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Academic Health Focus



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Learning from College Athletics to Combat Macro Challenges

By Dave Morlock, Managing Director, *Cain Brothers*

The macro challenges facing academic medicine are significant, and arguably unlike anything that we have experienced over the last few decades.

Expense inflation has resulted in significantly higher labor and supply costs. The bar has been “reset,” and payers and employers are reluctant to fund the increases. These expense pressures will continue to strain cash flows. In addition, reimbursement pressure will also continue to strain cash flow as we cope with Medicare trust fund insolvency, federal deficits, single-site reimbursement, and 340B issues.

When you add in the political and operational complexity of academic health systems, it makes realizing cost structure improvements more difficult. Yet achieving structural cost efficiencies must be considered.

As daunting as cash flow strain is from expense and reimbursement issues, perhaps an even more important issue is the changing competitive landscape. Currently, eight secular multi-state health systems control nearly 25 percent of the national health system market share (measured by revenue). If you add to that number the largest multi-state religiously affiliated systems, then 15 systems control about one-third of the national market. These 15 systems are in 33 states. In addition, there are seven to 10 large multi-billion dollar single-state health systems that are seeking to expand beyond their current state footprint. It is entirely plausible that fewer than 25 health systems will control over 50 percent of the U.S. health system market in the next few years.

In a nutshell, the old playbook won't work anymore for academic health systems. On the bright side, this moment in time creates the opportunity for a new innovative model.

On top of the significant health system consolidation, health systems must also deal with major insurers and retailers moving aggressively into the ambulatory care space. OptumCare, a subsidiary of the nation's largest health insurer UnitedHealthcare, is the country's largest ambulatory care network with over \$60 billion in revenue and a presence in 45 states. And Humana's CenterWell, Walgreens/VillageMD, and Walmart are also quickly moving more deeply into the ambulatory care space. In some respects, they are becoming health systems without the burden of owning and operating acute care brick-and-mortar.

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MSOs: An Alternative Strategic Partnership Model

Universities compete fiercely with each other in the athletic arena. Yet they work together in conference broadcast networks in a way that benefits all the universities. And they do this in conjunction with outside operating and capital partners, too. These broadcast networks are a basis of collaboration between the universities, rather than the basis of competition.

Academic health systems can construct a similar collaboration as a way to address the threat of emerging national and super-regional health systems and ambulatory care providers, as well as to deal with expense pressures. This collaboration would be in the form of an AMC management services organization (MSO).

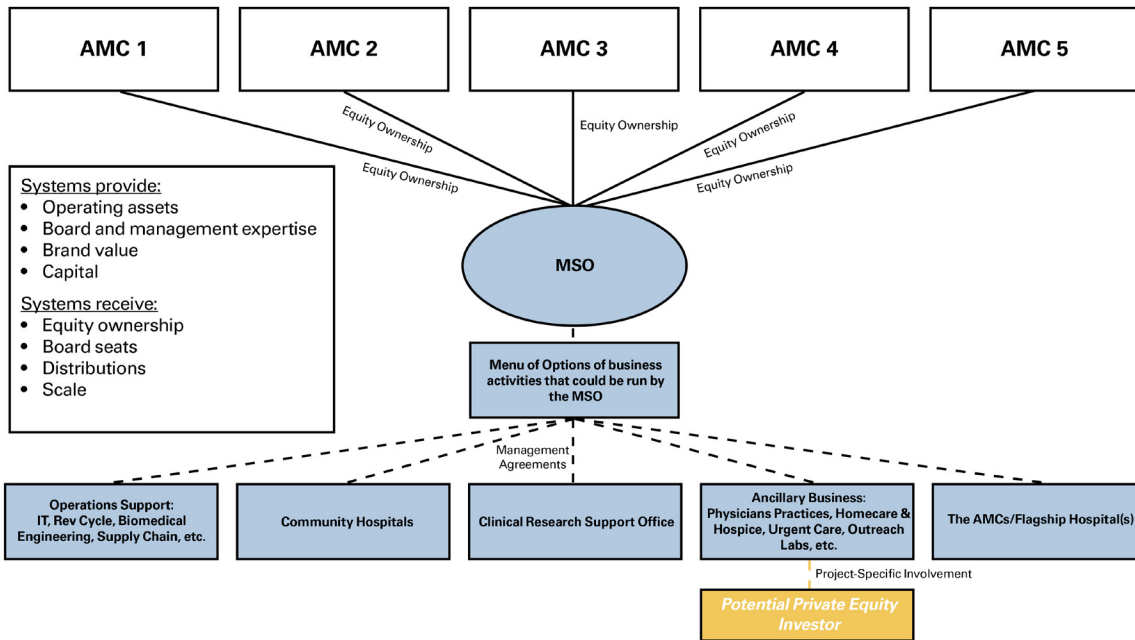
An AMC MSO can be a dynamic alternative to historical strategic partnership models. The creation of an MSO puts in place a flexible organization that can oversee a menu of business activities spanning from back-office functions to the entire health system (see

Exhibit 1). The MSO can oversee:

- The Clinical Research Support Office
- Ancillary business, such as:
 - » Home health and hospice
 - » Outreach labs
 - » Ambulatory surgery centers (ASCs)
 - » Freestanding imaging centers
 - » Retail physical therapy clinics
 - » Urgent care
 - » Employed community physician group practice

- Back-office functions, such as:
 - » Information technology
 - » Revenue cycle
 - » Supply chain
 - » Biomedical engineering
- AMC-owned community hospitals
- The flagship AMC, if so desired

Exhibit 1: Illustrative MSO Partnership Model



This model combines some key attributes of a variety of partnership models in a structure that can flex to meet the AMC partners’ evolving interests. Those attributes include:

- Partner systems retain their individual identities
- Economies of scale
- Centralized decision making for certain business activities
- Investment vehicle for outside capital
- Shared operational and financial risk and upside
- Delineated reserve powers
- Individual universities preserve their academic missions

AMCs frequently raise a variety of questions when discussing this MSO concept, including:

Q: Does this MSO model entail selling the AMC?

A: No, there is no sale involved in the formation of the MSO.

Q: Does this mean that the AMCs will no longer compete with each other? And will we have to carve up certain clinical service lines amongst ourselves?

A: The AMCs and universities will absolutely continue to compete. They will compete for faculty, students, patients, philanthropy, researchers, and grant funding. The activities of the MSO are not the basis of competition between the AMCs. Furthermore, the MSO model does not entail carving up clinical services between the AMCs.

Q: Are there material impacts to employees?

A: There is no requirement to rebadge employees or eliminate labor union relationships.

Q: Does our local funds flow model with the medical school go away?

A: No, the unique local funds flow model with the medical school is not impacted by the MSO model.

Q: What initial and ongoing costs are involved?

A: Legal and financial advisor expenses are included in the formation of the MSO. And ongoing costs will flex based on the services provided by the MSO.

Key Board Takeaways

- Scale and flexibility will be necessary as the healthcare business model continues to evolve.
- AMCs can take a cue from college athletics to respond to the evolving environment.
- An AMC MSO can provide a flexible path to grow and scale your academic health system without giving up control.

There are a variety of benefits that health systems can experience from the MSO model:

- Flexibility to address a variety of situations
- Increased scale
- Cost savings
- Access to outside capital and expertise
- Support and scale for ancillary businesses and non-acute care

An AMC MSO model is a flexible, dynamic, and creative way for academic health systems to address some of the most difficult conundrums facing health systems today. A deeper dive into the concepts, along with discussion and debate on the merits, are well worth your efforts.

The Governance Institute thanks Dave Morlock, Managing Director, Head of Health Systems Group, Cain Brothers, for contributing this article. He can be reached at dmorlock@cainbrothers.com.

