Extended Transcript

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HFMA Podcast: What You Didn't Hear

March 11, 2020

HFMA interviewed Joe Polaris, Senior Vice President of Product and Technology at R1 for their recent ***Coronavirus, Walmart, and the Risks and Benefits of M&A*** *podcast episode. Included below is both cut and covered content from Joe's conversation with HFMA.*

Interviewer: Joe, from your perspective, what are the main factors driving health system mergers and acquisitions in recent years?

Joe Polaris: It's certainly unprecedented, the degree to which organizations seem to be coming together, whether it's health systems merging with one another or physicians moving into employed models as a part of hospital and health systems.

I think there are a few key drivers. The first, at the macro level, is the rising cost of healthcare and the impact this has on our trajectory as a nation – both in terms of the share of our dollars that go into health care as well as the unaffordability and inequality that's created. It's really creating a dynamic where pennies will need to be pinched in every place they possibly can.

Organizations are seeking every possible path to reduce their costs and achieve more standardized, repeatable, reliable processes. They are essentially being asked to do a lot more with a lot less, and M&A can look like an attractive way to achieve this. There's a common hypothesis that through growth and combination, health systems can achieve some degree of economies of scale, and scale leverage, which I think is the primary driver around M&A. It certainly helps if the economy is strong and interest rates are relatively low, which only adds fuel to M&A activity.

Interviewer: You mentioned that one of the big goals of consolidation is economies of scale. What evidence have you seen that health systems are achieving greater revenue cycle management success from decreased costs, operating margins, etc., through consolidation?

Joe Polaris: To be frank, in the broad market, we see a lot of indications that health systems are not really achieving the expected financial benefits from their combinations and growth. For instance, it's a fairly well-documented common belief that the combination of hospital systems and physician practices into a physician-employed model will result in a reduced administrative burden on the physicians, because administrative work can be centralized.

And the reality is, when you talk to physicians, you find that a significant percentage report a greater administrative burden in the employed model than in their original independent model. Similarly, you see margins not materially improving in large physician practices and health systems as a result of their combinations. And so unfortunately, I think the reality is that with the exception of some really progressive organizations that have found ways to holistically transform as part of their M&A and growth strategies, you find a lot of continued financial pressure on those organizations, even post combination.

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Interviewer: Considering the challenges, how can health systems achieve their desired cost reductions and scalability, despite all the different technologies and processes that typically come to the table in an M&A situation?

Joe Polaris: First and foremost, before starting an M&A strategy, it's really important to do the hard work and identify the specific place in the organization where improvements are going to be made as a result of the combination. You then need to ensure that the combination plan is inclusive of true transformation, and your processes can be standardized to achieve true benefits.

I would suggest the two major things that are imperative to a successful pursuit of scale leverage are first, experience – meaning having members of the leadership team or a partner at the table who have the experience of achieving significant scale leverage by meaningfully standardizing the way patients are greeted, the way patients are supported financially, the way patients are navigated through their care journey. These are hard practices to change and short of experience driving a level of standardization in a newly formed combined entity, it can be very, very challenging to see that change through. And what you end up with is more of a holding company where you have not achieved the scale leverage. You just simply added to your size.

Then the second would be a clear and detailed playbook for how the new operation will operate at scale. It's one thing to have the experience to drive change management, but it is also critical to understand what is the best practice methodology, the best practice operating system if you will, for leadership from the very top of the organization all the way down to the front lines to run this new entity in a standardized way, in a proactive way, in a way with visibility into how daily activities of the now much-larger staff across the organization are going to connect with the outcomes that are sought in the combination, the scale leverage through the implementation of obviously best practices that are common across the organization.

Interviewer: Consumerism seems to be a common theme everywhere in healthcare right now, but especially in revenue cycle and of course is in healthcare organizations... that interest to provide an excellent patient experience. But what advice would you give health systems to ensure that their quest for financial improvement also does indeed result in a better patient experience?

Joe Polaris: Oh, that's a great question. And I think it's very connected to this idea of health systems becoming larger and offering a more comprehensive set of products and services to the consumers who are seeking care. I will say, as backdrop, consumer expectations are rapidly rising. And if we think about growing our organization to improve our competitive positioning, we have got to remember in healthcare, we are not just competing with the hospital down the street anymore in the eyes of the consumer.

We are truly competing with the broader set of experiences that other industries provide to consumers in their daily lives. We are competing with Amazon. We are competing with Delta. We are competing with seamlessness because consumers truly have come to expect the level of simplicity and the level of ease; transparency and convenience to access products and services from those other industries, and so they now increasingly expect that in healthcare. So, what I would say is one, make sure that we have truly thought through the entire customer journey and we are not trying to solve a specific process in a silo.

As an example, not just trying to consolidate to one contact center for scheduling and intake, which in and of itself could create some value, and in and of itself could seem like a good marketing strategy for patient acquisition. But if the rest of the journey is still cumbersome, confusing, opaque, and results in a dissatisfactory billing process as an example, those patients really aren't likely to come back. And we know too often that the billing process does leave an overall negative impression with the patient so that's why it is important to really be comprehensive in mapping the consumer journey.

And then the second is coming back to this M&A topic. It's very difficult across a large complex organization with multiple different EHRs and other technology systems in different hospitals, imaging centers and physician practices, to create a common experience and a consistent execution of easy intuitive self-service, when patients' data is in all these different systems and different members of your organization are referencing different systems when they greet and care for those patients.

And so it's really important to think about technical integration; to think about, "Are there ways to overlay a highly standardized common experience so patients can go from appointment to appointment, have the same experience and not feel like they filled out the same redundant paperwork five or six different times?"

Interviewer: Definitely some good stuff there. Now that we've made it to the end of our list of questions, are there other things that I didn't ask about or things that still apply that would be worth talking about?

Joe Polaris: You had asked about the degree to which we see evidence of health systems gaining some financial economies of scale as they grow, and I failed to give you statistics. A recent study by Barron's of over 100 health systems found no relationship between profitability and the size of a system, which is just evidence that the hypothesis of growing the organization through inorganic activity is not playing out in real life. I also have a few statistics around the magnitude of this shift with M&A in the industry.

There is an *American Journal of Managed Care* study that showed a more than 60 percent increase in the percentage of physicians who are employed by hospitals from 2012 to 2016, which is just a massive shift. I believe we are now at a point where just over half of physicians are in either hospital owned or otherwise aggregated physician practices of more than 20 doctors. There is really a material shift here.

Interviewer: With a lot of the health systems I talk to, the first thing they discuss, at least with me, is centralized scheduling, centralized revenue cycle, centralized, centralized, centralized. And you seem to think that might not be the answer.

Joe Polaris: Sure, let me clarify. I do think there is a lot of value that can be created from centralizing certain functions. The challenge can be how hard it is to execute a change like that when there is a lack of high-quality tools available in the market to support that journey. And so, short of having a sophisticated way of digitizing and systematizing everything from scheduling to provider of choice, it can really be challenging to accomplish.

I think given the fact that centralizing a function is probably only one out of 10 efforts that would be needed for an organization, to meaningfully transform the end to end consumer journey, it's somewhat of a daunting task to try to drive a big centralization effort when there is potentially as much risk as upside. If you have done the work to find tools that can help with your planning and implementation, that's truly going to codify all your variation and personalize the experience for the consumer. If you can add to a consumer's experience and you haven't introduced any new disconnect between provider preference or the variation at these different sites of care, then I am all for centralization – especially if it is part of a broader transformation.

Interviewer: It sounds like on the surface you could say, "Okay, this is what we are doing. Everybody move over here now" and it's a lot more involved than just saying, "This is our new process and what we are doing. Go ahead and do this."

Joe Polaris: Right and at R1, we just announced our upcoming combination with a company called SCI Solutions. The thought process behind that entire strategic move was that SCI has the solution that can facilitate the seamless customer scheduling transaction, whether it be online, with a call center or on a mobile device. SCI has also done the hard work to really map out the substance of all the different potential variations of medical care that needs to be scheduled whether they be different indications and contraindications for different patients or provider preferences at the sites of care. Our thought process is that through this combination we will be able to meaningfully transform, in a positive way, the experience of accessing care from the consumer's perspective while enabling centralization – as we'll have codified all that variation so that you no longer have to be on a first name basis with the provider to effectively execute on the provider's preferences.