



Integration Strategies: Developing A Blueprint For Success



Becker's Hospital Review
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Senior Consultant, McKesson Healthcare Business Consulting Solutions Division, specializing in integration, mergers, medical practice operations, new venture development and contracting with emphasis on radiology and imaging services



- ▶ 28+ years experience as a medical group practice administrator
- ▶ Served in Vice President level roles in hospitals and health systems
- ▶ Wide range of skills and experience:
 - Successful contract management and negotiation
 - Instrumental in the design/development of medical /imaging centers
 - Critical player in the development of IT integration strategies
 - Merger facilitation of multiple practices into MSO, LLC, etc.
 - Spearheaded the selection and implementation process of in-house billing and management information systems
 - Subject Matter Expert in compensation plan development
 - Pivotal advisor for practice governance, management restructuring and efficiency improvements
 - Driver of cultural changes necessary to meet new reimbursement strategies and models
 - Visionary in new service-line development
- ▶ Education: University of Illinois B.S. & M.S. in physiology; Masters in Health Services Administration
- ▶ Certified Medical Practice Executive – MGMA-ACMPE

Learning Objectives

- ▶ Understand the Integration Continuum
- ▶ Understand Current Market Drivers
- ▶ Explore the Pros and Cons at Three Integration Intensity Levels

Not all mergers are the same....



Understanding the Integration Continuum

Integration Intensity

- **Low**
 - Directorships, Stipends, Service Contracts
 - Gain-Sharing Models
- **Mid**
 - Co-Management Service Line Models
 - Leasing Arrangements
 - Acquisitions
- **High**
 - Joint Ventures
 - Employment
 - Mergers
 - Integrated Delivery Systems



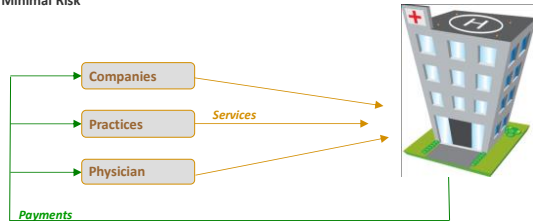
Low Intensity Directorships, Stipends, Service Contracts

Advantage:

- Physician Involvement
- Minimal Risk

Disadvantage:

- Minimal Financial Upside



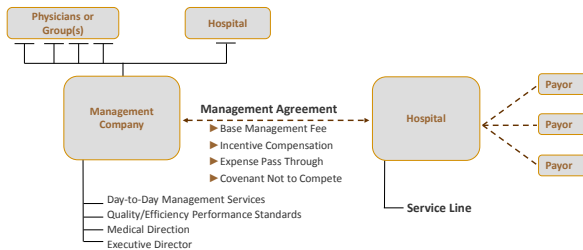
Mid Intensity Service Line Co-Management

Advantage:

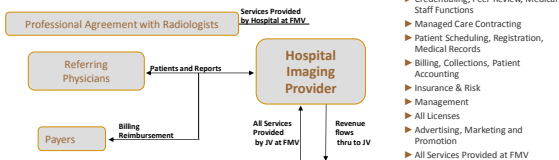
- Active Involvement by Physicians
- Small Capital Investment

Disadvantage:

- No Technical Component Ownership by Doctors



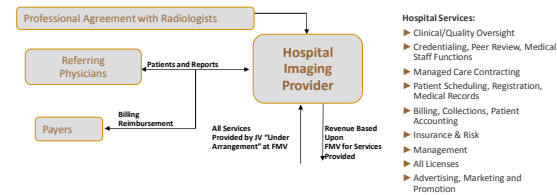
High Intensity Provider Based Joint Venture



Imaging Services Joint Venture (Hospital and Non-Referring Physician Ownership)

- | | | | |
|---|---|---|---|
| Technology Services: <ul style="list-style-type: none"> ► Capital ► Medical Equipment ► Equipment Maintenance | Facility Services: <ul style="list-style-type: none"> ► Capital ► Land ► Facility Ownership ► Facility Build-out | Staffing Services: <ul style="list-style-type: none"> ► Technical/Clinical Staff ► Administrative Staff ► Benefits ► Human Resources | Management Services: <ul style="list-style-type: none"> ► Day-to-Day Operations ► Billing to the Hospital ► All Contracting (except Managed Care) ► Strategic Planning |
|---|---|---|---|

High Intensity Hospital Services Provided “Under Arrangements”



Imaging Services Joint Venture (Hospital and Non-Referring Physician Ownership)

- | | | | |
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|---|---|---|---|

3d Health Inc. – Shane Foreman RBMA Mid-Winter Board Retreat 2010

Understanding Market Drivers

Over the Years...

- February 2009 *Physician News Digest*
The Boomerang Effect: Hospital Employment of Physicians Coming Back Around
- 2009/2010 The Health Care Advisory Board – National Meetings – The New Care Continuum
- January 2010 *American Medical News* Will bundling include doctors?
Medicare looking for alternate payment plans
- 2011-2012 Accountable Care Organizations developed as viable delivery model in Healthcare Reform

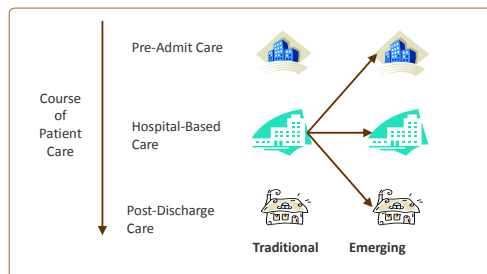
Current Market

- ▶ Increase of strategic alignments between hospitals/health systems and physicians through the establishment of:
 - Joint ventures
 - Employment
 - Co-management agreements
 - Other forms of integration
- ▶ Increase of strategic alignments between physicians and physician practices through:
 - Mergers
 - Acquisitions
 - Strategic Affiliations

Why Are Hospitals Pushing

- ▶ CMS is altering the reimbursement methodology for hospital payments
- ▶ DRG payments will have an expanded "Global Period"
 - Hospitals will be financially at risk for re-admissions or continuing care provided for the same diagnosis over a longer period of time. Forces hospitals to fully consider the continuum of care and work to remove any of the discontinuity possible
- ▶ Bundled Payments and Expansion of Demonstration Projects
- ▶ Control of Accountable Care Organizations

Pay for Performance



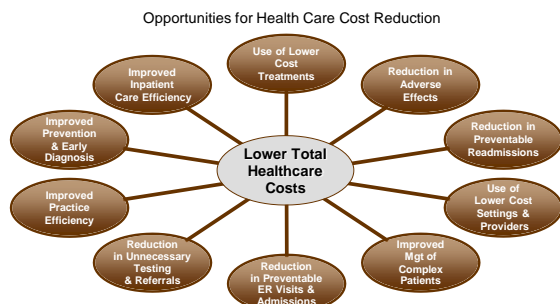
The Health Care Advisory Board Company – 2008/2009 National Meetings – The Integration Imperative

Why are Physicians and Physician Practices Considering Integration?

- ✓ Decreasing reimbursement
- ✓ Decreasing ancillary revenue
- ✓ Decreasing access to capital
- ✓ Increasing practice operating expenses
- ✓ Increasing competition
- ✓ Opportunities for Healthcare Cost Reduction
- ✓ Accountable Care Organizations



Why are Physicians and Physician Practices Considering Integration?

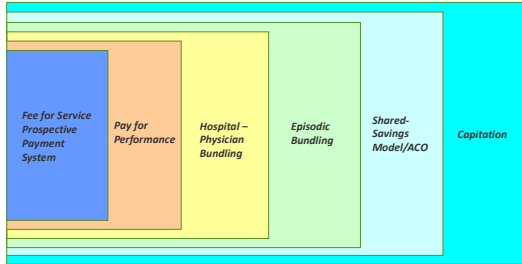


Why are Physicians and Physician Practices Considering Integration?



How to Create Accountable Care Organizations, H. Miller, Sept. 7, 2009, Center for Healthcare Quality and Reform

The Path Toward Accountability

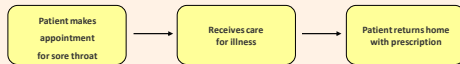


Provider Cost **Accountability** and Shared Risk

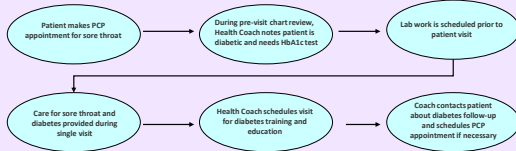
Advisory Board - Imaging Performance Partnership 2010

Rethinking the Delivery of Care for Office Visits

Traditional Care Pathway



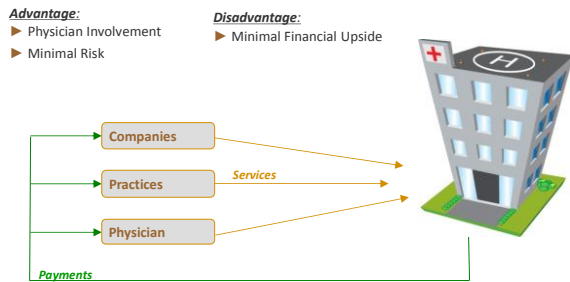
Medical Home Care Pathway



The Pros & Cons of Each Intensity Level

Low Intensity

Low Intensity Directorships, Stipends, Service Contracts



Pros & Cons – Low Intensity Integrations Directorships, Stipends, Service Contracts

Pros	Cons
– Additional revenue for minimal additional work	– May impose performance criteria or standards not previously required
– Recognition of additional contribution	– Requires additional documentation which may be minimal for directorships or extensive for stipend support
– Minimal impact to current practice operations	– Can be easily terminated after 1 st year
– No capital investment	

Pros & Cons – Low Intensity Integrations Gain Sharing Models

Pros

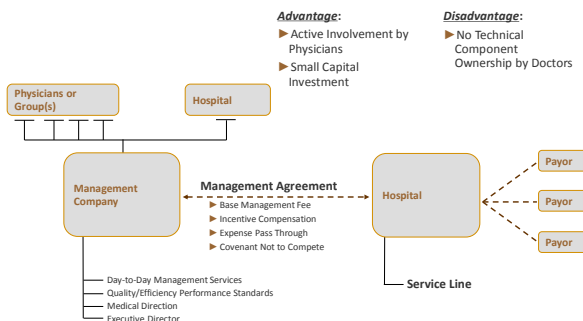
- Efficiency improvements are financially rewarded
- Greater management input into department or service-line operations & strategic direction
- Minimal impact on current practice operations
- No capital investment

Cons

- Requires greater scrutiny & monitoring of department or service-line operations
- May only result in additional revenue for 1 – 3 years
- Sometime difficult gaining cooperation from other specialties & specialists not involved in the financial arrangement
- No long term ownership

Mid Intensity

Mid Intensity Service Line Co-Management



Pros & Cons – Mid Intensity Integrations Co-Management Arrangements

- | <u>Pros</u> | <u>Cons</u> |
|---|---|
| – Greater management input into department or service-line operations & strategic direction | – Greater legal complexity = increase formation costs |
| – Operational improvements can result in substantial financial gains | – Greater management effort required for financial gains |
| – Minimal financial investment | – No technical ownership |
| | – Impact on current practice operations due to increased involvement in department or service-line management |

Pros & Cons – Mid Intensity Integrations Leasing Arrangements

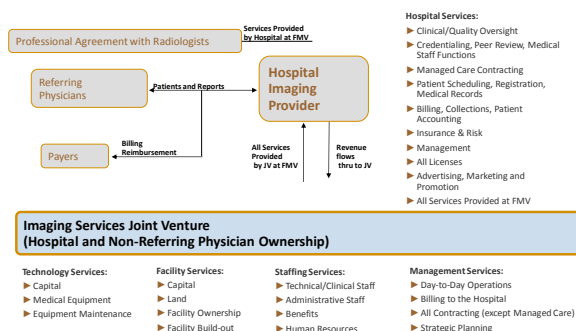
- | <u>Pros</u> | <u>Cons</u> |
|--|---|
| – Minimal financial risk | – Minimal financial return |
| – Mid-level capital investment | – No physician involvement in department or service-line operations or strategic management |
| – Minimal impact to current practice operations | |
| – Strengthened relationship with hospital or health system | – Financial risk and exposure does attach |

Pros & Cons – Mid Intensity Integrations Acquisitions

- | <u>Pros</u> | <u>Cons</u> |
|--|--|
| – Gain market share | – Increased operational & strategic complexity |
| – Expansion of service area | – Increase in possible financial & malpractice risk |
| – Decrease competition | – Quality of care issues may arise |
| – Increase negotiation strength | – Loss of control if acquired practice |
| – Possibly some economies of scale can be gained | – Negotiations can be time consuming |
| | – Fees associated with negotiation & payment of acquisition costs can be high |
| | – Improper construction & covenants can result in dissolution of entire practice |

High Intensity

High Intensity Provider Based Joint Venture



Pros & Cons – High Intensity Integrations Joint Ventures

Pros

- Can have a great deal of input into operations management & strategic direction
- Ownership in technical component
- Ownership in real estate possible
- Financial return can be great with proper establishment & management of JV
- Can build stronger relationship with JV partner

Cons

- Substantial capital investment possible
- Possible major impact on current practice operations
- Must work collaboratively with JV partner
- Full responsibility for operations management & strategic direction may not be possible for one JV partner
- Failure to properly construct legal relationship & perform due diligence can result in dissolution of relationship with proposed JV partner

Pros & Cons – High Intensity Integrations

Hospital Employment

- | <u>Pros</u> | <u>Cons</u> |
|---|--|
| – Possibility of moving toward evidence based care guidelines | – Possibly limited time available for patient care delivery due to increased administrative duties |
| – Increased transparency of quality initiatives | – Financial incentives may be for illness treatment not prevention |
| – Market expansion | – Concern about pricing transparency |
| – Availability of information technology | – Required to use information technologies adopted by hospital |
| – Financial incentives for preventive care can be developed | – Practice growth may conflict strategically with hospital growth |
| – Improved effectiveness of care for high-risk chronically ill patients | – Possibly working toward quotas for patient volume |
| – Expansion of specialist complement | – No ownership professional or technical |
| – No capital investment | |

Pros & Cons – High Intensity Integrations

Hospital Employment thru a Subsidiary Physician Company

- | <u>Pros</u> | <u>Cons</u> |
|---|--|
| – Preserves financial advantages of physician owned practice | – Practice retains responsibility for its "bottom line" |
| – Preserves internal accountability of physician owned practice | – Limited financial support from hospital |
| – Affords physicians significant authority | – Could be required to use information technologies adopted by hospital |
| – Availability of information technology | – Hospital maintains responsibility for strategic direction of practice |
| – Utilizes hospital "ownership" as a strategic tool | – Hospital maintains budgetary approval authority |
| – Strong relationship with hospital | – Hospital representatives sit on Board of practice along with physicians in equal numbers |

Pros & Cons – High Intensity Integrations

Mergers

- | <u>Pros</u> | <u>Cons</u> |
|---|---|
| – Expansion of market area | – Diluted internal authority and impact |
| – Improvement of negotiation strength | – Can be time consuming to negotiate |
| – Gain sub-specialization skill sets | – Can be costly to negotiate |
| – Enjoy economies of scale | – Failure to properly negotiate & develop a merger plan can result in financial losses |
| – Improve quality of life | – Failure to appropriately conduct due diligence can result in dissolution on one or both practices |
| – Maintain ability to impact operations & strategic direction of practice | |

Pros & Cons – High Intensity Integrations Integrated Delivery Systems

Pro

- Extreme level of integration between hospital and practice
- Extreme negotiation power & ability
- Availability of advanced information technology
- Physician involvement at all levels of the IDS – IDS president/CEO may be a physician
- Cost effective quality care a primary focus
- Minimal individual financial risk

Cons

- Extremely difficult to establish
- Government regulation from CMS, IRS & FTC
- System-wide financial risk can be great
- Can become "top heavy" in management
- Due to government requirements low quality providers can be terminated from IDS or excluded from participation in financially lucrative programs

Key to Success!

Positioning for Success

► Get Your Own House In Order

– Internal

- Management
- Governance
- Financial Processes

– External

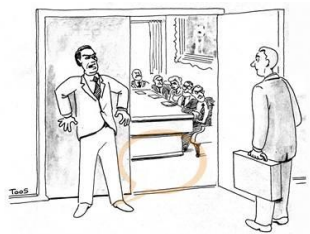
- Customer Service
 - Referring/Ordering Physicians/Providers
 - Facilities
 - Patients

Positioning for Success

- Maintain Awareness
 - Environment
 - National
 - Regional
 - Local
 - Initiate/Improve Dialogue with Potential Business Partners

Positioning for Success

- Know When to Get Help



"You go first, I'll cover you."

A Road Map for Integration Partner Selection



Source: Noblis (formerly Mitretek Healthcare), co-sponsored by AMA's Society for Healthcare Strategy & Market Development

*"Change is the **law** of life. And those who look only to the past or present are certain to miss the future."*

- John F. Kennedy

Questions and Answers



McKESSON

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