System Focus

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Better Together: The Business Case for Payer–Provider Strategies and Partnerships

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Key Board Takeaways

Organizations can prepare for payer–provider partnerships by:

- Researching the needs of purchasers and consumers in their market
- Evaluating each party's capabilities to assign responsibilities and uncover gaps requiring future investments
- Defining the partnership's terminology to create a shared vocabulary
- Determining the role of independent physician practices and affiliated networks
- Designing the partnership's structure to support its overall strategic vision

Health systems and health plans are used to warily eyeing each other from opposite sides of the negotiating table as foes to be conquered and not potential allies. But as competition heats up, and costs march ever-faster toward the stratosphere, many providers and insurers have come to the realization that working together may be the only way forward in a healthcare industry veering toward full-on crisis. This article looks at how payers and providers can work together to address industry challenges and provides strategies for successful partnerships.

Collaborating to Address Industry Challenges

The existential challenges of the current industry—and the frightening prospect of rapid obsolescence—have convinced many payers and providers that the risks of avoiding strategic alignment and partnerships are far greater than the challenges of collaborating with a onetime competitor. And as health systems and health plans respond to the COVID-19 pandemic, the value of being a collaborative community partner focused on delivering seamless, high-quality care—especially in high-demand virtual care settings—has never been greater. Both the pandemic itself and the post-pandemic era could shift the economics of healthcare in ways that require health systems and health plans to partner as they adjust to the new normal.

Additional industry challenges include:

- **Intense competition from integrated companies.** UnitedHealthcare's Optum division, Kaiser Permanente, and other large, integrated healthcare entities are aggressively expanding into new markets and threatening to disintermediate all legacy health system and health plan incumbents in their path.
- **A race for profitable lines of business.** These new entrants are largely competing for the most profitable lines of business, including Medicare Advantage enrollees and commercially insured consumers. Without these lines of business—which previously mitigated the cost of caring for more adverse patient and member populations—legacy incumbents will be in dire financial shape.
- **A rapidly shrinking marketplace.** The prospect of a much smaller available and addressable market represents a major threat to future growth for health systems and health plans alike. Traditional concerns about "the death of a thousand cuts" from payment changes or shifting payer mixes may soon give way to the prospect of being cut off at the knees from one's entire customer base in short order.
- **An affordability crisis.** Consumers beset by ever-rising insurance premiums and out-of-pocket hospital bills are already rebelling, creating a hostile political climate for both health

systems and health plans. And Boeing, Intel, and other large employers have also tired of the status quo and are driving extremely hard bargains on performance and cost when they purchase healthcare benefits for their employees.

- **Pressure to eliminate waste.** As health systems embrace cost reduction to help address calls for more affordable care, eliminating unnecessary waste is top of mind.[1] Administrative complexity—which is often generated by payer–provider interactions in billing, coding, and other insurance-related requirements—generates an astounding $265.6 billion in waste each year.[2]
- **Demand for a seamless consumer experience.** Amazon, Walmart, CVS Health, and other companies skilled at delivering an excellent consumer experience are racing to open new, competitively priced virtual and brick-and-mortar clinics. Health systems and health plans must be able to compete with these tech-savvy new entrants to maintain relevance.
- **The high cost of the zero-sum mentality.** Payers and providers may have spent years fighting each other across the negotiating table during contract season. This divisive dynamic is simply unsustainable moving forward.

This volatile combination of heightened competition and political uncertainty has significantly raised the table stakes for legacy health systems and health plans. In the gloomiest scenario, a vertically integrated competitor skilled at delivering a seamless consumer experience might lure away a health plan's membership or lock a health system out of critical local networks.

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The journey to that "partnership nirvana" depends on where health systems and health plans are positioned today. In some markets, potential partners may already be losing business to integrated delivery systems. In other situations, health systems may be looking to grow or sustain membership in a health plan. And in other markets, organizations that are already partnering with like-minded entities may be considering how deeply they want to push the payer–provider partnership model.

Health systems that wish to position their organizations as attractive partners for health plans should consider:

- Demonstrating the appetite and ability to achieve total cost of care targets and savings
- Committing to shared risk management models
- Developing the capability and willingness to share data and achieve interoperability
- Providing exclusive access to specific, high-value components of their care delivery system

Strategic Imperatives for Success

In any market, successful partnerships will embrace the following strategic imperatives:

- **Engage the entire C-suite.** While not all C-suite executives will be involved in every discussion, leaders throughout both organizations should be engaged in both shaping the partnership and championing its implementation within their departments.
- **Understand the market.** Successful partnerships will carefully study what purchasers and consumers in their market need and use those insights to design effective products and processes. Both parties should also be prepared to make concessions, as they develop a formula that supports the profitability of the health plan and the impact of the health system.
- **Define a differentiated value proposition for independent physicians.** Independent physician practices and affiliated networks play a key role in any market, given the reality that most organizations can't afford to employ every physician. Payers and providers can devise unique ways to better align and support these independent physicians, especially in the current environment. On occasion, independent physicians get pitted against large health systems, as these physicians seek to reduce the total cost of care by steering care away from the high-cost hospitals. Health plans and health systems have an opportunity to work together to create a shared value proposition for independent physicians before this becomes the dominating market dynamic related to value-based care.
- **Develop a shared vocabulary.** Payers and providers approaching partnership for the first time need to be mindful that seemingly basic terminology like "price competitiveness," "risk sharing," or "network adequacy" may have different meanings to their counterparts. Taking the time to define the terms that

1 Kermit S. Randa et al., *2019 State of Healthcare Performance Improvement: Strategy, Technology, and Tactics*, Kaufman, Hall & Associates, LLC, 2019.
2 William H. Shrank, Teresa L. Rogstad, and Natasha Parekh, "Waste in the U.S. Healthcare System Estimated Costs and Potential for Savings," *JAMA*, October 7, 2019.

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will be used to structure the partnership is absolutely critical to its future success.

- **Understand your counterpart's capabilities.** Organizations should discuss and evaluate their respective capabilities and competencies in facets including the delivery of care, network and benefit design, and information technology. These conversations can help determine which organization will handle specific operations and uncover gaps requiring further investment.
- **Remember that form follows function.** The structure of any given partnership should support the partners' overall strategic alignment, including their collective vision, objectives, principles, and parameters. These considerations will help shape the structure of the partnership's scope, including how narrowly or broadly defined its operations will be within a geographical area or line of business, and the relative level of integration.
- **Watch out for red flags.** Organizations should be mindful of the following stumbling blocks to a successful partnership:
    - *Transactional relationships.* Successful partnerships are intended to transform the payer–provider relationship and create a new business model. Organizations should be wary of any arrangements that prioritize traditional contracting methodologies or other transactional arrangements over more strategic considerations.
    - *Distrust of plurality.* Most payers and providers need to operate within an ecosystem economy and maintain relationships with other counterparts in their markets, making exclusivity a less viable option. Successful partnerships will be mindful of this need for plurality, while finding a way to identify and achieve mutual goals and differentiation.
    - *Inability to prioritize the partnership.* If payers and providers attempt to partner with too many of their counterparts in the market, the ability to achieve success in any one relationship will be limited. Organizations seeking to transform their business model over the next few years may need to identify and engage with a select group of potential partners.

The Governance Institute thanks John Poziemski, Managing Director, Kaufman, Hall & Associates, LLC, for contributing this article. He can be reached at jpoziemski@kaufmanhall.com. Chirag Patel and Fernando Torres, Senior Vice Presidents at Kaufman, Hall & Associates, LLC, also contributed to this article.