

Leading Health System Economics

301: Overview of LHS Budgets

You've watched the video—now here's your shortcut for turning insight into action. Use this guide to recall key takeaways, spark discussions, and frame solutions in a way that resonates with health system leaders.

Core Concepts

- **Margins are razor thin:** Average operating margin for leading health systems hovers between 1-3%.
- **Revenue is unstable.** Roughly 80% of revenue comes from patient care, but it's vulnerable to denials or volume shifts.
- **Labor is the largest cost driver:** Workforce expenses dominate budgets, and this cost is relatively fixed
- **Ownership shapes strategy:** For-profits emphasize growth and returns; nonprofits emphasize community and mission.
- **Shifting demographics add pressure:** The Medicare population is growing as the US population ages, significantly changing payer mix.

Speak Their Language

Here's how to talk about your solution in a way that resonates with health systems:

- Anchor conversations in ROI.
- Highlight financial sustainability, and alignment with top pressures (labor, efficiency, care delivery shifts).
- Show you understand budget constraints before pitching outcomes.

Discussion Guide

Deepen your learning, and refine your value proposition by reflecting on these questions with your team:

- How do thin and volatile margins shape the way health systems evaluate new partnerships or technologies?
- Which cost pressures (labor, drugs, supplies, demographics) are most relevant to the organizations we engage with?
- What does "lead with ROI" mean in our context—how can we quantify or frame value in terms that resonate with a CFO or COO?
- How do new demographic realities (older, sicker patient populations, Medicare under-reimbursement) impact system priorities?
- What mistakes do we risk if we pitch solutions without acknowledging budget realities?
- Given labor makes up the largest fixed expense, how might that impact the way health system leaders evaluate solutions in terms of workforce relief?
- What kinds of solutions become "must-haves" when you consider an older, sicker patient population?