HEALTHCARE MANAGEMENT ADVISORS

Hospital Mergers and Acquisitions: Planning for Realistic and Achievable Results

Robert Hill, Jr., Principal

A high volume of mergers and acquisitions between and among hospitals and health systems continue to dominate the healthcare landscape, with an increasing number of transactions anticipated in 2018.[1]

The benefits of consolidation are well known:

- Enhanced access to care and increased market share by providing specialty or subspecialty physician coverage previously unavailable or by “exporting” services or programs from one hospital to another
- Capital cost avoidance resulting from reduced expenditures on major equipment and technology
- Quality-of-care improvements that stem from standardized clinical protocols and sharing and integrating best practices between hospitals

But achieving these benefits takes careful planning and coordination among both entities—long before the transaction becomes final. We’ve found leading organizations follow five best practices in the months leading up to and shortly after a merger or acquisition.

1. **Conduct strategic due diligence in advance of a merger or acquisition to support a smooth transition**. A strategic approach to due diligence seeks to develop a strong understanding of the relationships, market dynamics, competitive forces, and other factors that could affect the success and viability of the transaction. Take the time to assess the potential impact of the transaction on physician alignment, how the transaction could affect partnerships with competitors, and how competitors might respond to the transaction. Then, determine how your organization will respond if “What if?” scenarios prove true.

2. **Set realistic and achievable performance improvement targets.** If targets are set too high, it will lead to disappointing results. If targets are set too low, and the actions or initiatives undertaken are not ambitious enough, there may not be sufficient justification for the transaction to occur, or the merged organization may underperform.

3. **Have a vision and a detailed implementation plan for the merger or acquisition.** A strong vision outlines what the organizations can accomplish together that they could not accomplish as independent entities. This vision should be supported by detailed operating and implementation plans, specifying the individuals who will take ownership, estimated resource requirements, and target completion dates.

4. **Make decisions regarding senior leadership before the transaction takes place.** Roles and responsibilities should be clarified, and there should be as much transparency as is reasonable. Cultural differences between the merging organizations should be identified, and new leadership should be visible and accessible leading up to and following the transaction. Leaders should interact regularly with medical staff members, employees, and other stakeholders to listen to concerns, address issues, and provide opportunities for feedback from multiple sources.

5. **Implement best practices in supply chain across the enterprise.** Although the benefits of most cost-reduction initiatives typically take some time to be realized, one category where savings can be realized almost immediately is supply chain. Even if both organizations are part of a purchasing cooperative prior to the merger or acquisition, incremental savings typically can be achieved when the organizations implement best practices for supply chain processes across the enterprise, seek to leverage their purchasing power to obtain better pricing, and/or consolidate to the same purchasing cooperative.

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Hospital mergers and acquisitions will continue for the foreseeable future. Even in major metropolitan markets, we will likely see two or three large systems that lead the market. The most effective mergers or acquisitions will result in enhanced value, which is best accomplished through reasonable cost reductions and meaningful improvements in access to and quality of care.

1. Among major mergers in process are Catholic Health Initiatives and Dignity Health, Providence St. Joseph Health and Ascension, Advocate Health Care and Aurora Health, as well as UnitedHealth's Optum unit and the DaVita Medical Group (Fierce Healthcare, January 4, 2018).

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It is typical for the acquiring organization to make a capital commitment to the smaller organization that extends 5 to 10 years following the transaction. Longer term, mergers and acquisitions also can be an impetus for capital improvements that upgrade services and facilities at acquired hospitals. By following these best practices, acquiring organizations will be better positioned to strengthen market position, achieve economies of scale, and position themselves to better manage population health—key goals in an era of value in healthcare.

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