

New margin math: what vizient's 202 healthcare trends report means for health tech entrepreneurs

JAN 23, 2026 • PAID



Share

Table of Contents

Introduction: The New Operating Reality

Demographics Are Destiny

Site of Care Migration Creates Real Opportunities

Cost Structure Problems Signal Infrastructure Plays

M&A Slowdown Opens Partnership Windows

AI Hype Meets Healthcare Reality

What Actually Works Right Now

Strategic Implications for Founders

Conclusion: Building for the Reset

Abstract

Vizient and Kaufman Hall just dropped their 2026 trends report and it basically confirms what most health tech operators already suspected but provides the data back it up. Hospital margins remain fragile with massive variance between top and bottom performers. The 65+ population will drive 20-34% growth across inpatient

and observation stays through 2035. Labor costs stabilized at a permanently high baseline while drug and supply costs keep climbing faster than reimbursement. Traditional hospital M&A collapsed 53% year over year while ASC partnerships joint ventures exploded. AI spending will hit \$100 billion by 2030 but most pilots fail to scale. For founders, this creates specific opportunities in administrative automation, site of care enablement, physician enterprise tools, specialty pharmaceutical infrastructure and partnership platforms that help systems orchestrate distributed care networks.

Introduction: The New Operating Reality

Healthcare just entered what Vizient calls new margin math and the phrase captures something real happening across the industry. The old playbook stopped working. Volume growth that saved hospitals in 2024 is moderating. Reimbursement keeps getting squeezed through site neutral payments and Medicare Advantage pressure. Meanwhile cost structures reset permanently higher after COVID and keep climbing through drug prices and workforce shortages that show no signs of reversing.

The report lands at an interesting moment. Hospital operating margins hit 2% in 2025, up from 1.3% the year before, but performance divergence tells the real story. Systems at the 75th percentile posted 14.3% margins while those at the 25th percentile lost money at -2.2%. That spread represents the gap between organizations that figured out the new operating model and those still running the old one. For founders, understanding which side of that divide your potential customers sit on matters more than almost anything else when building go-to-market strategy.

The report also confirms something most health tech operators learned the hard way over the past few years. Technology alone doesn't solve healthcare's problems. The winners combine technology with workflow redesign, changed incentives and new organizational models. Health systems poured money into point solutions that never scaled because they didn't address the underlying structural issues. The market is now demanding integrated platforms that actually change how work gets done rather than just automating existing broken processes.

Demographics Are Destiny

The demographic shift happening right now will define healthcare utilization for the next decade and represents the most predictable tailwind in the entire industry. The 65+ population grows at 1.87% annually through 2035 while the working age population stays basically flat. That matters because people over 65 spend 2.5x more on healthcare than working age adults. Do the math and you get massive, sustained growth in hospital-based services driven almost entirely by aging.

Vizient forecasts the 65+ cohort will drive 20% growth in inpatient discharges, 20% growth in ED visits and 34% growth in observation stays between 2025 and 2035. These numbers aren't evenly distributed. Some markets will see double digit inpatient growth while others contract. Florida, Arizona and the Carolinas boom. Parts of the Midwest and Northeast face declining volumes. But the aggregate trend is clear and creates several specific opportunities for builders.

First, capacity becomes the binding constraint. Health systems can't just add beds because they don't have the staff and capital markets remain expensive. They need technology that increases throughput and lets them do more with existing infrastructure. Bed management, patient flow, discharge coordination and post-discharge placement all become critical bottlenecks. Companies solving these problems with actual workflow tools rather than just dashboards will find eager buyers.

Second, the shift toward Medicare and MA as payer mix changes the unit economics of care delivery. Commercial reimbursement subsidizes Medicare losses at most hospitals, but as the 65+ population grows, that cross-subsidy stops working. Systems need to fundamentally reduce their cost to serve Medicare patients rather than just shifting costs to commercial payers. This creates opportunities for tools that reduce care pathways specifically for chronic disease management, medication adherence and preventable acute events that drive expensive utilization.

Third, chronic disease complexity keeps increasing. The report notes 28% of inpatient discharges involve diabetes as a comorbidity and 33% involve cardiac disease. These patients need coordinated care across multiple specialties and settings. The old

of episodic, facility-based care doesn't work. Technology that enables longitudinal care management, remote monitoring and proactive intervention becomes essential infrastructure rather than nice to have.

The timing matters here. The baby boomer wave hitting Medicare already starts peaks over the next 5-7 years. Health systems know this is coming and are making investment decisions now to prepare. Founders pitching solutions need to articulate how their product specifically addresses higher acuity, chronic disease complexity, capacity constraints driven by aging demographics. Generic efficiency plays won't win it.

Site of Care Migration Creates Real Opportunities

Policy changes are forcing the largest migration of procedures out of hospital outpatient departments and into ASCs and physician offices that the industry has never seen. CMS removed hundreds of procedures from the inpatient only list, expanded the ASC covered procedure set and implemented site neutral payments across more service lines. The report documents how this policy shift is reshaping competitive dynamics and creating clear openings for infrastructure plays.

Traditional hospital M&A dropped 53% in target revenue from 2024 to 2025. Meanwhile health systems are aggressively pursuing ASC joint ventures and partnerships. Ascension proposed acquiring 250 ASCs through AMSURG. Tenet expanded USPI. Cleveland Clinic partnered with Regent Surgical. The pattern is consistent: own the hospital for complex tertiary care, partner on ASCs for routine procedures, let physician offices handle the rest.

This creates several specific wedges for founders. ASC management platforms that handle scheduling, inventory, billing and quality reporting across distributed sites become essential. Health systems operating 50-100 joint venture ASCs can't manage that complexity with spreadsheets. They need purpose-built software that gives visibility and control across a federated network.

Supply chain and purchased services for ASCs also represent white space. Hospital supply chain infrastructure doesn't extend to ASCs. Each site typically operates independently with limited purchasing power and no standardization. Technology that aggregates demand across ASC networks, provides pricing transparency and automates procurement can capture real value.

Patient access and navigation tools matter more as care delivery fragments across more sites. Consumers have no idea where to go for different procedures or how to evaluate quality and cost differences. Health systems want to steer patients to the most appropriate and profitable site of care. Building the rails for that steering, including scheduling integration, price transparency and outcome data, creates a defensive moat.

The surgical ecosystem is also getting rebuilt around ASCs rather than hospitals. Anesthesia staffing, implant management, post-op monitoring and complication prevention all need to be redesigned for the ASC setting. Medical device companies are launching ASC-specific products. Digital health companies are building ASC-specific care pathways. The whole stack is being rewritten.

Site neutral payment expansion beyond procedures into evaluation and management services will accelerate this trend. CMS proposed bringing hospital-based clinics under site neutral rules, which would cut reimbursement for clinic visits by 30-40%. Health systems will have to either absorb those losses or convert hospital clinics to physician practices. The infrastructure enabling that transition, including practice management software, revenue cycle tools and quality reporting, represents another wedge.

Cost Structure Problems Signal Infrastructure Plays

Labor costs stabilized in 2025 but at a permanently higher floor. Contract labor percentage of operating expenses dropped from 8% to under 2% as hospitals brought staffing in-house, but total labor cost per adjusted discharge increased and wage growth still outpaces inflation. The report projects continued workforce shortage

across physicians, nurses, imaging techs and post-acute providers through 2030. isn't getting better anytime soon.

Primary care physician supply grows only 3% over the next decade while demand grows 14%. The gap gets filled by nurse practitioners, whose supply is projected grow 93%. This creates opportunity and risk. Opportunity because team-based care models leveraging NPs at top of license can actually expand access and reduce costs. Risk because most EHRs and clinical workflows were designed around physician care and don't properly support NP-led models.

Physician enterprise strategy is also shifting. The report highlights how advanced practice providers now comprise over 40% of employed providers. Direct expense per provider FTE rose 6% from Q3 2023 to Q3 2025, squeezing physician enterprise margins further. Health systems are getting much more sophisticated about productivity management, compensation design and site of care optimization for employed providers.

This creates specific wedges around physician scheduling and capacity planning that actually works. Most health systems run physician practices at 60-70% utilization because they can't properly forecast demand or optimize schedules across multiple sites and modalities. Technology that increases utilization by even 10 percentage points without burning out clinicians is worth millions per year to a large medical group.

Clinical documentation burden remains the biggest driver of burnout and inefficiency. Ambient AI scribes are scaling fast, with health systems reporting 50% reductions in documentation time. But adoption is still under 20% of eligible encounters. The winners will be platforms that work across all specialties and care settings rather than just primary care, integrate deeply into EHR workflows rather than sitting as bolt-ons, and actually change how physicians interact with the medical record rather than just reducing click burden.

Non-labor costs are climbing even faster. Medical and surgical supplies saw 3.35% inflation in 2025. Specialty pharmacy grew 3.80%. Purchased services including

finance and clinical support grew 3.34%. These categories now represent 22% of hospital spend and traditional mitigation strategies like GPO contracting aren't keeping pace with inflation.

Drug costs deserve special attention. Specialty pharmacy now accounts for nearly thirds of total pharmacy spend at most health systems and grew eight percentage points in three years. GLP-1 uptake is accelerating. Oncology pipelines keep expanding. CAR-T and gene therapies are moving into broader indications. The program faces increasing scrutiny. Health systems need fundamentally different infrastructure for specialty pharmacy including patient assistance coordination, authorization automation, site of care optimization for buy-and-bill drugs and outcomes tracking to justify costs.

Supply chain technology finally has a real moment. Inflation combined with tariff uncertainty and global manufacturing shifts makes real-time visibility into supply availability and pricing essential rather than nice to have. Health systems want advanced analytics that predict stockouts, optimize inventory across facilities, identify substitution opportunities and aggregate demand for better pricing. Companies that nail the implementation, not just the analytics, will win.

M&A Slowdown Opens Partnership Windows

Hospital M&A collapsed in 2025 with deal revenue falling nearly 50% year over year and megadeals over \$1 billion declining 64%. High cost of capital, policy uncertainty around the One Big Beautiful Bill and regulatory scrutiny all contributed. But the strategic pause is temporary and when M&A comes back it will look different. Health systems are moving from ownership-centric to orchestration-centric strategies where partnerships and joint ventures play a bigger role.

Distressed transactions jumped to 44% of announced deals in 2025, up 13 percentage points from 2024. Private equity investment in acute care facilities dropped. Geac Catalyst's HATCo and Risant Health represent new models, one venture-backed focused on technology-enabled redesign, the other a not-for-profit federation

emphasizing value-based care and mission alignment. Both signal that transformation will come through platforms that combine owned assets with partner networks instead of pure consolidation.

The shift toward partnerships creates specific opportunities for infrastructure transformation. It enables distributed networks. Health systems are building virtual networks spanning owned facilities, joint ventures, contracted providers and technology-enabled service providers. Managing clinical quality, financial performance and operational efficiency across a complex network of partners and complexity requires purpose-built platforms.

Network management software that handles contracting, credentialing, quality reporting and financial reconciliation across hundreds of partner relationships becomes essential. Most health systems cobble this together with spreadsheets, databases and manual processes. Purpose-built tools that automate partnership administration and provide visibility into network performance will find eager buyers.

Payer-provider alignment is also accelerating despite recent pullbacks. Medicare Advantage margins compressed in 2025 as utilization spiked and regulatory challenges loomed. Plans responded by exiting underperforming markets and narrowing networks. But the fundamental trend toward value-based care and shared risk continues. Health systems need infrastructure for population health management, utilization management and financial reconciliation with payers.

Value-based care platforms finally have real traction after years of overpromise. The key difference is today's winners focus on specific use cases like CKD progression prevention or heart failure readmission reduction rather than trying to manage entire populations. They integrate deeply into clinical workflows rather than creating parallel systems. And they align financial incentives properly so providers actually make money by changing behavior.

Vertical integration dynamics are also shifting. Wholesalers and distributors are moving upstream into clinic ownership, particularly in specialties tied to high-margin buy-and-bill drugs like ophthalmology and oncology. MedTech companies are investing heavily in AI, analytics and data integration to differentiate their platforms.

Life sciences companies are engaging employers directly on GLP-1 coverage and obesity management.

These vertical plays create partnership opportunities for technology companies. Medical device manufacturers want software that increases utilization of their capital equipment and consumables. Pharma companies want tools that improve medical adherence and outcomes tracking. Distributors want practice management software for their owned clinics. The common thread is software that makes physical products more valuable through better utilization, coordination and outcomes.

AI Hype Meets Healthcare Reality

Healthcare AI investment will grow from \$20 billion in 2025 to \$100 billion by 2030 at 37% annual growth according to Vizient projections. Adoption already outpaces other industries. But there's a widening gap between organizations that treat AI as foundational infrastructure embedded across operations versus those running pilots that never scale.

The clearest near-term opportunity remains administrative automation. An estimated \$300 billion in annual healthcare waste ties to administrative complexity around authorization, claims processing, scheduling and documentation. Early adopters report meaningful gains: documentation time cut 50%+, fewer denials, improved throughput, higher clinician satisfaction.

Ambient clinical documentation is scaling fastest with health systems reporting improved note quality, reduced burnout and more engaging patient interactions. Penetration is still under 20% of eligible encounters. The winners will be platforms that work across all specialties and settings rather than just primary care, integrate deeply into EHR workflows rather than sitting as disconnected tools, and actually change physician behavior rather than just automating existing processes.

Revenue cycle AI represents another big opportunity. Prior authorization automation, denial prevention, coding optimization and patient collections all have real ROI and are being deployed at scale. The key is integration depth. Point solutions that re

manual handoffs between systems don't scale. Platforms that embed directly into revenue cycle workflows and eliminate human touchpoints will capture most of the value.

Clinical AI remains an earlier stage and requires more rigorous validation. Diagnostic support in radiology and cardiology continues improving with several FDA-cleared algorithms in production. But adoption remains limited by liability concerns, workflow integration challenges and unclear reimbursement. The path forward combines AI with decision support tools that keep humans in the loop rather than fully autonomous diagnosis.

Capacity management and patient flow represent underappreciated AI opportunities. Health systems struggle with bed management, OR scheduling, staffing optimization and discharge coordination. These problems become more acute as demographic aging drives utilization growth without corresponding capacity expansion. AI that predicts admissions, optimizes scheduling and coordinates discharge can materially improve throughput.

Payers are embedding AI throughout operations including utilization management, disease management, prior authorization, fraud detection and member engagement. This elevates expectations for data quality and coordination across the ecosystem. Health systems need AI to respond to AI. If payers deploy sophisticated algorithmic utilization review, providers need equally sophisticated tools for appeals and documentation.

Life sciences AI is accelerating drug discovery, trial design, patient recruitment and safety monitoring. This influences how quickly new therapies reach market and how patient populations benefit. For digital health companies working in therapeutics with active pipelines, understanding the drug development trajectory matters because it shapes care pathways, reimbursement and competitive dynamics.

The next phase of AI moves from task automation to agentic capabilities that coordinate multi-step workflows. Preparing visit summaries, drafting appeal packages, identifying at-risk patients and managing care transitions all require orchestration.

multiple systems and actors. Agentic AI that can execute these workflows autonomously will deliver much more value than point solutions that automate individual tasks.

But governance, validation and regulatory frameworks remain immature. Organizations deploying AI need multidisciplinary oversight including clinical, compliance and IT stakeholders. They need processes for monitoring model performance, detecting drift and handling failures. Most health systems don't have these capabilities yet. Technology that provides AI governance infrastructure alongside AI tools will differentiate.

What Actually Works Right Now

Cutting through the hype, several specific wedges are working for health tech companies selling into this environment. These aren't theoretical opportunities. They're validated by actual customer traction, real revenue growth and sustainable unit economics.

Administrative burden reduction with measurable ROI tops the list. Prior authorization automation that reduces denial rates by 30%+ and cuts processing from days to hours. Medical coding assistants that improve accuracy and reduce workload. Patient scheduling systems that reduce no-shows by 20%+ through intelligent reminders and automated rescheduling. These tools have clear payback periods under 12 months and require minimal organizational change.

Specialty pharmacy infrastructure is another hot area. Patient assistance program coordination that maximizes manufacturer support and reduces health system drug costs. Prior authorization automation specifically for specialty drugs where manual processing creates huge delays. Site of care optimization that routes infusions to most profitable setting. Outcomes tracking that justifies high-cost therapies to payers. Health systems are actively buying these tools right now because specialty pharmacy costs are growing faster than they can manage.

Physician enterprise operations represent a category that health systems consistently underfund relative to need. Tools that optimize physician schedules across multiple sites and increase utilization by 10%+ pay for themselves immediately. Compensation management platforms that align productivity, quality and strategic goals. Temp management and visit planning tools that increase throughput without burning providers. These unglamorous workflow products generate real value.

ASC management platforms are having a moment as health systems rapidly expand ASC networks. Scheduling, inventory, billing and quality reporting across 50-100 distributed sites requires purpose-built software. Generic practice management systems don't handle ASC workflows well. Companies building ASC-specific platforms with deep clinical and operational expertise are finding strong demand.

Patient access and navigation tools that actually drive behavior rather than just providing information also work. Digital front doors that steer patients to the most appropriate site of care based on acuity, capacity and economics. Price transparency tools that influence decision-making for shoppable services. Referral management systems that keep patients in network and reduce leakage. The key is integrating scheduling systems so the tool doesn't just inform but actually completes the transaction.

Care coordination platforms focused on specific high-cost conditions like CKD, and diabetes are finally scaling after years of false starts. The difference between winners and losers comes down to workflow integration and incentive alignment. Winners embed directly into clinical workflows rather than creating parallel systems. They align financial incentives so primary care physicians actually make money managing chronic disease rather than referring out.

Remote patient monitoring has also found product-market fit for specific use cases. Post-discharge monitoring for heart failure, COPD and surgical patients reduce readmissions with clear ROI. Chronic disease management for diabetes and hypertension improves outcomes and reduces progression to expensive complications. Pregnancy monitoring for high-risk OB patients prevents adverse events. The pa

is starting with clearly defined populations where intervention prevents near-term expensive events rather than trying to monitor everyone.

Workforce management tools that optimize staffing ratios, reduce agency use and improve retention are getting bought. Health systems spent years fighting labor shortages by throwing money at contract labor. That didn't work and left them with permanently higher cost structures. They're now investing in tools that make care staff more productive, reduce burnout through better scheduling and improve retention through better work-life balance.

Strategic Implications for Founders

The Vizient report clarifies several strategic principles for health tech founders navigating this market. Understanding these dynamics shapes product strategy, market approach and fundraising narrative in ways that materially impact success probability.

First, performance divergence matters more than aggregate trends. Hospital margins averaging 2% sounds mediocre until you realize top quartile systems post 14% margins while bottom quartile lose money. These organizations operate in completely different contexts and buy technology differently. Top performers invest proactively in infrastructure that widens their advantage. Bottom performers cut discretionary spending and only buy when facing acute crisis.

This has direct implications for go-to-market. Selling to distressed systems requires different messaging, pricing and implementation than selling to well-capitalized leaders. Distressed buyers need fast payback, minimal implementation lift and solutions that address immediate pain. Healthy buyers will consider longer-term strategic investments with more complex implementations if the strategic value is clear.

Second, demographic aging creates the most predictable demand tailwind in healthcare. If your product doesn't articulate how it addresses higher utilization, chronic disease complexity or capacity constraints driven by aging, you're missing

single biggest trend shaping buyer priorities. This isn't subtle. Health systems know exactly what's coming and are making investment decisions now to prepare.

Founders should stress test their pitch against this question: does this product help health systems serve 20-30% more seniors over the next decade without proportionate increases in cost and capacity? If the answer is no or unclear, the product likely won't resonate with strategic buyers even if it solves real tactical problems.

Third, site of care migration is forcing the largest infrastructure rebuild the industry has seen in decades. Health systems are transforming from hospital-centric to network-centric models spanning owned hospitals, joint venture ASCs, contract physicians and technology-enabled services. Infrastructure that enables orchestration across distributed networks will capture enormous value. Point solutions that optimize single sites or modalities will struggle.

This suggests betting on platforms over point solutions when possible. The market is consolidating around fewer, larger vendors that integrate across the care continuum rather than best-of-breed point solutions duct-taped together. Platforms don't necessarily do everything but they do need architectural clarity about what they own, what they integrate and how they enable workflows across organizational boundaries.

Fourth, cost structure problems are structural not cyclical. Labor, drugs and supplies keep climbing faster than reimbursement. Traditional mitigation strategies like contracting and labor optimization are tapped out. Health systems need fundamentally different approaches to managing costs. Technology that enables reductions in cost to deliver care rather than 2-3% improvements will find eager buyers.

This favors bold redesigns over incremental improvements. Ambient AI that cuts documentation time 50% beats note template optimization that saves 10%. Site of care shifts that reduce episode costs 30% beat supply chain tools that reduce implant costs 5%. Small ball doesn't cut it anymore. The market rewards swinging for the fence you can actually deliver and prove outcomes.

Fifth, M&A slowdown creates partnership windows but requires different selling. Health systems aren't buying competitors but they are forming joint ventures, selective partnerships and network collaborations. Technology that enables partnerships rather than replacing them will outperform. This includes infrastructure for contracting, data sharing, financial reconciliation and quality reporting across organizational boundaries.

Founders should think about how their product enables health systems to partner with physicians, payers, ASCs and other providers rather than own or compete with them. The go-to-market motion involves selling to multiple parties in a partnership rather than single entity deals. Deal cycles lengthen but deal sizes often increase because value accrues across multiple organizations.

Sixth, AI hype is real but AI impact is uneven. Administrative automation has clear ROI and is being deployed at scale. Clinical AI remains earlier and requires more validation. The gap between AI potential and AI reality creates opportunity for vendors that focus on implementation, change management and outcome measurement rather than just algorithms.

This suggests bundling AI capabilities into workflow products rather than selling as standalone tools. Health systems don't want ambient scribes, they want documentation burden solved. They don't want predictive analytics, they want process flow optimized. Lead with the workflow outcome, use AI as the means. Companies that flip this and lead with AI technology often struggle because they're selling to rather than operational buyers with budgets and pain.

Conclusion: Building for the Reset

The healthcare industry is undergoing a fundamental reset in how care gets delivered, how organizations partner and how technology enables new models. The Vizient report documents this transition with data that helps founders separate signal from noise.

Several truths emerge from the analysis. Demographics will drive sustained utilization growth particularly among seniors with complex chronic disease. This growth will translate to financial sustainability without major changes in cost structure and delivery models. Traditional approaches to managing costs and expanding capacity are tapped out. Technology becomes essential infrastructure rather than optional efficiency tool.

Site of care migration from hospital outpatient departments to ASCs and physician offices represents the largest shift in care delivery the industry has seen in decades. This creates infrastructure opportunities around practice management, supply chain, patient access and network orchestration. Companies building the rails for distributed care networks will capture enormous value.

Workforce shortages will persist through 2030 and beyond. Health systems need technology that increases workforce productivity, reduces burnout and enables new care delivery models leveraging advanced practice providers at top of license. AI documentation, intelligent scheduling and team-based care platforms all add to this core constraint.

Cost pressures are evolving faster than traditional mitigation strategies can address. Specialty pharmacy, medical devices and purchased services all growing faster than reimbursement. Health systems need fundamentally different approaches to manage costs including better utilization data, outcomes tracking and site of care optimization.

AI represents a genuine inflection point but hype significantly exceeds reality for most applications. Administrative automation works today with clear ROI. Clinical AI requires more validation but is progressing. The winners will be companies that embed AI into workflow products and focus on implementation rather than selling for its own sake.

For founders, the path forward combines understanding these structural shifts with building products that address specific high-value problems rather than generic efficiency plays. The market rewards bold redesigns that enable new care models.

rather than incremental improvements to existing workflows. It favors platforms orchestrate distributed networks rather than point solutions that optimize single nodes.

The healthcare reset creates the largest opportunity set health tech has seen in y But capturing that opportunity requires understanding what's actually changing versus what's just noise, building for structural problems rather than tactical pain points, and executing on implementation as much as product development. Companies that nail this will define the next era of healthcare infrastructure.

[< Previous](#)[Next >](#)

Discussion about this post

[Comments](#)[Restacks](#)



Write a comment...