

Partnerships in an Evolving Post-Pandemic Environment

Anu Singh
Managing Director and Practice Lead
Kaufman Hall

Prepared for

The Governance Institute Leadership Conference
April 25, 2023



The Governance Institute®

A SERVICE OF **nrc**
HEALTH

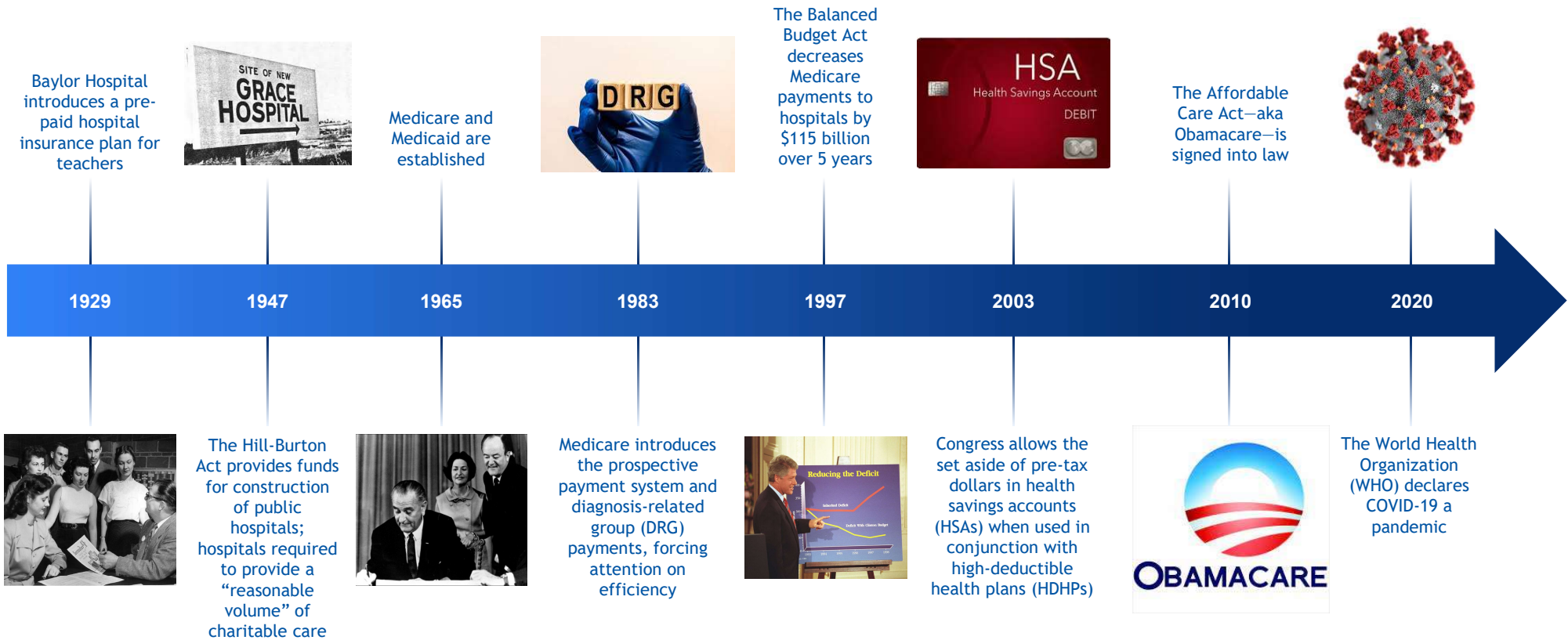
So...Where Are We, Exactly?



The Governance Institute®

A SERVICE OF **nrc**
HEALTH

Where Have We Been?



What Happened Along the Way?



Crisis

An immediate operational and monetary shock.

CHARACTERIZED BY:

- Major stimulus spending (approx. \$5 trillion)
- Accommodative Federal Reserve monetary policy
- Heavy focus on clinical and operational performance

Stabilization

Adjusting to the outcomes of the crisis stage.

CHARACTERIZED THUS FAR BY:

- Staffing shortages and surging inflation (including wages and supplies)
- Tightening monetary policy and rising interest rates, which is driving market volatility
- Concern on financial performance amid renewed focus on strategic trajectory

Normalization

What will drive performance in a normalized future state?

EXPECTED TO INCLUDE:

- Recalibrated or stabilized workforce environment
- Return from an erratic interest rate environment
- Return of normalized strategic capital investments
- Revival of strategic initiatives driving the new core business



What Do You Mean by ‘Unprecedented’?

1. Exceptionally poor hospital operating performance, due to external drivers
2. Significant negative impact of capital market activity (income and balance sheets)
3. Increasing cost and more difficult access to debt and other forms of capital



OPERATING COMPANY

- Lower volumes
- Ongoing operational disruptions
- Longer length of stay
- Higher cost structure

INVESTMENT COMPANY

- Investment losses
- Weakened balance sheet (the “resiliency anchor”)

FINANCE COMPANY

- Higher borrowing costs
- Declining cash reserves
- Potential breach of debt covenants

The culmination of all three ‘companies’ functioning under real duress is an historical ‘First’



Where (Were We) Are We Headed?

Industry Forces Are Reshaping the Basis of Competition



Innovation

Transactions are a given: new forms of alignment with unexpected participants and with novel structures will become the norm



Specialization

Healthcare service delivery will further disintegrate into more distinct and specialized segments of care – beyond just ‘inpatient’ and ‘outpatient’ care



Consumerism

New entrants likely will focus on either higher margin services or more consumer-driven elements, ceding the rest to legacy providers



Collaboration

True population health management likely will be beyond the reach of most organizations that opt to ignore all forms of alignment and partnerships



The Evolution of Transformational Partnerships



The Governance Institute®

A SERVICE OF **nrc**
HEALTH

Think Differently. Lead Differently.

Not-for-profit hospitals' historical adherence to three principles may no longer be relevant:

1 “We Do It Best.”

- Can partners aid in delivering the best outcomes to patients?
- What is the ‘it’ that matters most today?
- *Focus on what you do well and measure performance against these parameters, recalibrating where needed*

2 “We must do it all.”

- Is it time to rethink what a provider must be for their community?
- Where are we expending resources (tangible and intangible) that fulfill or detract from promises to our community?
- *Reimbursement and scale are not reasons to define our core business*

3 “We Can Do It Ourselves.”

- Are we the most effective agent of change for our organization?
- Have we defined our competitor and collaborator relationships?
- *Recognizing where we have the most to fuel transformation is only one part of the solution; the remainder may be where we align with others*



Migration of Competitive Strategy

	Growth & Saturation		Maturation		Transformation	
	Prior to 1900	1900-1945	1945-1969	1970-1999	2000-2019	2020 and Beyond
Market Focus	Informing and Meeting Demand		Sustaining/Expanding Demand		“Buyer” Preference	
Competitive Advantage	Physical Existence and Presence		Broader Service Offering and Payer Relationships		Scale → Value → Innovation	
Nature of Growth	Rapid & Largely Unchallenged		Service Expansion & Clinical Efficiency		Holistic/Optimized Service Offering and Platform	
Success Factors	Size and Availability of Market		Capital, Sites & Technology		Better, Cheaper, and/or Faster	



Implications of Maintaining Competitive Parity/Advantage



Consumer Perception & Preferences



Better



Cheaper



Faster



Expectation of Legacy Healthcare Providers

Differentiation

- Front Door
- Service Experience
- Push/Pull Source
- Coordination
- Clarity/Specificity

Cost Efficiency

- Timing Premium
- Distance/Effort
- Alternative Site(s)
- Prevention Focus
- New Pricing Models

Segmentation

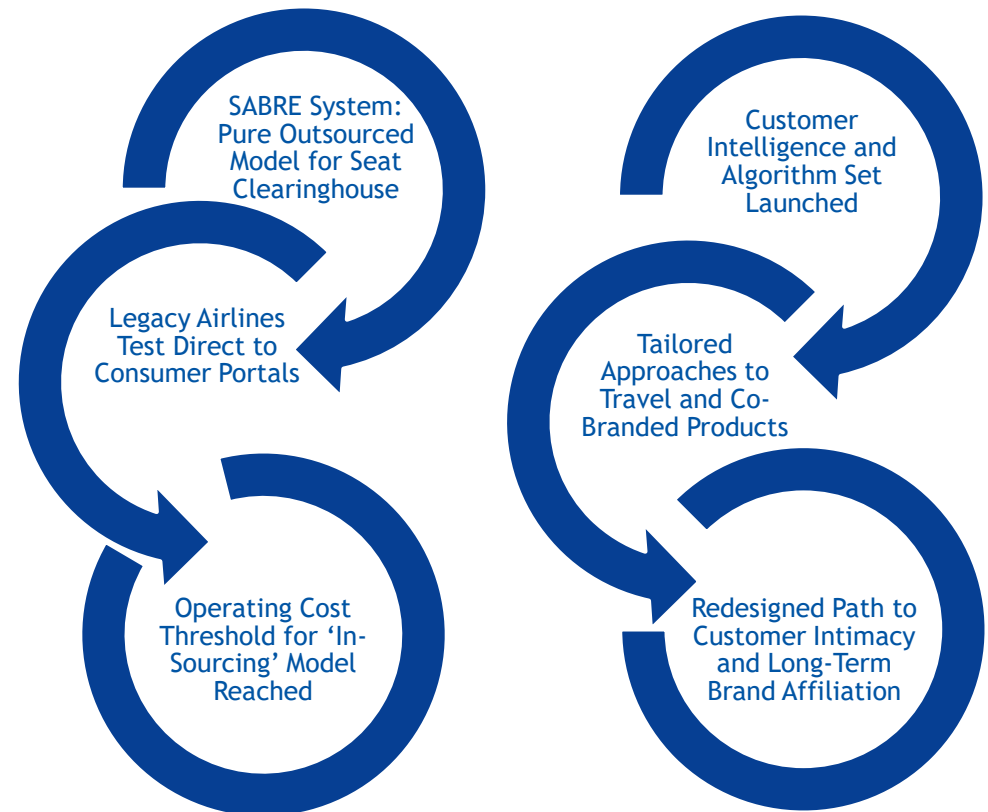
- Core Business Focus
- Virtual and Tele- Access
- Network Tiering
- Parity Strategies
- Collaborations/Ventures



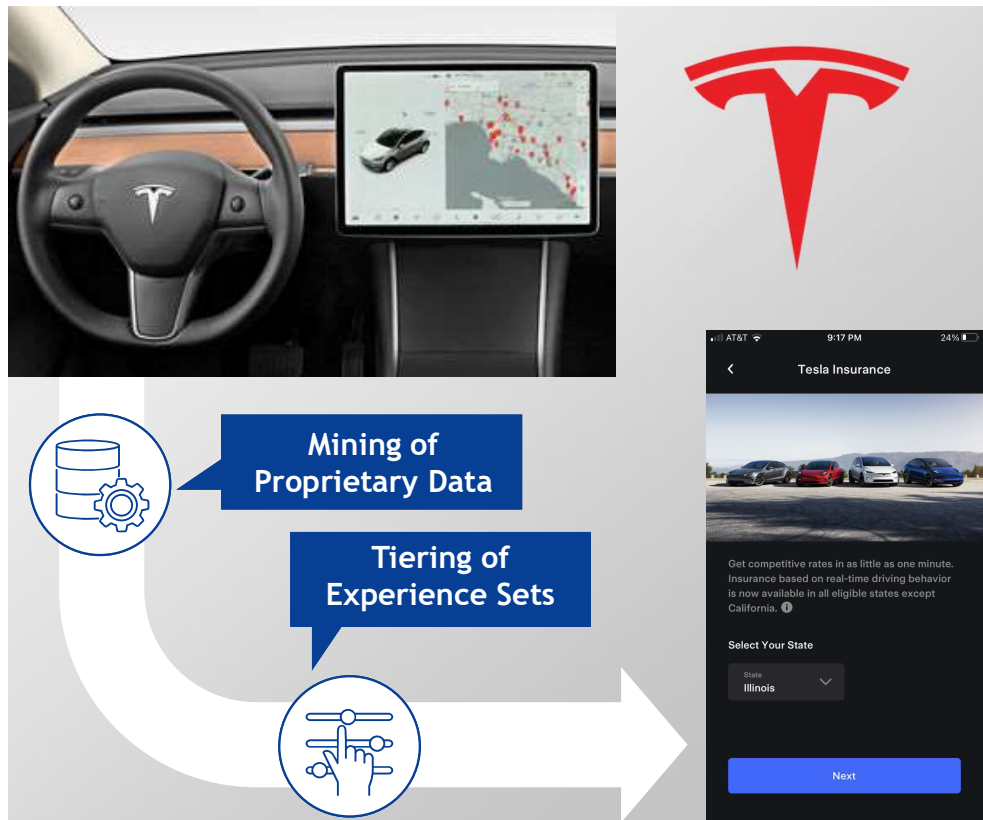
Rethinking Preference and Competitive Advantage

- **Airlines and Healthcare**
 - Low-margin core business (transporting people on flights)
 - High degree of price fragmentation (low and high fare passengers)
- **Profits driven from additional services**
 - Fees (checked baggage, seat upgrades, etc.)
 - Club memberships
 - Co-Branding (e.g., with banks for credit cards that build frequent flier miles and customer loyalty)
- **Different business models promote consumer choice**

Cost Containment → *Customer Intimacy*





Translating Data Into Customized Consumer Solutions



- **Traditional Auto Insurance Was Underwritten on Perceptible Risks**
 - Demographics
 - Claim History
- **Underwriting Blinded to Empirical Data**
 - Actual Distances and Areas Traveled
 - Frequency and Extent of Use
 - Number of Drivers
 - Nature and Characteristics of Driving
 - ‘Coded’ or Other Events
- **Emerging Solutions are Experiential, Dynamic, and Reduce Adverse Selection**



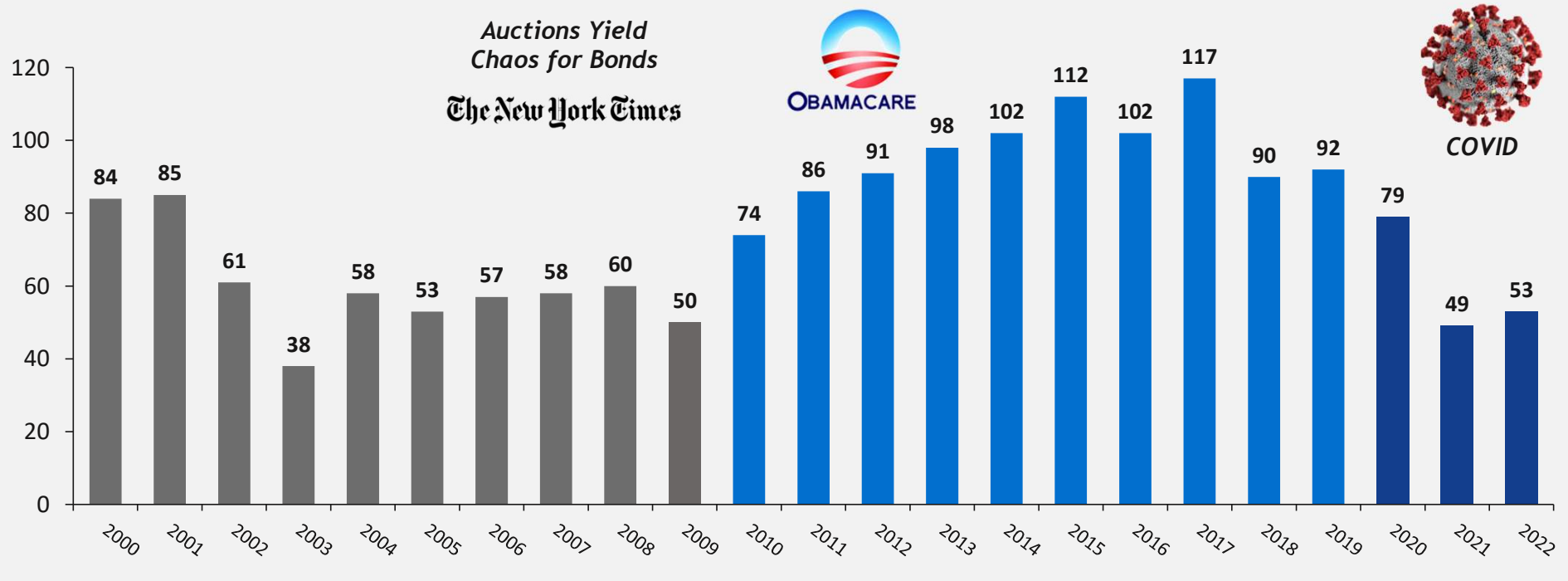
The Distinction Between Forms of Market Consolidation

	 Aggregation	 Transformation
Strategic Focus	Leveraging economies of scale for increasing marginal profits	Use of innovation to materially change/overcome industry dynamics
Revenue Strategy	“Buy low, sell high” approach to acquiring revenue	Pursuit of high “quality of revenue” strategic pursuits
Expense Strategy	Intense focus on fixed cost to maximize operating leverage	Total cost evaluation, attacking all sources of waste/excess
Capital Strategy	Driven by capacity, specialization/ distribution, and throughput	Frequently aimed at entirely new channels, markets, or access points
Market Posture	Market share, reliant on sheer size and barriers to entry	Market expansion, driven by alignment and collaboration



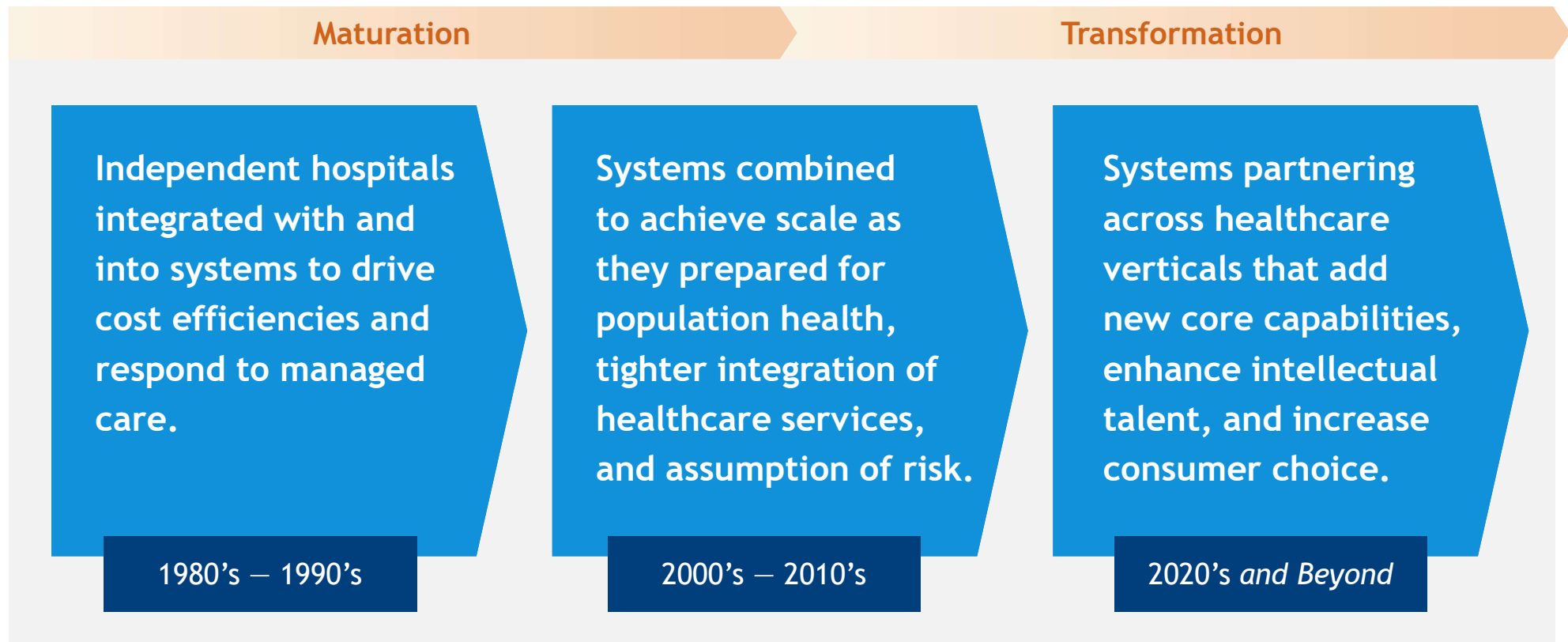
The Changing Nature of Partnership Trends

Hospital and Health System M&A Transactions, 2000-2022

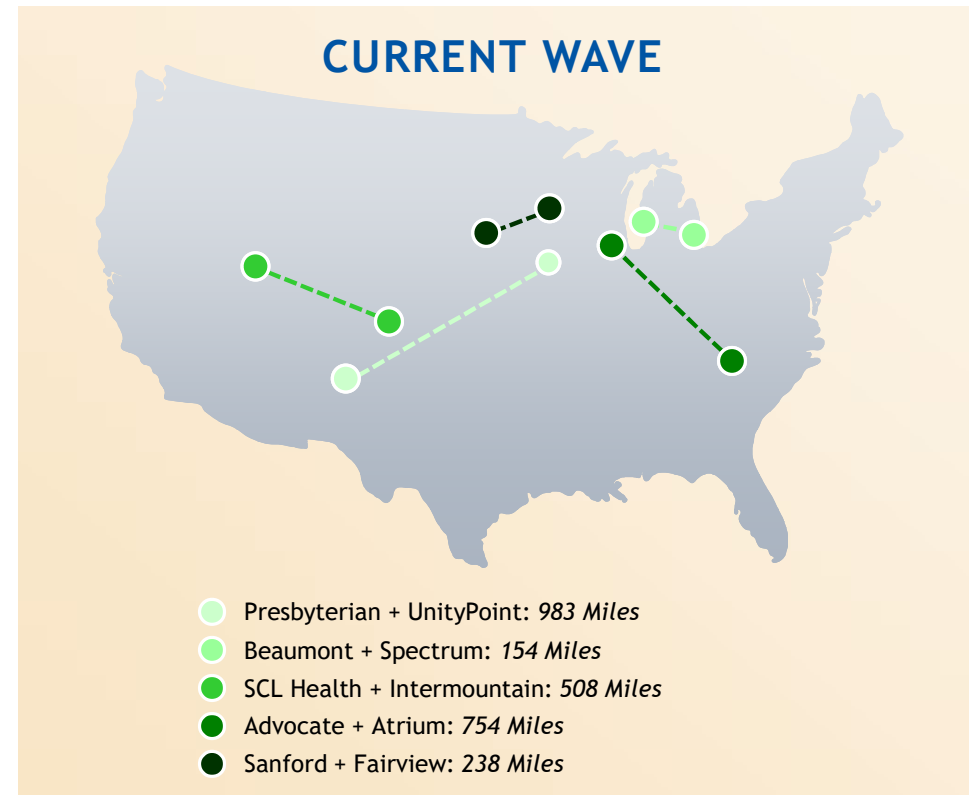


Source: Public information, Kaufman Hall proprietary database

Timeline of Prevailing Partnership Strategies



The Evolving Nature of New System Formation Transactions

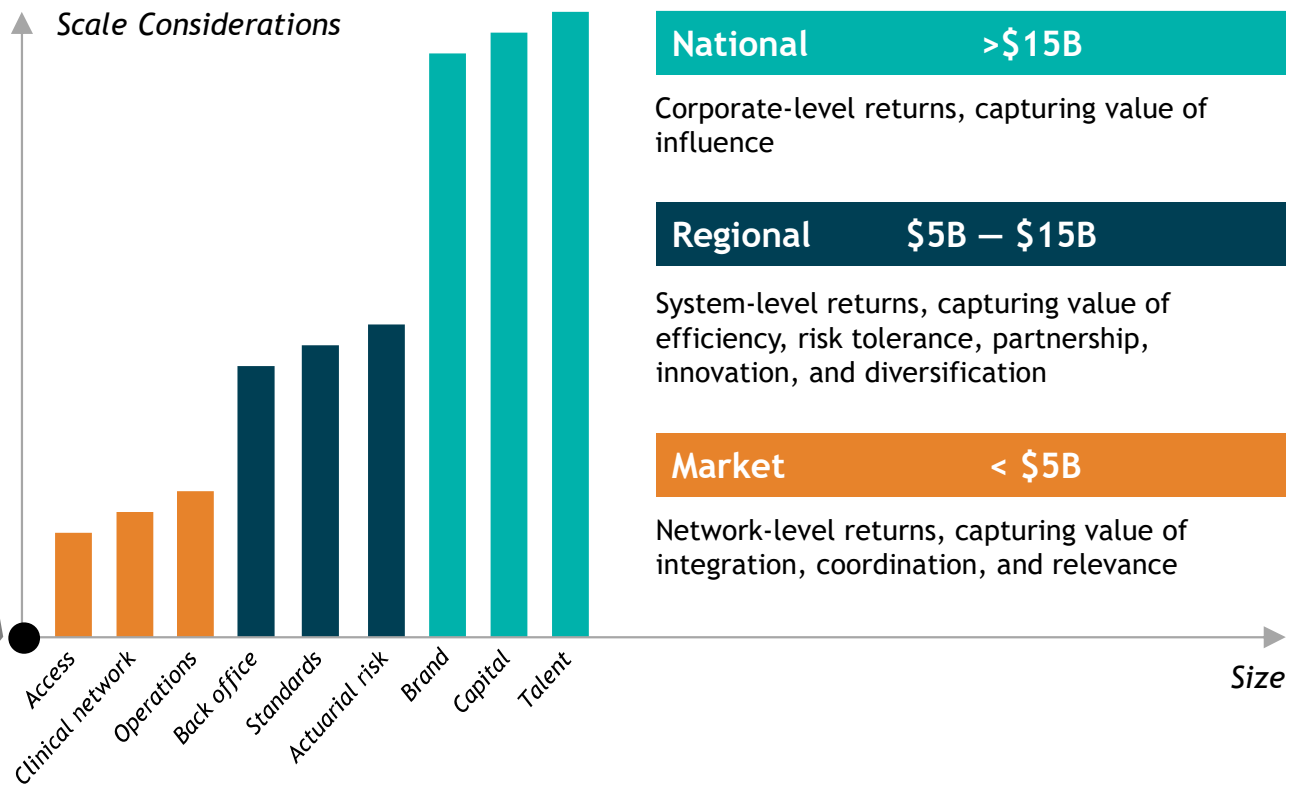


Note: Includes New System Formation Transactions among Regional/Super-Regional Systems with the Smaller Organization Revenue Base > \$1B

Re-evaluating the Premise of Competitive Advantage




Yesterday's Strategic Initiatives Are Now Today's Organizational Imperatives:

- Shift Patient Care to the Most Appropriate Care Setting
- Pursue Revenue Increases to Keep Pace with Expense Growth
- Manage All Forms of 'Waste' in Clinical Delivery and Infrastructure Support
- Optimize Clinical Resources to Address Inadequate Supply/Cost

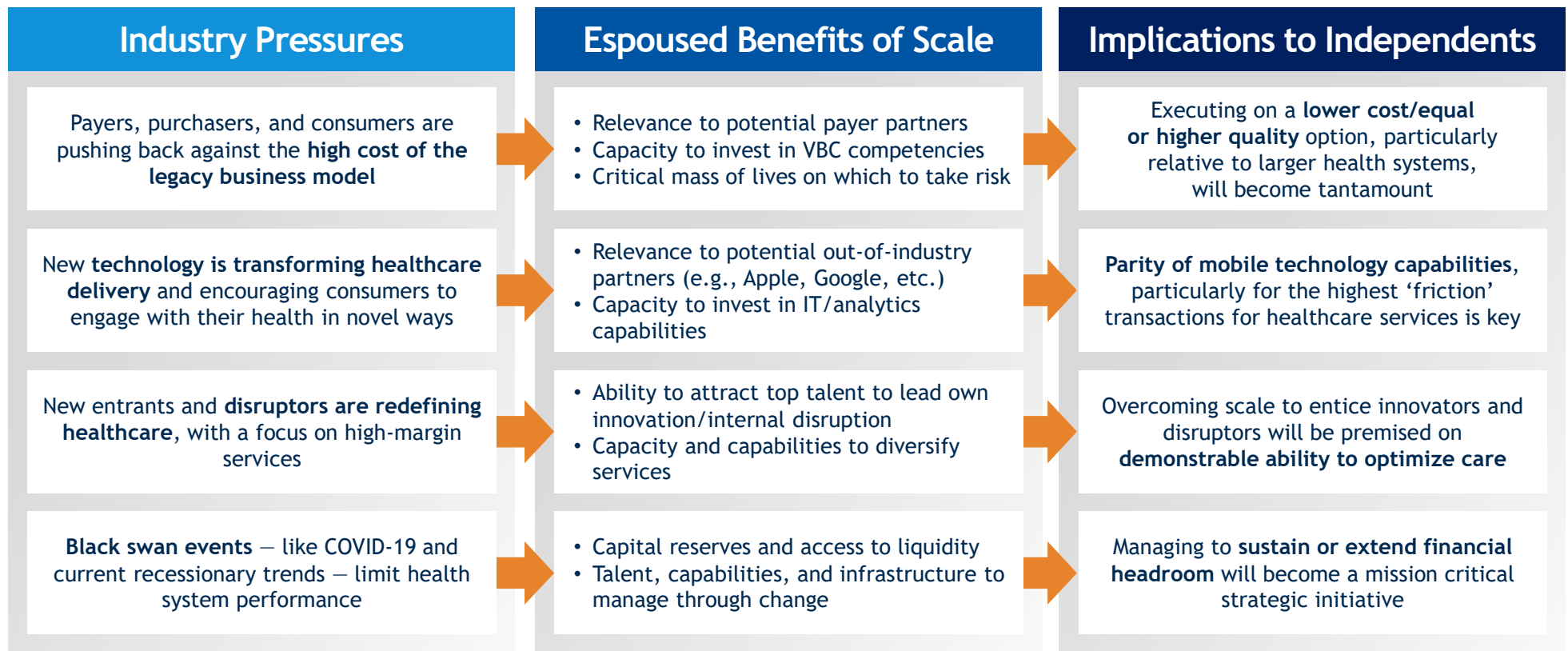


From Gist Healthcare: "Seeking Returns to Scale in Healthcare - Beyond Leverage," Published 6/29/2018

Common Prevailing Aims of Current Partnership Pursuits

	 Better	 Cheaper	 Faster	
Data Analytics and Insights	●	●	●	Innovative research, platforms, and initiative, including data management/insights generation
Scaling New-Era Infrastructure	●	●	●	Initiatives such as digital platforms, clinical/business intelligence, Artificial Intelligence, and population health management
Value-Based Care & Payer/ Provider Partnerships	●	●	●	Access to lives to drive population health across the continuum of care while aligning patients, employers, providers, and payers in value-based care models
Patient-Centered Growth Strategies	●	●	●	Expanded access points and streamlined care, broaden and deepen clinical capabilities, and jointly pursue new geographies or virtual access
Quality and Outcomes	●	●	●	Optimize existing best practices, enhance intellectual capital, seek tactical collaborations, and meaningfully advance quality metrics and outcomes.
Workforce Optimization	●	●	●	Execute on synergies and efficiency potential in corporate areas, non-labor/supply chain, and administrative functions, as well as enterprise planning strategies for clinical labor

Implications to Strategic Planning Efforts



Implications to Market Leaders



The Governance Institute®

A SERVICE OF **nrc**
HEALTH

Rethinking Partnerships: Questions for Health Systems

- What is our core business?
- For what services is there strong consumer need/demand?
- Are there potential partners who can provide these services better than we can?
- What do we offer to potential partners?
- What degree of control do we need/want in the partnership?
- What is the optimal structure for the partnership (e.g., ownership, branding, financial commitment, governance, clinical decision-making)?



Questions?
asingh@kaufmanhall.com



The Governance Institute®

A SERVICE OF **nrc**
HEALTH

Qualifications, Assumptions and Limiting Conditions (v.12.08.06):

This Report is not intended for general circulation or publication, nor is it to be used, reproduced, quoted or distributed for any purpose other than those that may be set forth herein without the prior written consent of Kaufman, Hall & Associates, LLC. (“Kaufman Hall”).

All information, analysis and conclusions contained in this Report are provided “as-is/where-is” and “with all faults and defects”. Information furnished by others, upon which all or portions of this report are based, is believed to be reliable but has not been verified by Kaufman Hall. No warranty is given as to the accuracy of such information. Public information and industry and statistical data, including without limitation, data are from sources Kaufman Hall deems to be reliable; however, neither Kaufman Hall nor any third party sourced, make any representation or warranty to you, whether express or implied, or arising by trade usage, course of dealing, or otherwise. This disclaimer includes, without limitation, any implied warranties of merchantability or fitness for a particular purpose (whether in respect of the data or the accuracy, timeliness or completeness of any information or conclusions contained in or obtained from, through, or in connection with this report), any warranties of non-infringement or any implied indemnities.

The findings contained in this report may contain predictions based on current data and historical trends. Any such predictions are subject to inherent risks and uncertainties. In particular, actual results could be impacted by future events which cannot be predicted or controlled, including, without limitation, changes in business strategies, the development of future products and services, changes in market and industry conditions, the outcome of contingencies, changes in management, changes in law or regulations. Kaufman Hall accepts no responsibility for actual results or future events.

The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report.

All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of the client.

In no event will Kaufman Hall or any third party sourced by Kaufman Hall be liable to you for damages of any type arising out of the delivery or use of this Report or any of the data contained herein, whether known or unknown, foreseeable or unforeseeable.



KaufmanHall

CHICAGO, IL

LOS ANGELES, CA

SKOKIE, IL

WEST PALM BEACH, FL



Questions?

Virtual

Please enter your questions
in the Ask a Question Box

Ask a question...

In-Person

1. Wait for the microphone
2. Please stand
3. Provide us your name & location of your organization
4. Ask your question

Or submit your question through Live Q&A on the mobile app.



The Governance Institute®

A SERVICE OF **nrc**
HEALTH