

Economic Outlook, Spring 2014

Healthcare trends from the C-suite

May 2014 | Premier, Inc.

Methodology

In February of 2014, as a part of its spring 2014 Economic Outlook, Premier, Inc. commissioned an online survey of its members to collect data on their perspectives on multiple topics. Responses were collected from 127 C-suite executives (a 5 percent response rate; margin of error of +/- 2.5 percent – 4.1 percent at the 95 percent confidence level.) representing 112 hospitals of varying size and type across 32 states. The majority of respondents to the biannual survey self-reported as CEOs, CFOs and COOs. Fifty-three percent were from an integrated delivery network (IDN) with 47 percent from standalone hospitals. Fifty-seven percent were from non-rural hospitals while 43 percent were from rural hospitals. Approximately 43 percent were from midsized hospitals (200 to 500 beds), with 31 percent from large hospitals (500 beds+) and 26 percent from small hospitals (less than 200 beds).

All results represent the percentage of respondents who identified a specific factor for each question. Results were rounded to the nearest complete percentage point (less than .4 rounded down, Ex: 26.4 percent = 26 percent; equal to or greater than .5 rounded up, Ex: 26.5 percent = 27 percent). All percentage increases or decreases were then calculated based on this approach.

Spring 2014 Economic Outlook Survey Results

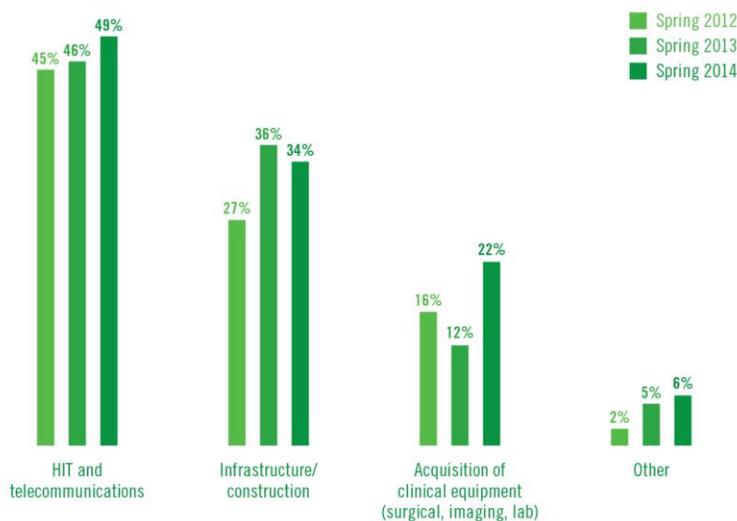
Capital Spending

Spending on clinical healthcare information technology (HIT) is predicted to reach \$26.1 billion a year by 2017¹, encompassing between 25 to 35 percent of a hospital's capital budget.²

Nearly half of all survey respondents plan to make their largest capital investments over the next year in HIT, which includes electronic health records (EHRs), advanced data analytics and telecommunications. This category was most often cited for the second consecutive year.

Acquisition of clinical equipment (surgical, imaging, lab) was cited by more than 20 percent of all respondents.

In what area will your health system make its largest capital investment over the next year?



Additional survey results in 2014

- » Executives from mid-sized hospitals cited HIT most often (59 percent).
- » Executives from small hospitals cited clinical equipment most often (37 percent).

¹ Healthcare Information Technology; BBC Research; 4/13. www.bccresearch.com/market-research/healthcare/healthcare-information-technology-hlc048d.html

² EHRs and Health IT Projects: Are They Battering Hospitals' Financial Profiles?; Becker's Hospital Review; January 2014.

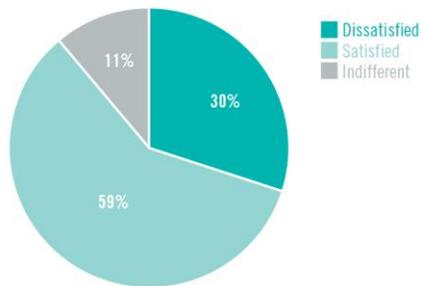
<http://www.beckershospitalreview.com/finance/ehrs-and-health-it-projects-are-they-battering-hospitals-financial-profiles.html>

EHRs

The U.S. EHR market is projected to grow to \$9.3 billion by 2015, according to a recent analysis.³

While hospitals and health systems are increasingly investing in EHRs, many are not happy about the results. More than 40 percent of all executives are either indifferent or dissatisfied with their current EHR systems.

How satisfied is your health system with your EHR system?



Additional survey results in 2014

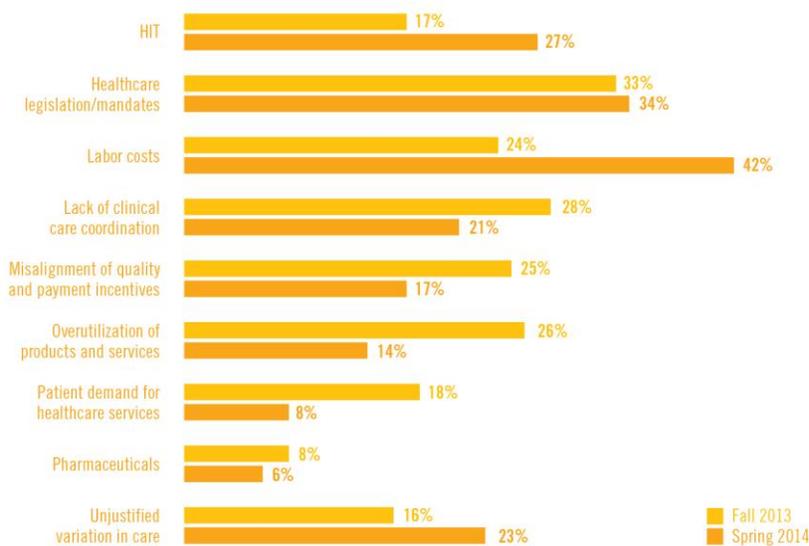
» Executives from small hospitals (59 percent) and rural hospitals (46 percent) cited dissatisfaction or indifference with their EHRs most often.

Drivers of Healthcare Costs

According to the American Hospital Association, spending on wages and benefits for caregivers and support staff represents up to 60 percent of spending on hospital care.⁴

Labor is considered by 42 percent of executives to be the biggest driver of healthcare costs, compared to just 24 percent six months ago. Respondents cited healthcare legislation and mandates as the second biggest driver (34 percent). In addition, compared to fall 2013, significantly more executives suggest HIT as the biggest driver of costs.

What areas do you consider the biggest driver of healthcare costs in your health system? (select two)



Additional survey results in 2014

» Executives from mid-sized hospitals cited labor most often (46 percent).

» Executives from rural hospitals cited healthcare legislation and mandates most often (47 percent).

» Executives from small hospitals cited HIT most often (31 percent).

³ Getting EMR Back in the Fast Lane; Accenture; 2.10.14. www.accenture.com/us-en/Pages/insight-getting-emr-back-fast-lane.aspx

⁴ Cost of Caring: Drivers of Spending on Hospital Care; American Hospital Association; 3/11. www.aha.org/research/reports/tw/11mar-tw-costofcaringcharts.pptx

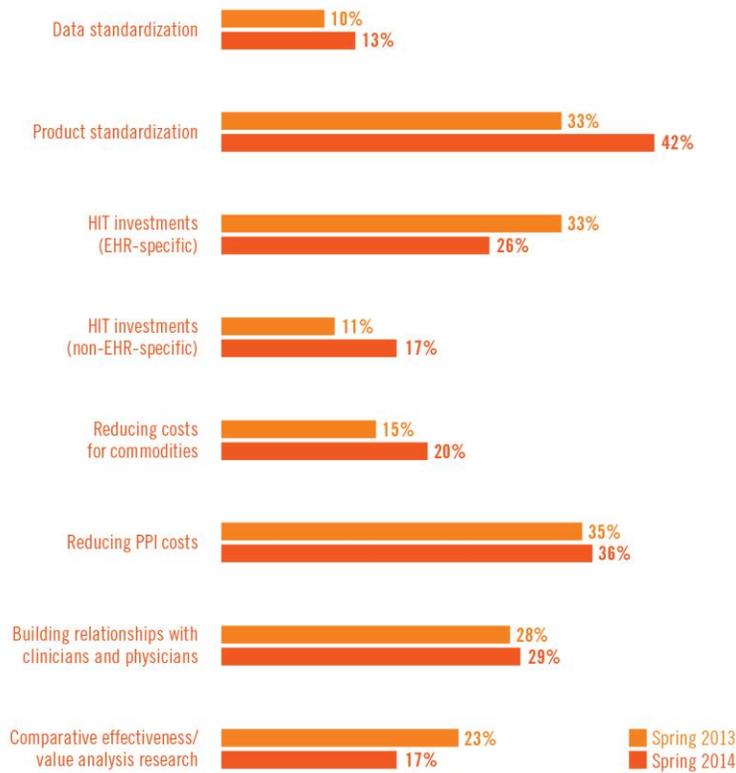
Improving Supply Chain Performance

Supply chain-associated costs account for between 20 to 30 percent of a hospital’s budget⁵.

Forty-two percent of survey respondents say product standardization (reducing the number of vendors supplying like products) is the area in which they are dedicating the most resources to improve supply chain performance.

In addition, approximately one of three respondents cited reducing physician preference item (PPI) costs to improve supply chain performance. Results also suggest providers are increasing non-EHR IT investments to improve supply chain performance. In fact, 17 percent of executives cited non-EHR purchases compared to 11 percent a year ago.

In what areas is your health system dedicating the greatest amount of resources to improve supply chain performance? (select two)



Additional survey results in 2014

- » Executives from mid-sized hospitals cited product standardization most often (56 percent).
- » Executives from large hospitals cited reducing PPI costs most often (46 percent).

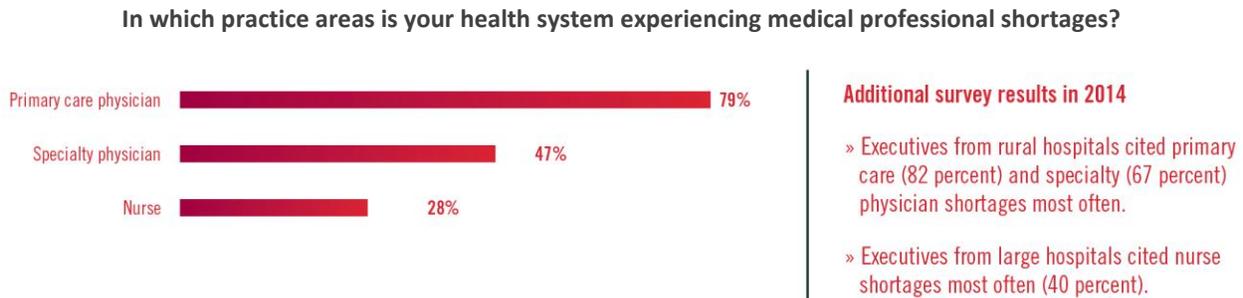
⁵ *The Transformative Hospital Supply Chain: Balancing Costs with Quality*; Booz & Company; 1/112. <http://www.strategyand.pwc.com/media/file/Strategyand-Transformative-Hospital-Supply-Chain.pdf>

Provider Shortages

It's estimated that the U.S. will face a shortage of 45,000 primary care physicians and 46,000 specialty physicians by 2020.⁶

Survey results show three of four providers are experiencing physician or nurse shortages already, with 42 percent experiencing shortages in more than one practice area.

In addition, among those citing a shortage:



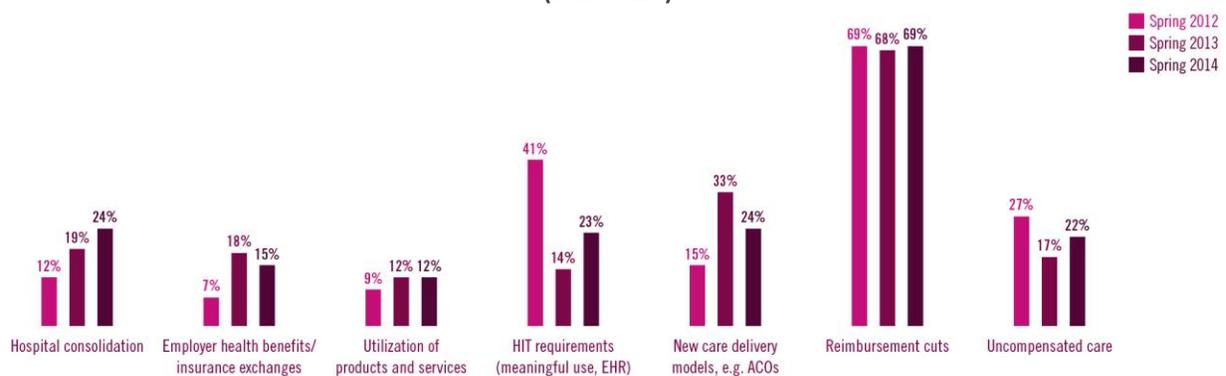
Additional Trends Predicted to Impact Providers in 2014

With sequestration, Affordable Care Act changes and other payment cuts, Medicare payment to hospitals has been reduced by more than \$270 billion since October 2010⁷.

Reimbursement cuts remain the most often cited trend expected to impact providers this year, selected by 69 percent of executives. One of four executives cited provider consolidation, twice as many compared to spring 2012.

In addition, the percentage of executives citing uncompensated care increased for the first time in two years. Twenty-two percent selected this category, compared to 17 percent a year ago and 27 percent in spring 2012.

Which healthcare trends do you expect will have the greatest impact on your organization over the next year? (select two)



Additional survey results in 2014

- » Executives from rural hospitals cited reimbursement cuts most often (78 percent).
- » Executives from mid-sized hospitals cited consolidation most often (30 percent).

⁶ *4 Physician Shortages to Worsen Without Increases in Residency Training*; Association of American Medical Colleges; January 2011. www.aamc.org/download/153160/data/physician_shortages_to_worsen_without_increases_in_residency_tr.pdf

⁷ *Can We Break Even on Medicare?*; Michael J. Alkire for HFMA; 3/14. www.hfma.org/Content.aspx?id=21932

About Premier, Inc.

Premier, Inc. (NASDAQ:PINC) is a leading healthcare improvement company, uniting an alliance of approximately 3,000 U.S. hospitals and 110,000 other providers to transform healthcare. With integrated data and analytics, collaboratives, supply chain solutions, and advisory and other services, Premier enables better care and outcomes at a lower cost. Premier, a Malcolm Baldrige National Quality Award recipient, plays a critical role in the rapidly evolving healthcare industry, collaborating with members to co-develop long-term innovations that reinvent and improve the way care is delivered to patients nationwide. Headquartered in Charlotte, N.C., Premier is passionate about transforming American healthcare. Please visit Premier's news and investor sites on www.premierinc.com; as well as [Twitter](#), [Facebook](#), [LinkedIn](#), [YouTube](#), [Instagram](#), [Foursquare](#) and [Premier's blog](#) for more information about the company.