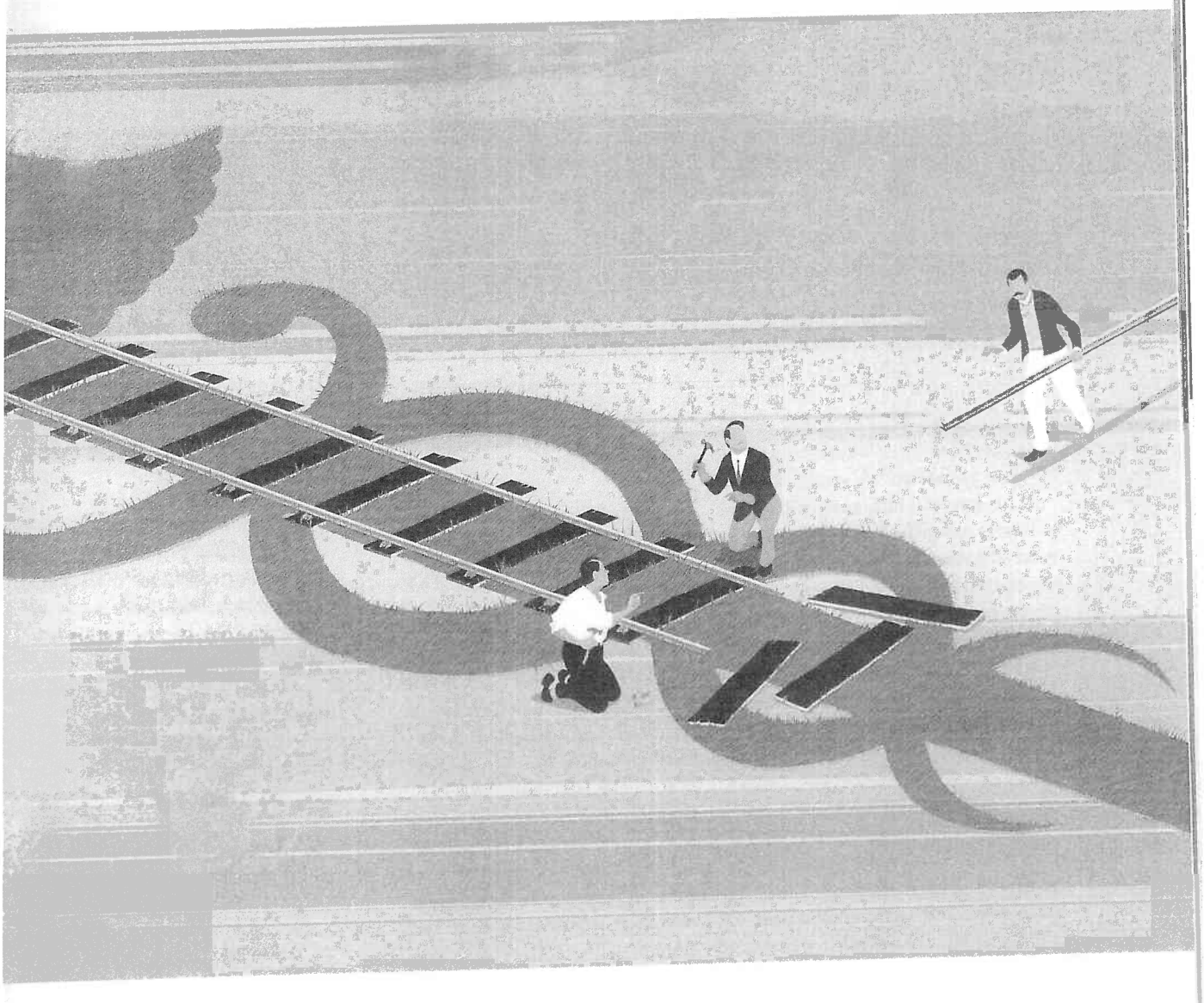


You Need Partners

As healthcare organizations reorient their business toward an accountable future, strategic partnerships of many stripes form the backbone of their drive to survive. **BY PHILIP BETBEZE**

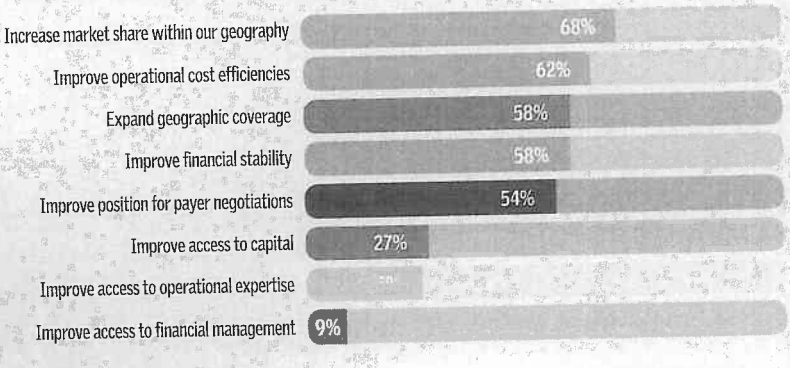
As payers, patients, and the federal government raise standards of reimbursement beyond the provision of services and toward accountability for outcomes, many healthcare organizations are realizing they're too small. Or they're too focused on the hospital business. Or they don't have the proper geographic coverage.

The reasons your organization may need a strategic partner are myriad. In some cases, the partner provides scale. In others, it may provide expertise or share in the risk associated with participation in pilot programs for bundled payments or other risk-based reimbursement.

There are numerous paths to choose from where once the only viable option might have been a traditional merger or acquisition. Hospitals, health systems, physician practices, and a variety of pre- and postacute services are partnering through clinical affiliation, sometimes by way of contracts with niche partners or in some cases through direct ownership of these modalities.

FINANCIAL OBJECTIVES

Which of the following are among the financial objectives of your overall merger, acquisition, and/or partnership planning or activity?



Multi-response

SOURCE: HealthLeaders Media Intelligence Report, *The M&A and Partnership Mega-Trend: Deals for Growth and Survival*, February 2015; *hlm.tc/1zHAJc1*.

The key is that each party has something to lose and something to gain. Which partner or combination of partners is right for a particular organization is subject to the many variables that help determine patient outcomes—good or bad—but it's clear that a strategy around accountability and how to achieve it is table stakes in the risk game.

> "As we've known for some time, **this excess capacity will create problems** for those lacking essentiality in the market."

Merger not necessary

Jeff Hoffman, a partner and consultant with Kurt Salmon in San Francisco, says mergers made up the lion's share of his practice over the past 21 years in healthcare consulting, but that partnerships and affiliations have gradually overtaken mergers as hospital and health system leaders and their boards try to be proactive with strategic decisions, but don't necessarily feel the need to sell assets or give up local control as a first step. They know they can't continue business as usual, but they want to keep their options open.

"Many of my clients are financially successful community hospitals and academics, and they don't want to merge, but they want scale," he says. "They're not sure handing over the assets is actually the right strategy."

After several years of going through strategic processes and looking at the tools and talent needed to be successful, he says many of his clients realized "it isn't transacting the asset that gets them where they want to be; it's something else," Hoffman says.

When you look past the supply chain and back office, the real metric of success is clinical improvement in both efficiency and safety. The elusive "something else."

"One-third of everything done [in healthcare] is duplication," Hoffman says. "We get paid for that waste today, but if you believe that's going away, an affiliation or partnership with other like-minded organizations driving a high level of clinical integration can be successful."

Organizations are trying a mix of models outside of M&A. Among them are the clinical integration model, the joint operating company, and the population health model, or some combination.

"It's not as much size and scale as it is geography and efficiency," Hoffman says. "Do you operate within a geography that's important to an insurer?"

TYPE OF MERGER/PARTNERSHIP ACTIVITY, BY SETTING

Considering your most recent M&A and/or partnership activity, was it ...

	All	Hospitals	Health systems	Physician organizations
A merger of two organizations into one	10%	10%	12%	8%
An acquisition of one organization by another	34%	22%	42%	39%
A contractual relationship, but not M&A	38%	49%	30%	33%
Other	6%	6%	7%	6%
No activity	11%	13%	9%	14%

NOTE: This chart includes data segmentation from the Premium edition of the report.

SOURCE: HealthLeaders Media Intelligence Report, *The M&A and Partnership Mega-Trend: Deals for Growth and Survival*, February 2015; *hlm.tc/1zHAJc1*.

Regional markets' importance

Even the largest hospital chains are trying a variety of new models where once a merger or acquisition would have been the only way two organizations would have worked together. Two of the largest organizations in the country, Ascension Health and Adventist Health System, formed a joint operating company (JOC) recently to better coordinate care and compete in the Chicago metro market. That partnership was born out of the belief that it's not enough to be a major national chain—you must ensure that your piece of a local market retains the size and scale to be a network must-have.

Exclusive to the Chicago area, the JOC, which was named AMITA Health in April, combines Ascension's five-hospital Alexian Brothers Health System and the four-hospital Adventist Midwest Health. All the hospitals are in suburban Chicago. Though announced in June 2014, legal and regulatory steps necessary to form the company were completed in February.

The JOC allows both entities to maintain independent boards for strategy, operations, finance, and overseeing related quality and safety of the overall organization and to retain their separate religious identities. Perhaps more important from a physician alignment and must-have network standpoint, the JOC will form an organization of formidable size.

"All of the organizations that succeed in Chicago metro will need scale," says Mark Frey, who was president and CEO of Alexian Brothers and now holds those titles with AMITA Health. David L. Crane, who had been president and CEO of Adventist Midwest Health, is now executive vice president and chief operating officer of the combined entity. The physician network for AMITA Health will exceed 3,000.

"There are some 100 hospitals in the metro region," Frey says, explaining that a compelling reason for the JOC is that more accountable reimbursement structures, combined with higher patient share of costs, will create excess hospital capacity in a metro area that historically has had high utilization. As utilization moves lower, the most efficient and geographically diverse operators will have an important advantage.

"As we've known for some time, this excess capacity will create problems for those lacking essentiality in the market," says Frey. "That puts more pressure on hospitals and drives patient volume into outpatient care. As we shift a lot of payment responsibility to consumers, you'll continue to see these changes contribute to a hypercompetitive market."

> **"As we shift a lot of payment responsibility to consumer,** you'll continue to see these changes contribute to a hyper-competitive market."

Crane says both organizations will benefit from sharing their own solutions and economies of scale that will allow the organizations to protect clinical care while being judicious about overhead in the executive suite—where he says duplication of roles will be addressed eventually—not at the bedside.

"I'm excited about bringing together best practices from two national organizations that are excellent in their own right," he says.

Another option: Sharing risk with vendors

Rich Roth, chief strategic innovation officer at San Francisco-based Dignity Health, with 60,000 employees in 21 states, also says partnerships are the way forward for his organization, but in a much different way. Dignity is sharing risk with a variety of partners. One interesting piece of that strategic initiative is through sharing risk in a bundled payment model with a vendor partner.

Roth says a "phenomenal opportunity" is available in partnering with novel organizations—startups or others—that have deep expertise in one area, such as patient engagement or coding, and marrying that knowledge with Dignity's healthcare expertise.

"The best way to leverage those opportunities is in partnerships,"

CARE DELIVERY OBJECTIVES

Which of the following are among the care delivery objectives of your overall merger, acquisition, and/or partnership planning or activity?

Multi-response

SOURCE: HealthLeaders Media Intelligence Report, *The M&A and Partnership Mega-Trend: Deals for Growth and Survival*, February 2015; *hlm.tc/1zHAJc1*.

he says. "If you can align great talent toward a common goal, that's how we'll move forward."

In this instance, Dignity is partnering with naviHealth, a Nashville-based management services organization, in managing bundled payment initiatives through Medicare's Bundled Payment for Care Improvement program, Model 2. The Model 2 option includes payment for the retrospective acute hospital stay plus postacute care. It allows the organization to dip its toe into some aspects of population health management, Roth says, leveraging naviHealth's deep expertise with managing care handoffs to the postacute provider space. Importantly, the vendor is at risk like the health system. With a universal payment for an episode of care, utilization saved is money earned, and efficiency is rewarded at the highest level.

"The opportunity we have in terms of care coordination, in physicians and hospitals working better together, is bigger than in history," Roth says. "If we can align our physicians on joint goals of quality, safety, and reducing the cost of care, these models really support that from a structural and economic standpoint. We're early, but absolutely based on what we're seeing, we're expanding to multiple other sites within the Dignity system."

Those kinds of standards-based care management protocols offer an early push to practices and hospitals, and include methods that need to be in place when hospitals and physicians partner together to achieve a certain goal.

"That's why we like this Model 2 bundled payment program," Roth says. "It allows you to think through a longitudinal program to take care of our patients."

Roth says the specific program dovetails nicely with other value-based initiatives that Dignity has aimed at working with independent physicians on sharing rewards for value.

"We have learned the importance of focus and being able to pick the vital few initiatives that we need to address," says Roth.

"The best way to leverage those opportunities is in partnerships. If you can align great talent toward a common goal, that's how we'll move forward."

That helps in a market where risk-sharing discussions between the health system and health plans are at a preliminary stage.

"We have seen the beginning of shared-savings programs," Roth says, "but this is an opportunity for us to improve quality of care across the continuum on postacute care."

Know your goals

What distinguishes both of these partnerships is careful planning prior to any commitment. That's critical to the success of any such partnership to avoid wasted time and effort, as well as damaged relationships, says Hoffman, who was not involved in either the deal between Adventist and Alexian Brothers or with Dignity's venture into the BCPI program.

Furthermore, Hoffman says he tells clients to avoid meeting with potential partners until they have done their own due diligence about what they want from their organization in the future.

"People want to start having meetings with potential partners," he says. "I always say don't. Until you know what you want, you'll waste a lot of time. Any CEO will meet with you. It's much better to go through a process to envision your future and determine what you want before you meet. That gets their attention pretty quickly. Either they'll do that, or offer alternatives."

ESTIMATED DEAL VALUES, BY SETTING

Please estimate the cumulative total dollar value of the M&A and partnership deals your organization will be exploring over the next three years.

	All	Hospitals	Health systems	Physician organizations
Less than $5 million	17%	23%	6%	28%
$5 million–$9.9 million	13%	13%	13%	15%
$10 million–$49.9 million	32%	34%	27%	38%
$50 million–$99.9 million	14%	15%	14%	13%
$100 million–$499.9 million	16%	9%	28%	5%
$500 million or more	8%	6%	12%	3%

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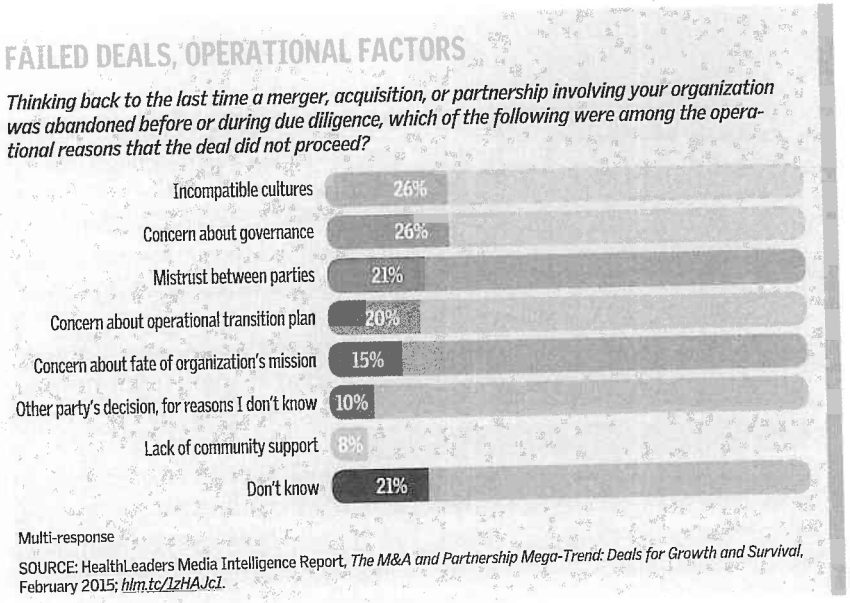

There are some pitfalls to watch out for that might not necessarily apply to M&A. True clinical affiliation or partnership is difficult work. It's one of a number of different strategies that attempt to achieve the same thing as a merger, says Steven Shill, healthcare practice leader at BDO in Costa Mesa, California.

"Certainly you can attempt to have a true clinical affiliation, but if you don't have clearly defined and robust measures by which behavior is influenced, you could have major problems," he says.

Also, in many cases, clinical affiliation agreements are forged between local competitors, which means leaders should be careful to make sure any affiliation with a competitor is broad-based, and not limited to a specific area or service line.

"Where you have an affiliation, it has to be broad enough so that all bases are covered," Shill says, "because the competitive spirit will prevail in other areas, and that puts both parties at significant risk, because you don't have the financial thread that combines the two."

Crane says the broad affiliation of Adventist Midwest Health with Alexian Brothers in the form of a JOC was necessary not only because scale was needed for both organizations locally, but because reimbursements are continuing to tighten around the population health model.

"This model allows us to clinically integrate and integrate operations and keep the core assets separate," he says. "We're incentivized to rationalize our performance in a unified way."

Crane says the template to follow isn't actually so new. Catholic Health Initiatives and Adventist joined forces similarly almost 20 years ago in a relationship that's still going strong in the Centura Health Network based in Denver, which combines 15 hospitals and 9 affiliate hospitals in Colorado and western Kansas.

"We're following generally the same approach in terms of the assets and collaborations, but a slightly different economic model that's more incentivized for the population health environment," says Crane. "Our leaders are telling us we get to redesign healthcare for the next generation. We're very confident about doing that. We get to do the right thing for our patients."

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