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The Evolving Rationale for Consolidation in Health Care

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Consolidation in the healthcare industry is well-established and moving full-steam ahead. There were an average of 100 hospital transactions per year between 2011 and 2014, compared with 60 per year in the preceding four-year period.[a] More than 60 percent of U.S. hospitals are now part of a health system.[b]

In most major metropolitan areas, the provider market is well on the way to consolidating into a few major health systems. In addition, prospective insurer mergers (such as the courting of Cigna by Anthem and Humana by Aetna) recently have received national attention. Each major market may soon be down to two to four provider systems and a similar number of insurers.

As the pace of consolidation increases, so too has the scale of the transactions, with multi-entity, billion-dollar "mega mergers" on the rise. Perhaps more importantly, the form of consolidation is changing. Although traditional mergers and acquisitions remain staples, many providers are pursuing shared-governance partnerships and novel alliances (e.g., joint operating agreements and minority interest deals). These emerging models point to an evolving rationale for consolidation.

Historically, mergers and acquisitions have been motivated by acute financial distress, clinical deficiencies, or capital needs. While these factors remain relevant, recent activity appears to be focused on repositioning for a value-based healthcare system. Consolidation is now driven at least in part by a desire to access new competencies, and is more proactive than defensive. In fact, many hospitals and health systems are combining from a position of strength.

It remains to be seen whether a new motivation for consolidation will increase the benefits of such moves. Evidence suggests that traditional mergers generate efficiencies and, in some cases, ensure otherwise insolvent providers have continued access to patients.

Unfortunately, these efficiencies generally have not translated into lower prices or better quality for purchasers and consumers.

It is promising that the current push for consolidation seems to appropriately emphasize long-term sustainability. Improving efficiency and building scale will still be a rationale for consolidation, but the intended application of the resulting gains has changed. Rather than leveraging advantages to succeed in a fee-for-service environment, providers have incentives to invest in population health management.

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For example, consolidation can provide:

- The scale to support data management systems that can capture population health outcomes and the effectiveness of care improvement initiatives
- The scope to achieve coverage across the care continuum
- The skills to develop, implement, and monitor physician adherence to evidence-based protocols
- The capacity and competencies to make effective chronic disease care management feasible
- The centralization of expertise and resources to effectively manage and monitor performance in value-based payment mechanisms

Consolidation under more evolved premises does not guarantee a positive impact for consumers and purchasers. It does, however, provide a sound platform from which to pursue the integration and investment required to deliver higher value. Coupled with effectively designed incentives and the demand for increased accountability in health care, provider consolidation may well be an avenue to success in a fundamentally transformed industry.

Footnotes:

a. Irving Levin Associates, Inc., *The Health Care Acquisition Report*, 2015.
b. Veralon analysis of Definitive Healthcare database, June 2015.

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