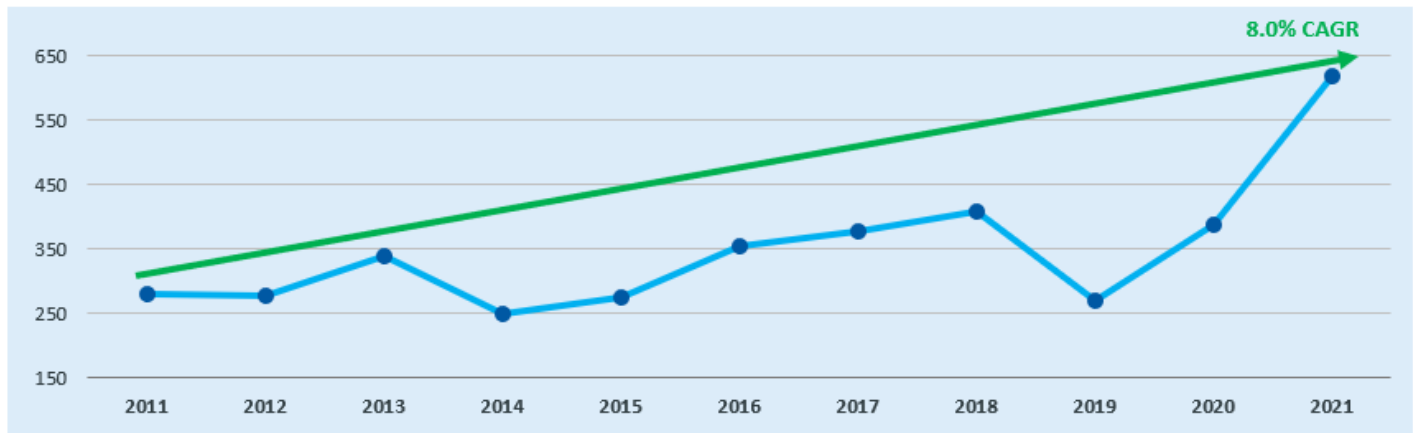


Post-Pandemic Partnership Strategies

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The COVID-19 pandemic was accompanied by a notable shift in hospital and health system merger and acquisition (M&A) activity. Since the pandemic began, we have experienced what we expect to be a short-term drop in the number of announced transactions compared to what we saw in the years leading up to the pandemic; interest in partnerships and partnership evaluations remain high. At the same time, the average size of the smaller party in hospital and health system M&A transactions has grown steadily and quite significantly (see **Exhibit 1**).

Exhibit 1: Average Smaller Party Size by Annual Revenue, 2011–2021 (\$s in Millions)



Source: Kaufman Hall, 2021 M&A in Review: A New Phase in Healthcare Partnerships, January 2022.

This trend toward fewer but larger transactions is the product of several factors:¹

- Fewer independent community hospitals (with some exceptions) participated in change of control transactions during the pandemic

¹ Kaufman Hall, *2021 M&A in Review: A New Phase in Healthcare Partnerships*, January 2022.

- A strong focus on the strategic rationale, complementary resources, and collaborative benefits of a partnership, and greater selectivity in choice of partner
- A desire to add new capabilities, enhanced intellectual capital, or access to new markets and services, which may involve any number of partners that are not traditional hospitals or health systems

All these factors point to what may be a fundamental shift in partnership strategies as hospitals and health systems realize the need to solve new problems or pursue new opportunities. If so, this shift will have implications both for health systems seeking growth through partnerships and for hospitals and health systems that have remained independent but may seek a partner in the future.

Partnerships to Solve Today's Problems

In our first article in this series, we outlined the problems that hospitals and health systems must seek solutions for today:²

- Remaining relevant to consumers as other industry stakeholders compete for covered lives
- Pursuing growth to build the scale necessary for financial sustainability and competitive advantage
- Reimagining the health system's role as a platform or convener for partners that offer specialized services more quickly, efficiently, or inexpensively than the health system can itself

We addressed the first two bullet points in our second and third articles in this series.³ The third bullet point is the problem addressed in this article and it points to the reason why a health system may be less interested in a traditional, horizontal merger with another hospital or health system: it is looking for partners that can provide services in a way another hospital or health system—with a similar organizational structure and cost structure—probably cannot.

Key drivers of partnerships in the post-pandemic environment enhance a health system's ability to:

- 2 John Poziemski, "[Post-Pandemic Strategies for a Changed Healthcare Marketplace](#)," System Focus, The Governance Institute, May 2022.
- 3 MaxTimm, "[Building Strong Consumer Relationships in the Value-Based Care Era: A New Approach](#)," System Focus, The Governance Institute, June 2022; John Poziemski and Scott Christensen, "[Pursuing Post-Pandemic Growth Opportunities](#)," System Focus, The Governance Institute, July 2022.

- Get closer to, and earn a greater share of, the premium dollar or to thrive in a value-based model
- Engage with consumers more consistently in new ways and across a broader spectrum of services
- Innovate on new methods of care delivery that both enhance the patient experience and lower the cost of care
- Diversify and grow, generating new revenue, entering new markets, and expanding the services offered

These drivers help define the likely characteristics of a strong strategic partner. It will:

- Provide services that the health system does not (or provide those services more competitively)
- Have a strong value proposition for health plans, employers, and other payers
- Emphasize care delivery via lower-cost sites of care (including both physical and digital sites)
- Have an agile, entrepreneurial culture focused on customer service and growth

In this environment, the optimal structure of the partnership arrangement may also change. Instead of focusing primarily on “build or buy” options, health systems should also be considering the range of contractual and joint venture partnership

→ Key Board Takeaways

- Although partnerships between hospitals and health systems will continue, there is a trend toward fewer but larger partnerships.
- Organizations are demonstrating greater selectivity, seeking partners that bring new capabilities, enhanced intellectual capital, or access to new markets or services.
- Health systems are focusing on their core strengths and reimagining their role as a platform or convener of partners that can offer specialized services more quickly, efficiently, or inexpensively than the health system can itself.
- Hospitals and health systems that have remained independent but may seek to partner in the future can focus today on several “no regrets” strategies that help to streamline cost structure, transform operations, and strengthen the network.

options that lie in between. These options can offer several advantages in a dynamic and evolving healthcare environment:

- They can be easier to enter or exit, providing greater flexibility for both partners
- They can lower the upfront investment required, with the partners sharing the cost
- They may be more attractive to a strategic partner that wishes to maintain some or all of its autonomy

In turn, health systems must be open to negotiating questions of control, ownership, governance, clinical decision making, and branding with a strategic partner.⁴

Considerations for Hospitals and Health Systems That Have Remained Independent

Hospitals and health systems that have remained independent must execute on strategic initiatives in order to remain a viable and strong entity, and, as such, enhance their potential value in the event of a future partnership. As noted above, hospital and health system M&A activity has not ceased, but it has migrated to a more strategic rationale, with a greater emphasis on organizational complements and customized partnership structures that address key gaps in current offerings. At the same time, capital resources have become more constrained and the regulatory environment is evolving, with federal antitrust agencies signaling more intense scrutiny of M&A activity across numerous industries, including healthcare.⁵ These factors are making all parties more selective in pursuing partnership options.

In light of these developments, we recommend focusing on “no regret” strategies that will help support an independent organization’s long-term sustainability if it remains independent while increasing its attractiveness to a system partner should this path be required in the future. These strategies, which include a focus on streamlining cost structure, transforming operations, and strengthening the network, include:

To streamline cost structure:

- **Refinance outstanding debt.** Although rates have gone up—and will continue to do so as the Federal Reserve battles inflation—they are still at historically low levels with a window of opportunity for organizations that can move quickly.

4 Some considerations for these issues are outlined in Anu Singh, “New Partnership Models Respond to the Impacts of COVID-19 Pandemic,” *BoardRoom Press*, The Governance Institute, December 2021.

5 John F. Nagle and Benjamin R. Dryden, “[Department of Justice’s Antitrust Priorities in Health Care Target Private Equity, Labor, and More](#),” *Foley & Lardner*, June 7, 2022.

- **Manage costs.** Strategies focused on supply cost management, workforce optimization, outsourcing opportunities, and regaining discipline around key performance metrics that may have lapsed during the operational disruptions of the pandemic can help mitigate the pressures of inflation and skilled staffing shortages.
- **Review the real estate portfolio.** Does the organization have unused or underutilized assets in its real estate portfolio? Portfolio review can identify opportunities for better utilization or monetization of existing assets, which can reduce carrying costs and improve liquidity.
- **Revisit capital expenditure plans.** Review planned capital expenditures over the next five years, with a focus on distinguishing those that are essential to the organization's long-term sustainability from those that are not. For the latter, define clear scenarios that will drive "go/no go" decision making.

To transform operations:

- **Align operations to meet value-based initiatives.** Build the capabilities needed to succeed in value-based care, including clinical efficiency, dynamic staffing models, and lean-based process improvement.
- **Expand consumer engagement.** Understand the key elements of consumers' relationship with your organization and enhance their experience of these elements by focusing on ease of use, convenience, segmentation and personalization of services, etc.

To strengthen the network:

- **Broaden service offerings.** Explore partnerships with specialized service providers in or entering the market in areas such as behavioral health, rehabilitation and long-term care, specialty clinical services, and supporting services (e.g., pathology and lab), with an emphasis on convening care outside of traditional inpatient and outpatient settings. Also consider building direct-to-consumer (DTC) offerings or partnering with DTC providers to enhance consumer engagement and experience.
- **Build capabilities to manage patient care.** Prepare for growth in value-based care arrangements by developing the capabilities to manage care and population health outcomes across the network.

Hospitals and health systems should also be focused on their ability to test and communicate how and where they deliver the most value. This ability will be a key selling point if they do seek to partner with another organization. It will also provide an

understanding of areas in which they may wish to seek strategic partnerships of their own to enhance the value and range of the services they provide.

Conclusion: A New Era of Partnerships

The pandemic has both accelerated and intensified the pressures hospitals and health systems face. New partnership models can enable hospitals and health systems to focus on their core areas of excellence while expanding the breadth and depth of the services they offer. Increasingly, the partners they seek will bring new capabilities, new efficiencies, and new approaches to care delivery in partnership structures that emphasize flexibility, collaboration, and growth. With heightened selectivity in partnership decisions, organizations that focus on “no regrets” decision making will help ensure their viability in the short term and their options in the long term.

The Governance Institute thanks Dan Majka, John Poziemski, and Anu Singh, Managing Directors at Kaufman, Hall & Associates, LLC, for writing this article. Dan can be reached at dmajka@kaufmanhall.com, John at jpoziemski@kaufmanhall.com, and Anu at asingh@kaufmanhall.com.

