Identifying the Most Responsible Moment for Partnerships and Affiliations

ECG MANAGEMENT CONSULTANTS
A Siemens Healthineers Company
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The question of whether to pursue a partnership is a difficult one for healthcare executives. But in many cases, knowing when to agree to an affiliation is the hardest part.

The best partnerships are pursued from a position of strength.

The monumental events of the last three years have caused tremendous fluctuation in the performance of not-for-profit healthcare organizations. The economic impacts of the COVID-19 crisis, which have included global supply chain issues and workforce imbalances, significantly increased labor expenses for the foreseeable future and have forced organizations to rethink the way they do business.

Ironically, the federal relief funds that buoyed many hospitals during the height of the public health emergency may have complicated their futures. While money from the CARES Act and Medicare advance payments saved some healthcare organizations from financial disaster, they also masked operational inefficiencies. Favorable market conditions in 2021, with low interest rates and remaining stimulus funds flowing through the industry, kept many healthcare executives from having to make difficult decisions about their enterprises.

All of that has changed. The inflationary impacts of 2022 and subsequent cost containment crisis have resulted in an uneasy time for many organizations. Realizing that their cost structure may not be sustainable, some of these organizations are now in the early stages of contemplating critical questions: how much longer can our organization survive if market conditions persist? Is it time to seek a partner? Is it time for service line affiliations? Can we enhance revenue on our own?

Whether you pursue a partnership strategy via a clinical affiliation, join a network, or seek a merger, the most critical step is to formulate a strategy. Not doing anything, or waiting too long to act, could be the difference between finding a strong partner and closing your doors.

A MATTER OF TIMING

The best partnerships are pursued not from a position of distress, but one of strength—and there is a most responsible moment for partnering or affiliating. Letting that moment pass—by waiting until liquidity ratios slip, volume starts dropping, or an outside network threatens market share—means your hospital may start looking more like a distressed asset than a highly functioning one.

When broader market downturns come, all organizations take a good look at their own financial health. If acquiring an asset means taking on significant risk and potentially a bond downgrade due to the target's poor financial condition, partnership conversations become much harder. Focus on what growth you want to achieve, and engage in a thoughtful analysis on the feasibility of realizing that growth.

The strong market in 2021 resulted in the lack of a burning platform. Now, many facilities are bogged down in analysis paralysis and wishful thinking, believing they may be able to turn the corner and survive without a partner.

But the responsible moment to find a partner isn't always the obvious moment. Rather, the threats to an organization are subtle—a growing inability to compete in the local market; a failure to expand or evolve; and ultimately, an inability to achieve the stated mission of the organization. Leaders must ask themselves whether they can better serve their constituents through a merger or affiliation.

Hospitals of all sizes can monitor the following performance indicators to understand when that moment is approaching.

CLINICAL INDICATORS

Organizations need to be continually improving clinical care (i.e., efficacy, patient satisfaction, efficiency, cost). Tighter affiliations with physicians and other hospitals are likely required for this continual improvement. Small clinical programs that routinely fail to meet reasonable quantity and quality numbers need to be reconsidered in light of clinical partnerships.

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The following clinical triggers indicate you have reached or passed the most responsible moment for partnership or affiliation:

- Your organization is behind local competitors regarding quality of care (perception and/or reality).
- You have difficulty securing programmatic affiliation agreements.
- You have difficulty attracting or working with physicians to maintain key clinical services.
- There is minimal physician interest in clinical care innovation.
- The organization has no real tangible value strategy or progress toward population health.
- You have no consumer-facing digital strategy beyond an EMR "My Chart" or scheduling tools.

GROWTH INDICATORS

Healthcare organizations with an ambulatory focus have shown an ability to move into a market quickly and cause major disruption. In October 2022, Optum completed its $13 billion acquisition of Change Healthcare, a large software and data analytics firm, to modernize revenue management and payments for providers. While many health systems are slow to act, Optum differentiated itself by demonstrating its ability to shift market dynamics within only two years. If you are not finding a way to grow in your market, someone else will.

Watch for the following growth triggers:

- Despite strategic investment, your hospital does not grow share.
- There is a clear and consistent pattern of market share loss.
- Competitors are aggressively moving into your service area, targeting attractive services.

OPERATIONAL INDICATORS

Multiple operational metrics can begin to tell the story that an organization needs a partner. The most significant is when a facility creates a strategy but can't implement it. Applying nonstrategic tactics to achieve goals—such as using cost-cutting alone to achieve an operational target as opposed to a combination of cost cuts and care transformation—can also be an indicator that new relationships are necessary.

More than just a solution to building supply chain and finance scale, strategic partnerships can also build the scale of expertise and skill that is so critical in the evolution toward population health.

Operational triggers include the following:

- Your organization cannot attain economies of scale needed to achieve profitability (trying to cut your way to success).
- Recruitment and retention are difficult.
- Employee turnover reaches unacceptable and difficult-to-manage levels.
- You find yourself needing to purchase physician practices not to improve care access and quality, but to maintain operations, share, and/or volume.

ORGANIZATIONAL INDICATORS

Successful physician alignment strategies are becoming critical to organizational success. For providers that have struggled in the past to create beneficial physician partnerships, time is running out. These partnerships will be vital to the development of clinical integration strategies that, ultimately, support new clinical care models, reduce waste and duplication in clinical care, and lead to success in value-based reimbursement.

Organizational triggers to monitor include the following:

- The market is experiencing further physician employment consolidation.
- A large physician practice affiliates with a competitor.
- Succession planning for key leadership positions proves difficult.

FINANCIAL INDICATORS

Recently, a hospital in California's Central Valley had to urgently seek a partner due to its financial distress. When a for-profit hospital operator stepped in with plans to acquire the hospital, it had no option but to pursue the deal—despite knowing that the state attorney general would very likely impose significant restrictions. That's exactly what happened, and the organization's would-be purchaser backed out. The hospital recently indicated it will declare bankruptcy.

Financial indicators can be some of the easiest to keep tabs on, but some of the hardest to overcome. Triggers include the following:

- Short-term performance is acceptable, but financial forecasts appear unfavorable.
- Capital is needed, but not available, for a mission-critical project within five years.
- Bond covenants are in danger of being "tripped," or the organization regularly falls out of compliance with covenants.
- The bottom line continues to deteriorate, and there's a minimal to negative ROI.

A POSITION OF STRENGTH

Partnerships among not-for-profit healthcare organizations have historically been considered a last resort for financially distressed organizations; increasingly, this perspective has changed. When pursued from positions of strength, they can create efficiency, drive value-based strategy, or implement a previously unavailable payer strategy.

Organizations that partner proactively, from a position of strength, will have the opportunity to refine their networks and adapt them to new variables. Those that wait until someone else creates a larger regional delivery system risk being left out of it.

ABOUT ECG

With knowledge and expertise built over the course of 50 years, ECG is a national consulting firm that is leading healthcare forward. ECG offers a broad range of strategic, financial, operational, and technology-related consulting services to providers, building multidisciplinary teams to meet each client's unique needs—from discrete operational issues to enterprise-wide strategic and financial challenges. ECG is an industry leader, offering specialized expertise to hospitals, health systems, medical groups, academic medical centers, children's hospitals, ambulatory surgery centers, and healthcare payers. Part of Siemens Healthineers' global Enterprise Services practice, ECG's subject matter experts deliver smart counsel and pragmatic solutions.

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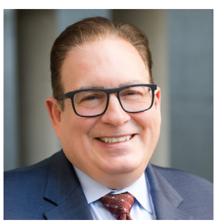

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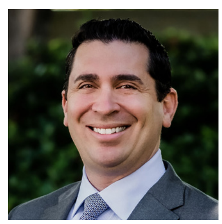

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