OUTSIDE THE LINES

STRATEGIC PARTNERSHIPS: DIFFERENT ANGLES FOR EXPANDING & GROWING

Amidst the mega-mania, consolidation frenzy of the healthcare provider industry, "M&A" (mergers and acquisitions) has evolved to "MAP" (mergers, acquisitions, and partnerships). A new HealthLeaders report – published in April 2016 – noted: "To survive and thrive, U.S. health systems must prepare for and anticipate the new responsibilities required by market forces, technology improvements, and policymakers … it is clear that M&A, collaborations, and partnerships are being used to better position for and address these industry mandates."

For some years, it seemed that M&A was the one-pathway strategic option. This is no longer the case. In fact, some industry observers are even questioning the value associated with the hospital consolidation trend. The Journal of the American Medical Association (JAMA) published "The Potential Hazards of Hospital Consolidation"

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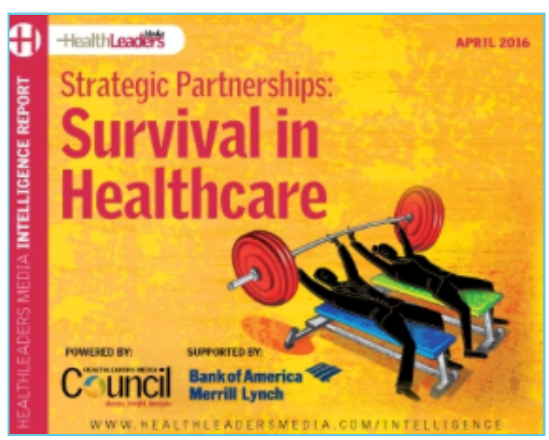


in October 2015, noting: “With the current most substantial consolidation of health care in US history, the concerning implications of the trend of hospital consolidation on quality, access, and price must be carefully considered.” Also, National Affairs published “The Perils of Hospital Consolidation” just this summer, noting: “Over the last few decades, state and federal policies and regulations have encouraged this consolidation of hospitals, a trend that has only been exacerbated by the ACA. As a result, hospitals have assumed more market power, producing worse outcomes and higher prices for patients.”

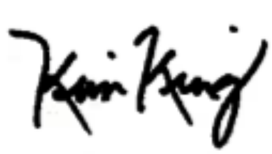
It is interesting to note, therefore, that recently, and in the course of just a couple of days of each other, two major health systems announced non-merger “strategic partnerships,” both providing different angles for expanding, growing, and positioning their organizations.

On August 30, Scripps Health in San Diego announced a cancer program collaboration with MD Anderson Cancer Network, based in Houston. In doing so, Scripps became the fifth provider in the nation to join as a “full partner” (the highest of MD Anderson’s affiliation levels; other full partners are based in Arizona, Florida and New Jersey). Also in the deal, Scripps locked up an eight-county Southern California region with MD Anderson. So, why this decision to go the partner route? One reason, according to Scripps Health CEO Chris Van Gorder, relates to a “make vs. buy” consideration; in this case, Scripps opted to “buy” vs. “make.” According to him: “We have a good program, but the body of knowledge in medicine is growing so fast that it's almost impossible for any one physician to keep. What we feel is, since the body of knowledge is changing so fast, the best way our doctors can do that is to be part of MD Anderson."

Just two days later, on September 1, Emory Healthcare in Atlanta announced a hospital affiliation strategy, actively "choosing not to merge," with 21-hospital Stratus Healthcare. About the partnership, new Emory CEO, Dr. Jonathan Lewin, said "Integrating acquired hospitals would be expensive and time consuming … We don't look at the other (consolidations) with fear and loathing. We're just fundamentally different with what we need."

As we at Strategy Advantage work with our clients, they are telling us they want more "smart and intelligent" avenues and options. Of course, that's a challenge for all of us, but new and creative partnering strategies are a big part of this. So as you consider consolidation, a merger or an acquisition, think of all options, new and traditional, and maybe do what Emory CEO Dr. Levin did … "we convened a study group to really look at the types of patients Emory was treating, the complexity of their infirmaries and where the system needed to reach to serve more of them."

Always looking ahead,



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NEWS ALERT! WHAT'S HAPPENED THIS WEEK

Also in the category of strategic partnership news, there are more and more academic + community-based health system relationships that are evolving. You may know about the Banner Health + University of Arizona merger that started in June 2014. You may have also heard about the University of Minnesota + Fairview Health merger, announced in October 2015, but ceased in June 2016. The list goes on… Just this week in California, UCSF Health and John Muir – via their joint venture organization called BayHealth – announced a new, “first big project” to open an outpatient and urgent care clinic together. UCSF Health and John Muir are also partners on Canopy Health, a new Bay Area accountable care network run by the two organizations and involving other partners.

WHO WE'RE WATCHING

Another category of strategic partnership – another new and different avenue – relates to co-development partnerships with new, usually tech-based, innovator companies. We are watching and following many of these, via our ZIGZAG Healthcare (zigzaghealthcare.com) practice line where we maintain that there are 3 Cs of change, including co-development (strategic partnerships) with innovators.

Our view is this: “Every hospital and health system in the nation – with doctors, nurses, and all care providers – is compelled toward a common, core mission: to deliver the very best healthcare for our communities and patients at the lowest cost." Therefore, in our world today, with a “shift to value” business model and a “shift to retail” market model, in addition to traditional consolidation strategies, three other “Cs of Change” are needed – care transformation, consumerism, and co-development with innovator strategies. To hear more about ZIGZAG Healthcare, contact our ZIGZAG Healthcare Director, Kala Kascht.

WHAT'S TRENDING

According to an August 2016 *Forbes* article and a comprehensive, Bain & Company report, healthcare M&A reached $546 billion in announced deal value in 2015, up 2.5 times over the previous decade’s average annual value. This reflects all global healthcare deals, with provider and related service deals (most of this in the United States) representing about 50% of the deals.

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