THE STATE OF HORIZONTAL CONSOLIDATION

PARTNERSHIPS CAN ENSURE LONG-TERM STABILITY FOR HOSPITALS AND HEALTH SYSTEMS
The healthcare industry is undergoing unprecedented consolidation. Nearly 1,600 hospital mergers have occurred in the U.S. in the past 20 years, and more than 450 of those deals have been enacted since 2012. New York state faces a similar dynamic – more than three-quarters of New York hospitals are already a part of, or affiliated with, a broader health system or network.

There are financial implications to this trend: consolidation can be linked to better economic performance through market share growth and cost-savings. As a result, additional consolidation is expected in the state, especially among providers currently in collaborative relationships.

However, merger and acquisition outcomes vary. High-value transactions are defined by both better outcomes and cost-savings, but research shows that roughly 60% to 80% of all mergers fail to deliver on their expectations.

Successful mergers require finding the right partner and many clinical affiliations can act as a litmus test for whether a structured acquisition makes sense.

Healthcare leaders in New York state have a lot of flexibility in building these arrangements to meet the unique needs of their communities, but this flexibility can also add complexity to the process. As a result, health systems, hospitals and other healthcare facilities must develop and effectively communicate a strong, cohesive vision for the outcome of the relationship to ensure internal and external stakeholder support.
NO TWO PARTNERSHIPS LOOK THE SAME

In New York, mergers and acquisitions are just two options on a continuum of partnership options between hospitals, physician groups and health systems. Collaborative clinical relationships and passive parent arrangements can lead to structural partnerships, including active parent deals or mergers and acquisitions, but these are not necessary to achieve integrated care goals.

Non-ownership clinical affiliations can achieve many of the same results, including increased market share, protected referral patterns and revenue growth. Consider the following for each partnership type.

Clinical relationships
Collaborative practice agreements can take many shapes and forms, including Accountable Care Organizations, program affiliations and joint clinical services. In general, these programs can provide higher levels of expertise and specialist access for smaller, more rural facilities. They can also provide increased referral traffic up to the larger system. Benefits include maintained independence, though there may be limited or no financial support from the larger entity.

Passive parent arrangements
This collaborative relationship allows the subsidiary to preserve its brand identity while benefiting from increased financial stability through greater supply chain purchasing power and leverage in managed care negotiations. Passive parent arrangements do not allow for revenue sharing, but they also do not expose the parent entity to financial risk.

These partnerships can also vary depending on the goals of the subsidiary and the parent entity. One aspect that varies per relationship is how the parent system or facility exercises its authority. Options include:

• **Not-for-profit membership**: The parent entity has “shareholder rights” in regard to electing or removing board members, amending governing documents and approval of mergers and dissolutions.

• **Board representation**: This may include overlapping boards (some of the same board members on the subsidiary and parent boards) and mirror boards (all of the same board members on the subsidiary and parent boards).

• **Reserved powers**: The parent entity requires authority to approve certain operational actions.
In other arrangements, one system can manage another hospital or system under a contract. This arrangement requires the approval and oversight of the Department of Health.

Often, these kinds of clinical or passive parent relationships are seen as a “stepping stone” toward a more structured arrangement. Interim steps can be a valuable option to determine if a more concrete alignment makes sense clinically and culturally.

That said, passive arrangements may produce partial integration and competition for patients, as well as challenges related to financial, regulatory and operational alignment.

**Active parent arrangements**

To achieve a more cohesive partnership, systems may pursue an active parent arrangement, requiring the parent to become a “co-operator” approved by the Public Health and Health Planning Council.

Active parent status allows for the parent system to appoint or dismiss staff, approve budgets and hospital policies and share in the hospital’s gross revenue.

Other operating transactions include full mergers or acquisitions. In the former, two entities are consolidated into a single legal entity. In the latter, one organization buys the assets of the other, resulting in full ownership by the buyer, and a likely rebranding for the subsidiary as a division of the parent company. Another implication under a merger or acquisition is the dissolution of the hospital’s board, at least in a fiduciary role. In many cases, the acquired hospital’s board will remain on as a local advisory team.
Adirondack Health Institute

The Adirondack Health Institute is a regional clinical collaboration among healthcare and service providers in the Adirondack region of New York state. It includes Adirondack Health, Glens Falls Hospital, Hudson Headwaters Health Network, St. Lawrence Health System and UVM Health Network – Champlain Valley Physicians Hospital. Its programs include a medical home pilot, a health home and a rural health network, among other services. The scale of the venture has allowed the partners to better address the healthcare needs of the primarily rural communities.

NewYork-Presbyterian and Lawrence Hospital

Bronxville's Lawrence Hospital became an affiliate member of the NewYork-Presbyterian Healthcare System in 2005. The relationship evolved into NewYork-Presbyterian becoming the active parent and co-operator of Lawrence Hospital in 2016, with a full merger completed in 2018. The affiliation allowed the entities to further expand preventive services and primary care programs in the Westchester County area, and provide increased specialty access at the system’s other campuses. Through the merger, Lawrence Hospital became the seventh division of NewYork-Presbyterian Hospital and was renamed NewYork-Presbyterian Lawrence Hospital.

Albany Medical Center

Albany Medical Center is an active co-operator of two regional hospitals: Saratoga Hospital to the north and Columbia Memorial Hospital to the south. The partnerships, finalized in 2015 and 2017, respectively, allow for better patient coordination, access to specialized services and improved provider recruitment while allowing the affiliated hospitals to retain their brand identities.

Nuvance Health

A rising trend in horizontal consolidation is cross-border relationships with systems in Pennsylvania, Connecticut and Vermont. One example is Nuvance Health, a partnership between LaGrangeville, New York-based Health Quest and Danbury, Connecticut-based Western Connecticut Health Network. The two entities partnered to create a new health system, Nuvance Health, in April 2019. The combined system comprises seven hospitals and serves 1.5 million residents.
ENSURING STAKEHOLDER SUPPORT

The more substantial the agreement or partnership, the more important community stakeholder support becomes. Support should include patients and staff, but may also include local elected officials, community groups and business partners.

Public perception of the transaction or partnership can have a make-or-break effect on its ability to achieve high value transaction status. As such, a communication strategy built on achieving positive public perception is key.

A communication strategy is more than a few press releases – it’s a multi-channel, multi-message campaign that addresses a community’s unique characteristics and the specific concerns held by various stakeholder groups.

Determining market positioning and audience targeting is the first step. As an example, here are some specific messaging considerations for academic medical centers and rural health systems.

**Academic medical centers**

Patients and staff at AMCs may have concerns about the process of incorporating community hospitals. Several benefits of horizontal consolidation could be used for messaging in this case, including:

- expanded training ground;
- access to additional clinical trial participants; and
- new care opportunities for lower-acuity patients.

At community hospitals, there may be concerns about price inflation, fear of loss of control over decisions and/or fear of lost independence. When developing your messaging strategy, proactively anticipate and address the concerns of the distinct cultures involved in the merger.

**Rural health systems**

When rural hospitals enter into an affiliation, employees of these hospitals are often worried about their long-term job prospects, and patients are concerned about the future of care access in the community. Messaging to this group could focus on:

- security and stability offered by a merger;
- increased specialty service access;
- the new organization’s ability to participate in ACOs and other value-based arrangements that improve patient outcomes; and
- expanding insurance partnerships.

Depending on the brand, culture and community in question, some or all of these considerations may apply. An effective communication strategy will identify internal and external stakeholders and address their unique concerns.
BUILDING AN EFFECTIVE COMMUNICATION STRATEGY

Both entities in a partnership or merger and acquisition deal want the relationship to be successful, and significant time is spent negotiating the deal and terms. Similarly, it’s critical to spend time crafting the message explaining why the merger is beneficial.

A communication strategy achieves the following:

- business continuity;
- unified company culture;
- reduced anxiety among patients and staff regarding job security and care access;
- community support; and
- post-partnership operational and financial success.
Use the following steps to build an effective communication strategy.

1. DEVELOP CORE MESSAGES AND NARRATIVES TO ANCHOR ALL COMMUNICATIONS
The organizations’ senior leadership teams and governing boards should communicate why a merger or partnership is taking place. Culture matters, but focus on the business objectives of the merger when developing a narrative. The anchor messaging should also address the identified concerns held by community stakeholders.

2. IDENTIFY OVERALL TIMELINE AND MAJOR MILESTONES
Your messaging should be cohesive and follow a singular tone, but it should not be repetitive. Health systems and facilities will need to address different questions at different points throughout the process, and the communications plan should account for this. At each milestone, such as the signing of a definitive agreement, a transaction close or a rebranding, leadership should address all core messages but anchor communications around what’s most relevant at the time, whether it’s job security, a long-term vision or human resources logistics.

3. CREATE INTERNAL AND EXTERNAL MESSAGING PLANS
Combine the core anchor messages with the partnership timeline to create messaging plans for both internal and external audiences. Again, establish a foundation for why the partnership is happening and how it will benefit the various stakeholders – employees, patients, community leaders. Examples could include financial improvements related to a capital commitment, facility upgrades, improved access to specialists, economies of scale or a larger regional footprint.
CONSOLIDATION IMPLICATIONS

As hospitals and health systems face sustained economic pressure, regulatory changes and increased competition from new market entrants, consolidation will likely continue. Healthcare leaders in New York state should consider the following implications in strategic planning over the next decade.

• **Consolidation can be valuable, but success is not guaranteed**
  High-value partnerships can improve revenue and profits, but transaction terms, cultural considerations and community support are integral to success.

• **Providers in New York state have many affiliation options**
  From clinical collaborations to full mergers, hospitals, health systems and physician groups have a lot of flexibility in creating strong, community-oriented partnerships.

• **Identify and strategically address transaction-specific concerns**
  With so much flexibility, no two arrangements will look alike, nor will internal and external stakeholders share the same concerns. Messaging plans should be equally distinct.
SOURCES AND SUPPLEMENTAL READING


6. Adirondack Health Institute: “Bringing Comprehensive Health Care and Services to the People of the Adirondack Region.”

7. NewYork-Presbyterian: “Lawrence Hospital and NewYork-Presbyterian Hospital Join Forces to Advance Care in Westchester County.” Published: 2014.


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