



HEALTHCARE INDUSTRY GROUP

Leapfrogging Your Health System's Enterprise Shared Services (ESS) Organization to Accelerate Value

Hospital and health system margins are facing pressure as costs continue to escalate, driven primarily by non-labor (drugs, supplies, and purchased services) and administrative expenses. Hospital expenses rose nearly 3% in 2023 (non-labor up 5.5%), and expenses climbed another 6% in 2024 (non-labor up 7%), underscoring the persistent cost pressure across the industry.¹

Administrative overhead is now a critical issue, compelling CFOs to take decisive action to safeguard margins.

Historically, cost optimization in the industry has focused on clinical labor and the supply chain. However, the opportunity to create an Enterprise Shared Services (ESS) organization across support functions to manage ballooning costs is a high-impact lever that remains underutilized. Through an ESS, organizations can redesign how administrative work is standardized, governed and delivered, offering a scalable solution to reduce costs, improve productivity, and enhance long-term viability.

WHY RETHINK ESS NOW?

A well-designed ESS model can deliver significant cost reductions, potentially up to 30%.²

Traditional ESS models focus on consolidating work, maximizing transactional process efficiency, and minimizing costs through shared resources and low-cost operating locations. Additionally, the bar is now raised for the next generation of ESS models.



The added value beyond cost reduction includes increasing business agility and enhancing innovation, and takes these market dynamics into consideration:



Stagnant labor productivity

Over the past 30 years hospital labor productivity has improved marginally.³



Regulatory risk

Based on Alvarez & Marsal's research and analysis we expect the One Big Beautiful Bill Act to increase financial instability.



Payer dynamics

The changing payer landscape is increasing downward pressure on health systems.



Digital and AI imperative

AI adoption is a requirement to managing increasing operational complexity and staying competitive.

1. Hospitals reached steadier ground financially as they moved into 2024. Nick Hut, "Hospitals reached steadier ground financially as they moved into 2024," Healthcare Financial Management Association, February 12, 2024.

2. A&M research - Please contact A&M directly for details on our methodology

3. U.S. Bureau of Labor Statistics, "Selected Service-Providing Industries Labor Productivity Highlights," last modified June 26, 2025.

LEAPFROGGING TO ACCELERATE VALUE

How can the healthcare industry catch up to ESS progress seen across other industries and unlock new sources of value? There are three common ESS models to consider:



Single-function shared services

Focuses on cost and compliance in one function, either specific to one BU or for the enterprise



Multi-function ESS

Focuses on cost, compliance, and operational effectiveness across multiple functions across the enterprise



Enterprise digital ESS operations

Focuses on delivering digital-first services across all functions of an organization

For health systems, these sample ESS models represent a progression in how shared services create value. Unlike traditional maturity models, health systems do not need to move through these stages in a sequential fashion. New or redesigned ESS structures can leapfrog directly from single function to enterprise digital operations where the business case supports it. This is where other industries are already heading, and it is where hospitals can advance if they redesign shared services around digital from the start.

GETTING STARTED WITH HEALTHCARE ESS

Addressing rising costs and complexity by investing in ESS as the enterprise backbone for how work gets done is crucial for systems to thrive.

These questions should be considered at the start of the ESS journey:



What is the primary intent of ESS?



What will the scope of services include?



How will ESS harness digital and AI?



What is the roadmap?

CONCLUSION

ESS is one of the few levers that can materially improve health system cost, access, and reliability, while creating the foundation for digital and AI at scale.

With sustained pressure, including thin margins, rising nonlabor costs, and administrative demands, productivity has not kept pace with other industries. Current health system operating models are underperforming, and incremental fixes will not close the gap. The time to act is now.

KEY CONTACTS



Brian Giessler

Managing Director
A&M Healthcare Industry Group

bgiessler@alvarezandmarsal.com

Book a meeting with Brian [here](#)



Annie Peabody

Managing Director
A&M Corporate Performance Improvement

apeabody@alvarezandmarsal.com



Roger Weems

Managing Director
A&M Healthcare Industry Group

rweems@alvarezandmarsal.com

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