works with leading provider organizations to improve margins, collections and speed to revenue while elevating the patient financial experience.

Working with Premier, McLaren Health Care optimized its payer strategy and streamlined access — boosting system revenue by $35 million.

Premier's 100 Top Hospitals® program inspires hospital leaders to strive for higher performance and provide added value to the patients and communities they serve.

If every hospital was a 100 Top Hospitals award winner:

Over $15.1 Billion in inpatient costs could have been saved.

The typical patient could be released from the hospital **half a day sooner.**

Over 13,000 fewer discharged patients would be readmitted within 30 days.

Build Systemness: Optimize the Network to Grow Margins

In the face of relentless margin pressures, declining traditional revenue streams and a growing demand for patient-centered care, health systems must fundamentally rethink operations. True margin management is no longer possible through isolated cost savings or departmental efficiency gains. It requires a total financial transformation effort — one that spans the entire enterprise, bridging the gap between clinical excellence and financial engagement.

“Improving the financial journey isn’t just good for the bottom line — it’s good for the people you serve,” said Amanda Vallozzi, Premier’s Managing Director and Practice Lead, Financial Transformation.

This is the essence of systemness: designing a network that delivers the right care, in the right place, at the right cost. As a result, patients gain clarity and trust, while providers improve margins, collections and speed to revenue.

Beyond the Hospital Walls: A Total-Care Formula for Success

Too often, health systems take a hospital-centric approach focused on optimizing inpatient service lines, renegotiating existing supply contracts or adjusting staffing ratios. While these efforts can yield short-term gains, they do not address broader performance challenges.

When each component of the network operates as an independent entity, inefficiencies multiply, degrading patient care and deflating margins: Patients have suboptimal experiences, referral patterns leak revenue and duplicative costs persist across the enterprise.

That's why leaders must view their organization as a complex ecosystem, with each care setting working together toward shared objectives. In service to this mission, Premier helps providers achieve clinical, financial and operational excellence throughout the ***continuum of care***, from physician practices and medical offices to pharmacies, long-term care facilities, ambulatory surgery centers and more. Integrated data and insights enable informed decisions about where to invest, where to grow and how to align sites of care for the highest clinical performance and financial return.

Premier serves a wide range of healthcare providers and organizations including:

- Long-term care facilities.
- Infusion providers.
- Long-term care, retail and mail order pharmacies.
- Physician practices and medical offices.
- Ambulatory surgery centers.
- Home health agencies.
- Behavioral health providers.
- Clinical laboratories.
- Imaging centers.
- Home Medical Equipment (HME) suppliers.
- Durable Medical Equipment (DME) suppliers.
- Rehabilitation centers.

Prioritize and Invest in Your Best Service Lines to Maximize Quality and Conserve Resources

As the saying goes, a jack of all trades is a master of none. Many health systems fall into the trap of pursuing too many service lines in an effort to capture every possible patient. But the most financially resilient organizations focus their time, talent and capital where they already excel, investing in service lines with proven quality outcomes, strong market share and profitable growth potential. Concentrating resources where they stand the best chance to create enterprise value is a hallmark of smart, disciplined margin management.

Use Data to Identify Your "Anchor" Service Lines
Start by grounding decisions in data. Use performance dashboards and external benchmarking to pinpoint which service lines:

- Deliver the highest margins and contributions to overall income.
- Maintain superior quality and patient safety scores.
- Command strong referral patterns and market share.
- Have strategic alignment with the organization's long-term mission.

Premier's data analytics can help leaders visualize performance across hospital service lines and care sites and pinpoint the best areas for investment.

Double Down on Operational Excellence
Next, Premier's experts can help design targeted investments that improve throughput, patient experience and efficiency. Examples include:

- Deploying AI-powered scheduling, patient flow and capacity tools to maximize volume without adding cost.
- Employing PIVOT to help ensure physician alignment through performance-based compensation models tied to productivity and outcomes.
- Optimizing supply chain contracts and ensuring every site purchases on-contract to eliminate leakage.

Turn Proven Pillars into a Growth Engine
Savvy systems use high-performing service lines as launchpads for enterprise growth, expanding access, strengthening referral networks and investing in brand differentiation. A focused growth strategy ensures that every minute and dollar spent reinforces the organization's most profitable, high-potential and sustainable lines of business.

Govern Investments to Strengthen Margins

Many organizations pursue growth by making capital investments in new technology or acquiring additional sites of care, all with the goal of increasing patient volumes. Yet without strong governance, these investments can have unintended consequences. For example, if utilization grows but costs rise more quickly than revenue and reimbursements can't fill the gap, volume-driven strategies can actually erode margins.

Decisionmakers must ensure that every purchase, every capital project and every technology deployment — whether clinical or operational — is governed through an enterprise-wide lens. They must not only ask, "Will this increase volume?" but also "Will this help us deliver better care?" and "Will it improve our total margin?"

Treat the Supply Chain as the Foundation of Financial Discipline

The supply chain is the backbone of margin management. It touches nearly every corner of the enterprise, from clinical operations to capital planning — and it's often where fragmented processes most erode profitability and prevent meaningful growth.

When each site of care purchases independently, health systems lose leverage, consistency and visibility. Variations in pricing, utilization and compliance further drain margin potential and weaken negotiating power. To reverse that dynamic, organizations must align procurement under a single governance structure, ensuring that all purchasing activity advances enterprise-level financial goals.

Premier's supply chain optimization solutions help foster and activate that discipline. Using advanced analytics, benchmarking and contract intelligence, Premier identifies areas of variation and drives standardization across facilities. Technology tools such as ***Premier's SmartPO®***, a cost-saving digital purchasing platform for continuum of care providers, help ensure that all purchasing activity serves the greater financial good while fulfilling patient care needs.

A unified approach not only controls costs but also positions the supply chain as a strategic enabler of growth-minded systemness. Every care site benefits from enterprise pricing, every transaction is transparent, and every dollar spent supports long-term financial health.

Premier's SmartPO® **is a provider-focused, easy-to-use system offering comprehensive procurement and inventory management tools. Premier's SmartPO® streamlines purchasing, simplifies inventory tracking and enhances spending transparency for improved operational efficiency and cost savings.**

Employ Technology to Connect Data, Decisions and Performance

Systemness cannot succeed without technology that connects the enterprise. Fragmented data silos cloud the full picture of operational performance and impede system financial health. On the other hand, purposeful technology solutions extend well beyond hospital walls. They provide the infrastructure to unify data across care settings, giving leaders the visibility and control necessary to manage and grow margins at scale.

Performance assessments across acute, ambulatory and post-acute environments can help identify patient flow inefficiencies, pinpoint leakage and align care delivery with system capacity. Armed with these insights, organizations can guide patients to the right setting of care, maximizing both clinical outcomes and financial efficiency.

Technology also plays a critical role in governance. By integrating performance dashboards and predictive analytics, Premier enables real-time decision-making across the network. Leaders can model “what-if” scenarios, track contract compliance, uncover new revenue opportunities and proactively manage costs before they impact the bottom line.

Align People, Incentives and Strategy

Even the most powerful tools cannot deliver lasting results without strong leadership alignment and effective implementation and governance. Furthermore, many health systems have invested heavily in physician networks that have yet to deliver expected returns. Misaligned incentives and fragmented performance oversight often prevent employed physicians from fully supporting enterprise objectives.

That's where an expert team can help, enabling organizations to reengineer their physician enterprises for both clinical and financial success. From access optimization to compensation strategy, Premier's Physician Enterprise Advisory Practice combines proprietary, data-driven performance management technology with embedded advisors and national peer benchmarks to develop, test and scale custom solutions. And ***Premier's Performance Insights Value Optimization Tool***, or PIVOT, is a performance engine for health systems and medical groups that need results this quarter, momentum this year and transformation over the long term.

Advisory expertise also extends to network design and continuum optimization, helping health systems determine where to invest, consolidate or expand capacity — and ensure that every asset is positioned for sustainable profitability.

Systemness is not a buzzword. It's a financial strategy. In an environment where reimbursement is tightening and patient preferences are shifting, fragmentation is the enemy of profitability. That's why the future of margin management depends on enterprise integration. Organizations that achieve true systemness will outperform peers on not only care quality but also on the bottom line. And when a network achieves foundational systemness, margin resilience becomes a competitive advantage.

Premier's Performance Insights Value Optimization Tool (PIVOT):

- Instantly surfaces the biggest opportunity gaps.
- Quantifies and prioritizes these gaps for impact.
- Translates data into actionable steps rather than undecodable dashboards.
- Benchmarks groups against thousands of peers nationwide.

Get Started: Eliminate Waste and Build Toward Meaningful Growth

Margin, mission and market position are all in play — and the challenges at hand cannot be solved in silos. On the contrary, they require an integrated approach across supply chain, finance, clinical care, growth and more. An approach that is data-driven, provider-aware, policy-fluent and patient-focused.

The stakes couldn't be higher, yet already razor-thin margins give hospitals and health systems limited capacity to implement solutions on their own. Fortunately, Premier is prepared to help you weather the storm. Our cutting-edge data, technology, advisory services and group purchasing power enable organizations to eliminate waste and unlock novel opportunities for growth.

Ready to thrive in the race to value?

Contact us today to learn how you can operate more cost-effectively while preserving quality of care and the patient experience.

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