This is the EXECUTIVE SUMMARY from HealthLeaders Media Breakthroughs: Hospital Merger and Acquisition Strategies.

Executive Summary | Growth, Scale Trump Independence

In collaboration with PricewaterhouseCoopers.
Executive Summary

Growth, Scale Trump Independence

Experts have been predicting large-scale consolidation in the hospital business for years. There are always deals, and the number of hospitals in America has been declining for some time, but very slowly. It seemed the M&A mania that grips many other industries would never really settle in on a business that is more mom-and-pop than multinational.

Yes, it’s difficult to justify calling any business that’s the largest employer in its community a mom-and-pop, but the stand-alone community hospital may be, at long last, an endangered species. The scale and cost of administration and technology applications needed to comply with regulations that encourage healthcare institutions to compete on value rather than volume may finally be moving the needle to widespread consolidation.

All four of the institutions profiled in this HealthLeaders Media Breakthroughs report have consolidated in large and small fashion over the past several years. Some are more focused on building...
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Baylor Health Care System has a merger and acquisition plan built alongside opportunities for "green field" growth of both inpatient and outpatient capacity. With a capital budget next year of $515 million, Brock says he could spend every dollar—and so could primary market competitors Texas Health Resources and HCA, Inc.—and still not meet the growth of the Metroplex’s healthcare needs.

a certain geographic reach while others seek to acquire different parts of the healthcare continuum in their home markets.

What’s common among them all is the drive to bring to a larger market a shared vision of efficiency in both patient care and financials. Their leaders believe thoughtful consolidation should yield a stronger, more competitive industry that keeps a lid on costs and improves quality.

How to grow "appropriately" is a complicated question in the Dallas area, where Baylor Health Care System is headquartered, and where most of its operating entities are located. Demographic projections that Baylor is using show that the 10-county area could double by 2025 to approximately 12 million residents.

To meet the corresponding need for medical services, Baylor Health Care System has a merger and acquisition plan built alongside opportunities for "green field" growth of both inpatient and outpatient capacity, says Gary Brock, Baylor’s chief operating officer.

With a capital budget next year of $515 million, Brock says he could spend every dollar—and so could primary market competitors Texas Health Resources and HCA, Inc.—and still not meet the growth of the Metroplex’s healthcare needs.

At the root of growth for North Shore-LIJ Health System in New York is a merger strategy to get scale—size that allows the health system to coordinate care and cut costs that come from overlapping markets and gaps in care.

From the roots of the 1991 merger of the former North Shore University Hospital and Glen Cove Hospital, the system now has a service area of more than 7 million people. In markets as large as the New York City MSA, pressure will continue to drive the type of consolidation that creates larger systems such as North Shore-LIJ, leaving in doubt the future of stand-alone hospitals in such core urban markets.

Bayhealth, headquartered in Dover, DE, was formed in a merger between two nearby community hospitals. Its executive team and board decided a merger between the two hospitals would capitalize on the strengths of each, even if it meant cannibalizing some business from one or the other.

Additionally, the combined entity found itself with resources neither hospital had on its own. Those resources and a reshuffling of services in which each hospital excelled led to partnerships
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with a major academic medical center that would not have been possible without the merger.

Novant Health’s strategic plan called for it to double in size between 2006 and 2010. The decision to do so was not just for growth’s sake, however. Growth, and the economies of scale that come with it, says CEO Paul Wiles, is at the heart of improving patient outcomes.

Novant’s growth has come from acquiring hospitals, certainly, but also through acquiring essential ancillaries, such as imaging, that are part of the continuum of care. And M&A in healthcare, at least in Novant’s case, is not just about maximizing margin.

Novant’s annual metrics are patient satisfaction, employee satisfaction, an operating cash flow target, and CMS quality targets. Each one of them is weighted equally. At its heart, growth is a risky strategy in an industry not accustomed to taking much risk. But given the rapidly changing landscape of the healthcare reimbursement system, growth appears to be a modern imperative.

Each of these health systems is attacking its growth strategies with a different blueprint, but they’re all looking to develop the scale and the partnerships necessary to thrive in a world of declining reimbursements.

Their approaches to consolidation can serve as important considerations for hospitals in the midst of trying to determine a long-term strategy that’s best for their employees and patients, including:

- **Planning and coordination:** None of the organizations profiled in this report went into a merger or acquisition rashly. Rather, the decisions came from months or years studying the benefits and drawbacks of each individual market.

- **Economies of scale:** High fixed costs in IT and billing systems mean acquiring a new hospital or other affiliated facility can spread and reduce unit costs for the other facilities in the portfolio.

- **It’s not just hospitals:** Many institutions in this report have taken the bold steps of acquiring imaging centers and home health licenses, among other acquisitions, that break the typical mold of hospital consolidation and prepare them for better coordination of care.

- **Centralization:** Key functions, including quality oversight, patient satisfaction and employee acquisition and retention, require investments in talented people. With a higher number of facilities, that’s easier to justify.
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