

Understanding and Navigating Healthcare M&A in the New World of Disruptors

By Anjana D. Patel and Zachary Taylor, Epstein Becker & Green P.C.

The healthcare industry is facing an unprecedented increase in merger and acquisition (M&A) activity. Traditionally, these transactions involved provider-to-provider deals, such as hospitals and health systems merging or hospitals acquiring physician practices, nursing homes, home health companies, etc. More recently, however, there has been an increasing trend of new organizations entering the industry creating new M&A models with a potential to significantly disrupt the industry. These new entrants consist of payers, retailers, pharmacies, IT companies, private equity funds, and large employers, and they are engaging in transactions not only amongst themselves, but also with providers. The actual impact of these activities on hospitals remains uncertain, but what is obvious is that the old way of doing business is rapidly changing. Hospitals and health systems need to understand, anticipate, and proactively react by creating business strategies to effectively compete in the industry.

Disruptors are entrepreneurial, innovative, and financially secure. They possess the ability to amass and analyze huge amounts of financial, clinical, and consumer data, as well as impact how and where healthcare products and services are utilized. Disruptors are investing in companies that keep costs down by owning more of the supply chain, or they are employers looking to limit their costs and cut out the payer middleman by engaging in such strategies as direct contracting with providers. Like other industries, such as retail, disruptors are focused on the patient as a consumer. They understand that in order to truly meet the demands of a consumer, they will need to employ new strategies and technologies.

Consumerism and Technology

Amazon's focus on improving the customer experience provides a model for healthcare organizations. Hospitals and health systems would benefit by replicating this ideology in the new consumer-centric healthcare era. By treating patients like customers, hospitals will have to work to earn their respect, business, and loyalty. Consumers want to engage in personal dialogue that is grounded in mutual

respect and empathy. Hospitals could use their local networks to develop and maintain those emotional connections and thereby strengthen their brand in the community.

Healthcare consumers also want convenient access to care and cost transparency. One way disruptors are engaging in strategies to address these needs is by investing in technology. By focusing on telehealth, digital devices, artificial intelligence, portable technologies, and social networking, disruptors are implementing systems that allow care to be integrated into the consumer experience.

Retail Health

As patient care shifts away from traditional inpatient facilities and primary care offices, disruptors are looking at a retail health model to create a more convenient patient care setting. They are creating platforms that provide access to a wide variety of service options, the ability to tailor a solution to the individual patient, and, with the use of technology, create access anywhere, at any time.

Retail clinics provide a number of advantages to patients including:

- Business hours that exceed traditional physician practices.
- Convenience of in-store locations that are within neighborhoods, connected to the community, whereas traditional practices may not be as readily accessible or convenient.
- Walk-in office operations that operate on a first-come, first-served basis and do not require appointments.
- An increase in preventative care, early intervention, and potential diversion of non-critical patients away from hospitals resulting in cost savings.

Retail clinics are not without their challenges, however, as they may not impact emergency room visits to the extent many believe. Further, they may increase overall spending as care is sought more frequently than necessary, and, perhaps most importantly, they require the patient to trade-off between developing personal relationships with their physicians for immediate

Key Board Takeaways

Healthcare boards should consider the following strategies to effectively compete with disruptors:

- Bring data analytics to the forefront of both clinical and operational decisions.
- Highlight your hospital's service differentiation and strengthen your brand.
- Rethink the patient experience, focusing on their needs, wants, and behaviors. To be consumer-centric, hospitals have to adapt the way they have historically delivered care.
- Understand that patients are customers who demand high-quality, convenient, and cost-effective care.
- Technology is key. Use it to better serve and retain your patients. Anticipate their needs and proactively develop platforms that create efficiencies in care delivery.
- Follow the healthcare disruptors for best practices and future trends.

access to a provider. Thus, hospitals and health systems can leverage their physician practices to compete with retail healthcare.

Legal Issues

A major legal hurdle impacting M&A transactions are the antitrust laws. Historically, vertical mergers, which consist of entities operating at different ends of an industry's supply chain, have received less scrutiny from the government than horizontal mergers. In the recent U.S. Supreme Court decision the *United States v. AT&T and Time Warner*, the government lost the battle to block a vertical merger, but the healthcare industry should still be cautious. Federal officials are committed to questioning vertical mergers that they believe could cause downstream economic effects on product flow and prices, and the volume and innovative M&A transactions in the healthcare industry may provide the government ripe ground for future enforcement.

Conclusion

In this new era of disruptors in healthcare M&A, hospitals and health systems need to refocus their approach to providing healthcare and diversify their service offerings. Examining how the disruptors handle the fragmented system of care is crucial to responding to change. Amazon and Optum are streamlining the customer experience through increased and innovative use

of technology. The Aetna/CVS transaction strives to create a community of care that develops pathways to connect patients to services for answering questions, filling prescription drugs, and healthcare coverage. Walmart and Humana are utilizing their retail expertise, combined with the recently formed primary clinic subsidiary, Conviva, to capture volume for both businesses. Hospitals need to:

- Create a patient-centric environment that is both cost-effective and efficient by managing the total patient experience. For example, to create a better experience, update “grease boards” to digital displays that include more information that will help streamline care, and give patients immediate access to information such as staff interactions, medications, and procedures.
- Be transparent about cost and quality. Engage patients in discussions around what a visit or procedure will cost, including emergency room visits. Also, provide a cost-estimator tool on the organization’s Web site, and make sure it figures in contracted rates and allows for individual benefits information.
- Build on value-based care initiatives and strengthen their brand. Build a strong patient-friendly brand through

engagement outside of typical patient interactions. Utilize social media and technology platforms to help patients form closer relationships with providers. Be sure to create stories not just list accolades.

- Understand that healthcare delivery has to be flexible, in multiple settings, and allow patients to make their own choices. Offer patients convenient access to care through both physical locations and virtual systems (patient portals for scheduling, telemedicine, extended hours, etc.).
- Rethink the patient experience, focusing on consumer needs, wants, and behaviors. Create a multi-disciplinary team, including navigators, that focuses on the experience and delivery of healthcare from patients’ perspectives, both during and after care delivery. Create a space for stakeholders to provide input, and always be proactive, not reactive, to consumer needs.

To ensure the organization is able to effectively compete with disruptors, boards should ask management:

- Is everyone, whether front-, middle-, or back-office service delivery, attuned to the patient’s perspective?
- Do we have a strategic plan to adopt IT systems and infrastructure that will aid

in collaboration across multi-user, multi-device environments?

- What technology is integrated into physician appointments? Can we redesign the experience by reducing wait times and increasing transparency?
- What are the emerging roles in the patient-centric system? Do we have the talent at all levels to coordinate programming?

Hospitals and health systems operate in a highly regulated industry and many are non-profits and thus subject to regulatory and financial pressures. However, healthcare is a long-term play that requires strategy that is constantly looking years into the future. Hospitals and health systems should be proactive and assess strategies that include components of patient consumerism, technology, and thinking “outside the box,” which could include partnering with disruptors to enhance current and future hospital initiatives. ●

The Governance Institute thanks Anjana D. Patel, Member, and Zachary Taylor, Summer Associate, with Epstein Becker & Green P.C., for contributing this article. They can be reached at adpatel@ebglaw.com.