The mostly rural area of central and southern Delaware is perhaps the last place many people would expect a groundbreaking hospital merger to occur. But the merger that begat Bayhealth in Central Delaware more than 10 years ago has set the stage for an impressive two-hospital community system that boasts key partnerships with one of the nation's most highly respected academic medical centers.

In 1997, Kent General Hospital and Milford Memorial Hospital, after years of fruitless informal discussions, combined to form Bayhealth, Inc. Only 20 miles apart, the hospitals once competed fiercely, and the leaders of the combined entity had a lot of work to do to disprove locals’ fears that the larger Kent General Hospital was simply using the merger as the means to knock out a competitor in its market.

But as time has gone by, and as Bayhealth has built a major cancer center at Milford, those fears have largely subsided. Further, Milford is first in line at Bayhealth for a replacement hospital announced in 2009, which will replace a main building that opened in 1938.

“The economic benefit totally accrues to the community and allows it to be served better, and arguably at a lower cost, because of the economies of scale,” says Paul Lakeman, president of the Bayhealth Foundation, who was then vice president of communications at Kent, and later, Bayhealth. “That allowed us to keep our price increases down to the general public, which over 13 years have run between 1% and 2% per year lower than the national average.”

Make vs. buy?
Some look at mergers as making the decision between make or buy. In other words, you don’t have to invest the time and effort to build programs you don’t currently have, you simply buy them. Hospital mergers, and acquisitions too, are sometimes made more difficult because to satisfy the communities involved, you have to do both.
In Bayhealth’s case, the short-term solution was expensive, but it has paid long-term dividends.

“Even though Kent General was twice the size in assets, medical staff, and population served than Milford Memorial, in terms of services offered by the hospitals, it was more of a merger of relative equals,” says Dennis Klima, then CEO of Kent and later the president and CEO of Bayhealth, Inc., until a new CEO, Terry Murphy, was named in 2009. Klima continues as president.

“In that kind of a merger, the smaller institution—in this case, Milford—would have been just yet another smaller hospital in a large system. That’s not what we wanted to do.”

Instead, the executive team and the board decided to capitalize on the strengths of each hospital, even if it meant cannibalizing some business from one or the other, in order to protect market share from potential interlopers. However, the combined entity found itself with resources neither hospital had on its own.

Milford had then, and still has, a very comprehensive inpatient rehabilitation program. Kent had some advanced clinical technology—such as a neonatal nursery—that Milford did not have. Kent also had a more advanced cardiac and cancer program. But what to do to strengthen both facilities, with the resources of two hospitals behind them? And how to add more innovative programs?

Both hospitals, close to Philadelphia and its world-class academic medical centers, had suffered for years under a “sense that the healthcare up there was better because it was more urban and more sophisticated, and that down here, it was just rural communities with a couple of community hospitals,” says Lakeman. “What the merger allowed us to do was build a strategy and a structure that could begin to compete with the upstate markets, allow us to expand beyond our local communities, and then ultimately begin to get the affiliations that we currently have—two in fact—with the University of Pennsylvania.”

But before all that, Bayhealth’s executive team had to make the merger work. At the time, neither hospital had a comprehensive cardiology program. Anything invasive meant the patient would be sent somewhere else.

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Bayhealth Medical Center
"We could do a diagnostic cath here, and we could do scopes, but when you had anything more substantial, that had to be sent up the road," says Lakeman.

Within three years, Kent had developed a comprehensive cardiology program to compete with its upstate rivals, and Milford was well on its way to developing a comprehensive cancer center. The cancer center helped mollify those in that community who had insisted that the hospital would be marginalized or worse under Bayhealth.

"To some degree, we had a cancer program here already," says Lakeman of Kent. "We had radiation oncology and we had chemotherapy, and a lot of the patients from the Milford service area were coming up here."

Although they knew building a cancer center in Milford in effect would cannibalize Kent’s own business, they viewed the cancer center as an investment in a community that might be ripe for exploitation by potential competitors, says Lakeman. It was, in a sense, to protect the market, knowing that down the road, Bayhealth was interested in
developing a comprehensive oncology center of excellence. Perhaps the public relations value of the cancer center was at least as important as the ramp-up in clinical capability, Lakeman explains.

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“...are going to just be an asterisk on a balance sheet somewhere or on an income statement?” So yeah, there was a conscious decision because of that to go ahead and invest in the integrated cancer program and the facility at Milford,” says Lakeman. “When you try to merge two organizations like that, there has to be a sense that each organization is an entity unto itself—that one side is not any more important necessarily than the other.”

Productive partnerships

Deborah Watson, Bayhealth’s vice president of operations for the southern region, was recruited to Bayhealth from Pennsylvania’s Geisinger Health System in 2002 to develop a strategic vision for developing its service lines, particularly in oncology, cardiovascular, and orthopedic rehab.

“Up to that point, while our strategic plan might have said we had several service lines, they truly weren’t being operated as such,” she says. “I was brought in primarily to find a way to utilize the clinical service lines as a way to raise the bar clinically, as part of Dennis’ and Terry’s vision, of how we transform ourselves from two community hospitals into a regional health system.”

Watson set about the task of developing job descriptions and the vision for each service line and recruiting administrative directors for each one. She hired some key physicians for those service lines, developed strategic plans, and focused on physician engagement of both the private physicians and the key employed physicians.

Once that process, one at a time, was complete, Watson solicited requests for proposals (RFP) for clinical partnerships with big academic medical centers relatively nearby, aimed at providing the physicians in the community with opportunities to consult and learn from some of the best surgeons and specialists in the nation.

The executive team narrowed the field down from seven potential partners for cardiology—specifically, heart surgery—to the University of Pennsylvania Medical Center. Since 2003, that partnership has been active and has since expanded to include cancer
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Care, which was also done through an RFP process. Another clinical service line partnership agreement is on the horizon as well.

Bayhealth physicians refer their most complex cardiac surgery cases to Penn, which in return provides recruiting assistance to Bayhealth for surgeons, and consults. "We were looking for the ability to make referrals to world-class providers that did things that we could not do or were not thinking we should do, and then be sure the patients came back to us," says Klima.

Lower costs
Klima believes the merger, and the ensuing partnerships with Penn, will be essential to proving that Bayhealth offers price- and quality-competitive patient care as health reform takes effect.

"A lot of the logic for the merger was the economic advantage, with economies of scale that could be achieved," says Klima. "The targeted economic savings by consolidating a lot of departmental operations—particularly the back office kinds of things, but also in some of the clinical things—was significant."

In some ways, integrating the two groups of people affiliated with the two hospitals is still going on, says Lakeman. "With any kind of merger, there's always some suspicion ... 'What's going to happen to my job?'" he says. "But what changed is that the quality of healthcare improved as has our ability to do some things as a unit that we couldn't do individually."

Although Bayhealth’s executive team is thrilled with the way the 13-year-old merger paid off, it’s not aggressively pursuing any more mergers—or acquisitions, says Klima. Nor is it looking to become owned by a bigger system. A degree of Delaware independence, after all, was among the goals of the Kent/Milford merger.

"We have not, to my knowledge, had anybody talk to us about becoming a part of their larger system, and we've not pursued becoming part of a larger institution either," Klima says.

"We're not the kind of organization that's going on to merge a lot of different hospitals and create a large system in the way an investor-owned chain or perhaps some other nonprofit organizations would.

"We know that it takes a lot of time and energy to be successful with a merger, and we don't want to simply own a lot of hospitals. We want to have a system that works better than what we can do individually."

“When you try to merge two organizations like that, there has to be a sense that each organization is an entity unto itself—that one side is not any more important necessarily than the other.”

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