

The Advent of Strategic Regional Organization (“SROs”): The Emerging Form of Competition in the Evolving Healthcare Market

November 13, 2014

Presented By:



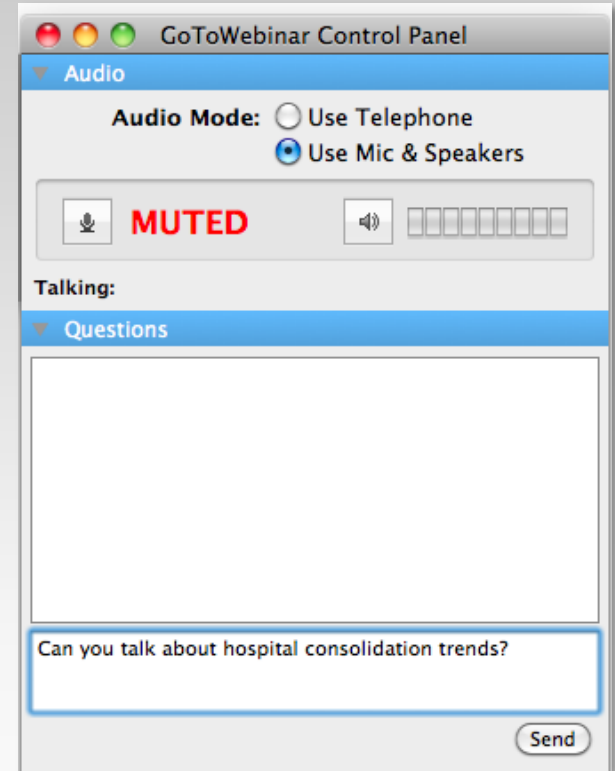
Welcome

- We will begin shortly
- Telephone Dial-In: **1-909-259-0023**
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Submitting Questions

- Please submit questions during the presentation using the “Chat” feature on the side of your screen.
- Questions submitted today will be fielded at the end of the webinar as time permits.
- If we do not get to any questions in the time available, we will follow-up with you individually offline.
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Today's Speakers



Howard Peterson
Managing Partner
TRG Healthcare, LLC

Howard Peterson, MHA

Mr. Peterson is the Founder and Managing Partner of TRG Healthcare. He has more than 30 years of healthcare experience developing progressive strategic, financial and operational solutions for a broad range of healthcare clients. His consulting focus includes: strategic and financial positioning, mergers and acquisitions, regional network development, and the unique issues of academic medicine. He has worked extensively with hospital systems, academic medical centers, major teaching hospitals, as well as faculty and physician group practices.



Gordon Alexander, MD
Senior Partner
TRG Healthcare, LLC

Gordon Alexander, MD

Dr. Alexander is a board certified OB/GYN physician with more than 30 years experience working in various practice settings and administrative leadership roles at prominent hospitals and academic medical centers across the country. Most recently, Dr. Alexander served as President and CEO of Children's Hospital Central California and just prior he was President and CEO of the University of Minnesota Medical Center, Fairview. Dr. Alexander brings significant practical insight and experience in strategic planning, provider partnerships, and hospital- physician alignment.

Introduction to TRG Healthcare

- TRG Healthcare is a specialized management consulting firm dedicated to serving the needs of healthcare organizations nationwide.
- We formulate solutions that meet the unique requirements of hospitals and health systems, academic medical centers, and physician and faculty groups.
- TRG has offices across the country to efficiently serve clients coast-to-coast:
 - ◆ Philadelphia, PA
 - ◆ Denver, CO
 - ◆ Southfield, MI
 - ◆ Phoenix, AZ
- We offer an array of services to meet a wide range of client needs:

✓ Strategic and Financial Positioning	✓ SRO Development	✓ New Physician Compensation Models
✓ Mergers & Acquisitions (M&A), and Affiliations	✓ Building the Continuum of Care	✓ Risk Contract Management
✓ Shared Services and Commercialization	✓ Physician Alignment Strategies	✓ Laboratory Transformation
	✓ Clinical Service Lines	

Discussion Overview

- ❑ Definition and Characteristics of SROs
- ❑ Rationale for Creating the Term “SRO”
- ❑ Forces Driving SRO Development
- ❑ SRO Impact on Market Dynamics
- ❑ Capabilities Required for Population Health
- ❑ Other Potential Value-Added SRO Activities
- ❑ Example of a Prototypical SRO Arrangement
- ❑ Relevance of SRO Development to:
 - Proprietary Hospital Companies
 - Religious-based Hospitals and Health Systems
 - Academic Medical Organizations
- ❑ Other Likely SRO Candidates
- ❑ Critical Success Factors to Optimize Results
- ❑ Market Conditions that Support SRO Development
- ❑ Questions & Answers



What Are Strategic Regional Organizations (SROs)?

Strategic Regional Organization (“SRO”) is a term coined by TRG to describe the variety of provider and provider/payer networks and alliances emerging in markets nationwide:



BJC HealthCare

CoxHealth

Memorial Health System

Saint Luke's Health System



What Do All SROs Have in Common?

Examination of the market reveals all SROs meet *three basic criteria*:

① STRATEGIC:

Initiatives by a single organization *or* two or more significant healthcare organizations looking **to achieve economies of scale** at least equal to competitors and build the infrastructure and capabilities necessary to **take part in population health initiatives**.

② REGIONAL:

Comprised of **healthcare organization(s) situated across broad, contiguous geographies**, including many that are embracing the unique historical opportunity that exists today to organize geographies and populations to redefine the markets in which they compete.

③ ORGANIZATION:

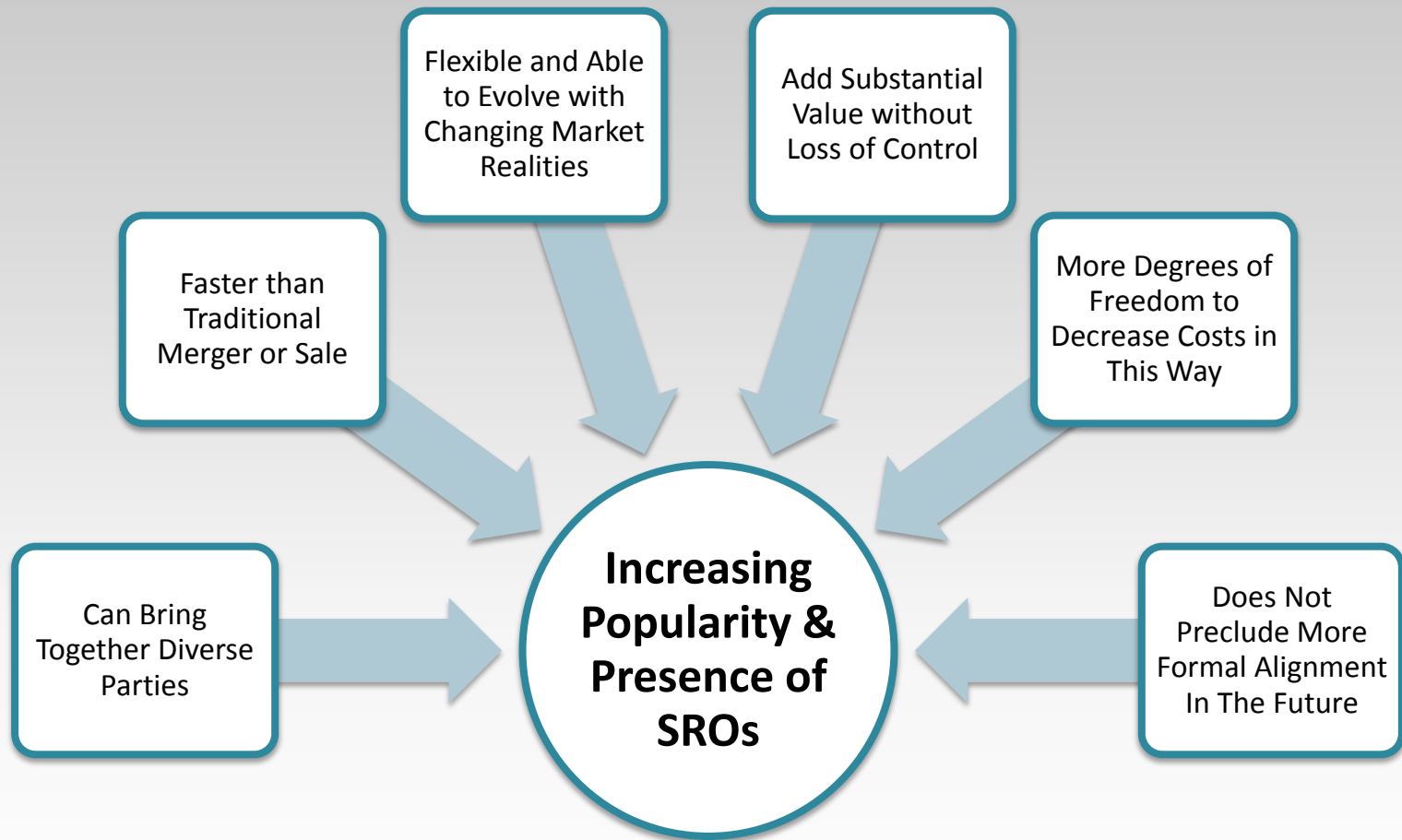
Formal structures which can take **different forms** depending on the criteria and goals of the party or parties involved. These structures **do not need to compromise the parties' overall independence** but do **require some form of interdependence**.

NOTE: Our focus today will be on SROs created through non-merger structures across two or more organizations.

Why Create the New Term “SRO” ?

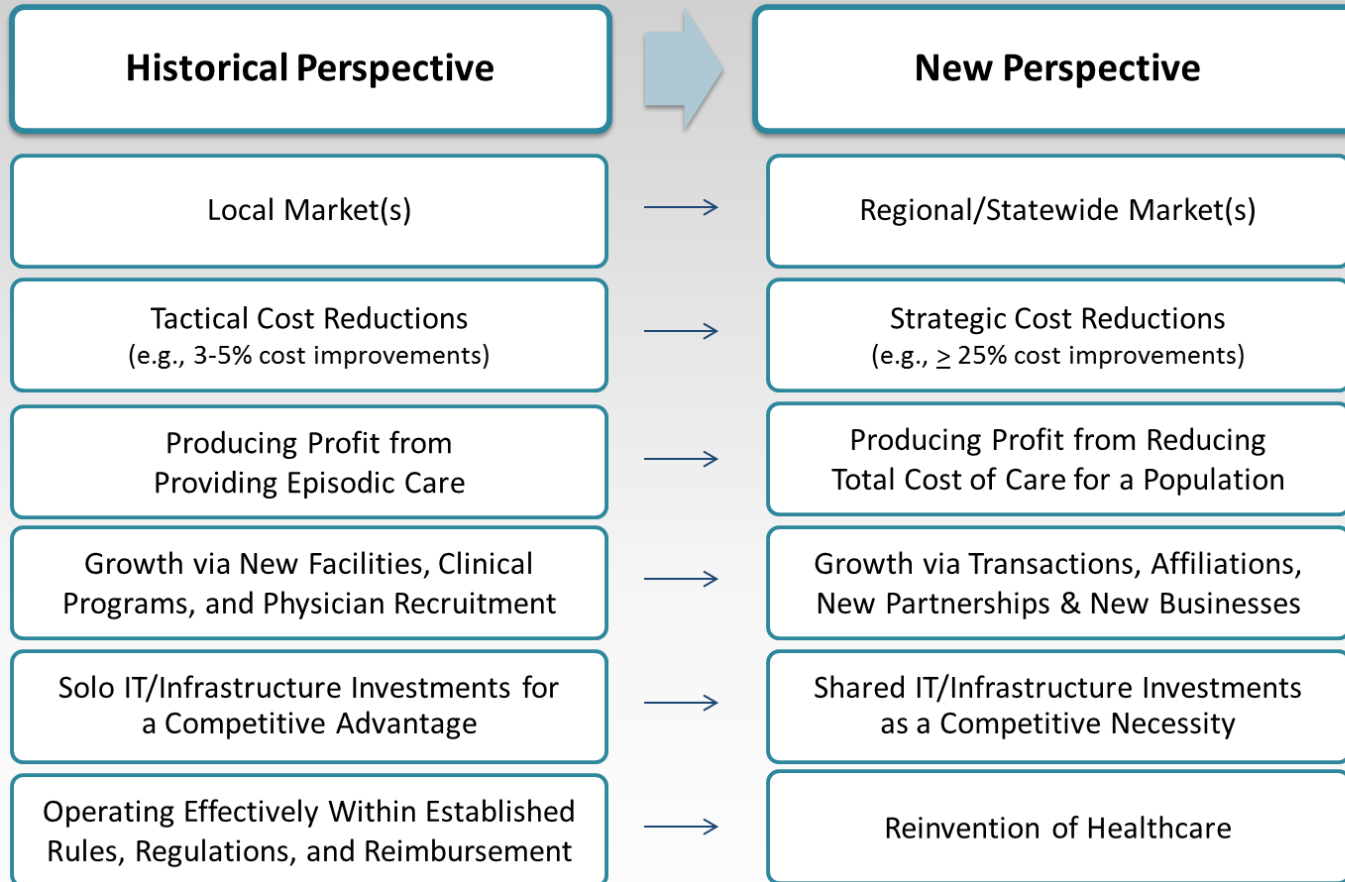
- There is **varied terminology currently being used** to denote the various organizations that meet the three criteria discussed.
- Terms such as “**network**”, “**alliance**”, and “**collaborative**” are being used interchangeably for the non-merger partnerships with no real clarity of meaning.
- These commonly used terms, especially “alliance”, are **often associated with loose partnership arrangements** that lack substantive bonds between organizations.
- They **do not properly represent the organizations we are discussing** which have the essential “glue” to do something tangible and stick together over time.
- The trends we observe suggest **these organizations are growing in popularity** and **will significantly influence how we will operate** in healthcare for years to come.
- TRG sees **great value in establishing a common term** that is **widely understood in the industry** and has **translatable public value**.

Typical Advantages of SRO Development



Rise in SROs is Reshaping Provider Strategy

The rise in SROs and the size and geography they represent is changing the way we think about competition and the nature of the choices provider organizations now face.

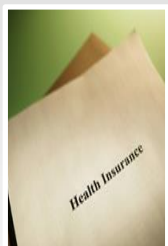


The War for the Healthcare Dollar is Heating Up

Growth in SROs is also altering market dynamics and both traditional and non-traditional competitors are taking on a more aggressive competitive posture to secure market share:



Provider organizations are trying to organize themselves in a manner that allows them to assume risk for population health and elevates their competitive position in the market.



Certain **insurance companies** are trying to create contract relationships that lock-up markets and limit competitive opportunities for related provider organizations.

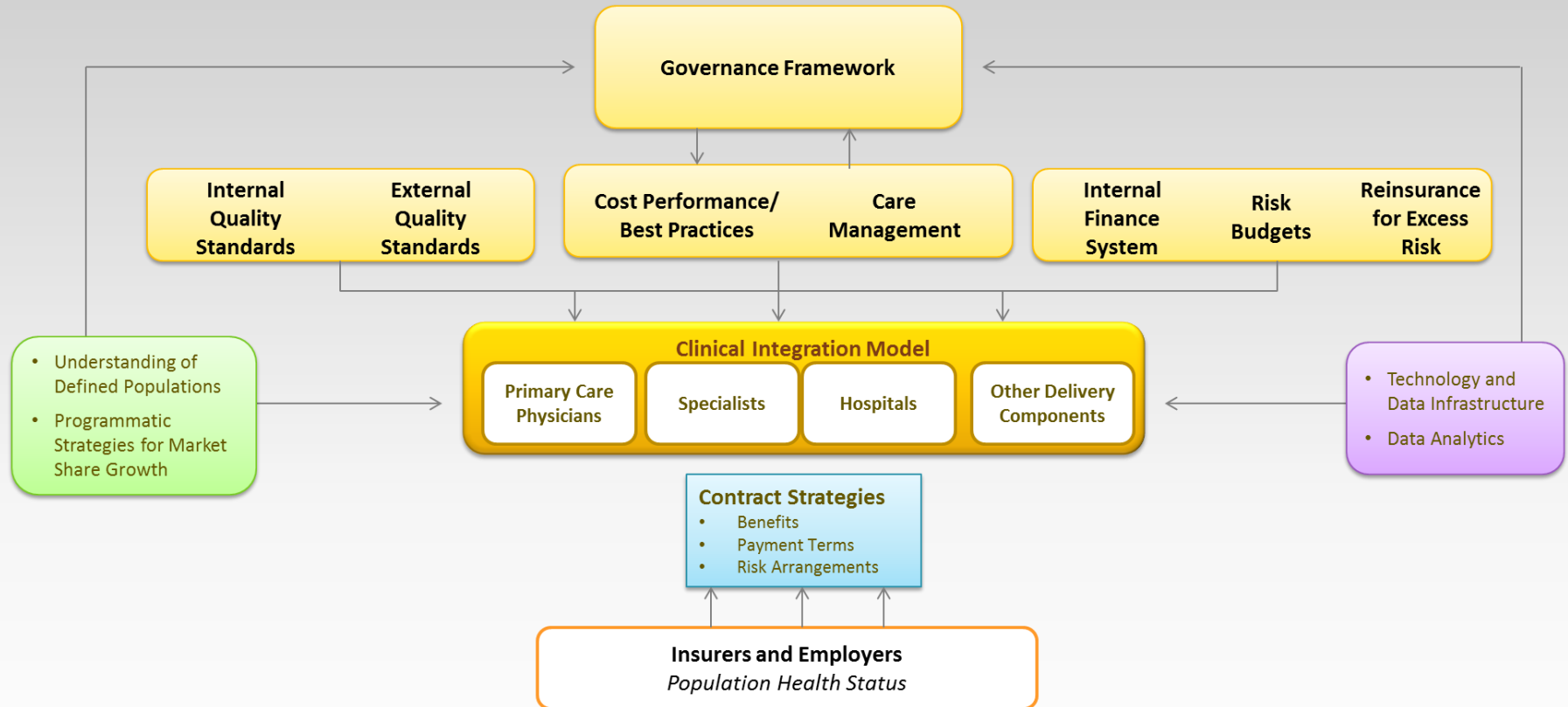


New market entrants (e.g., retailers such as CVS, Walgreen, etc.) are trying to carve-out portions of the market they can control or, at least, increase their relevance.



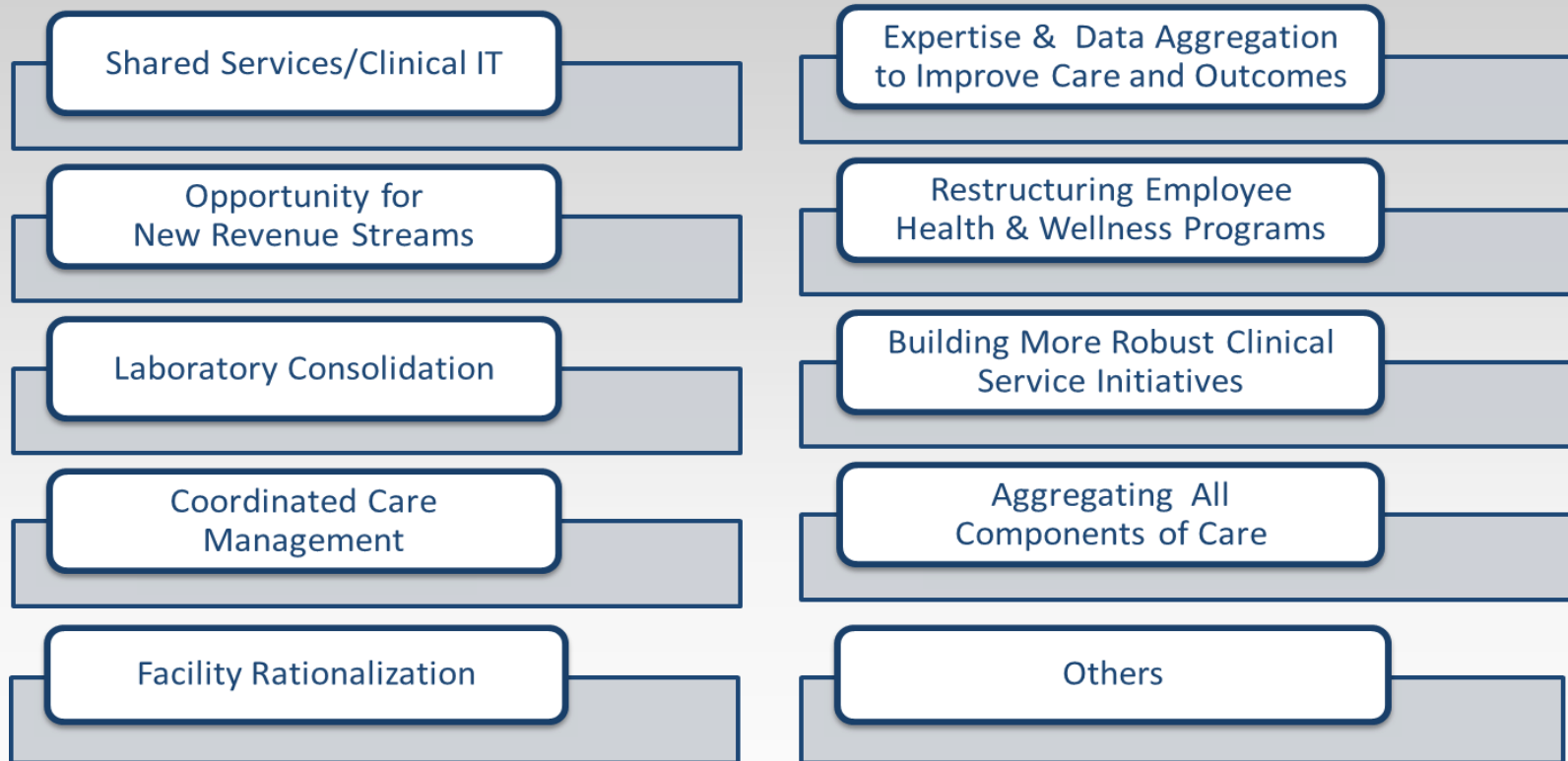
Capabilities Required for Population Health Management

There are different ways to assemble all of the required components of a SRO, but the following components **must** be included to successfully take risk for population health:



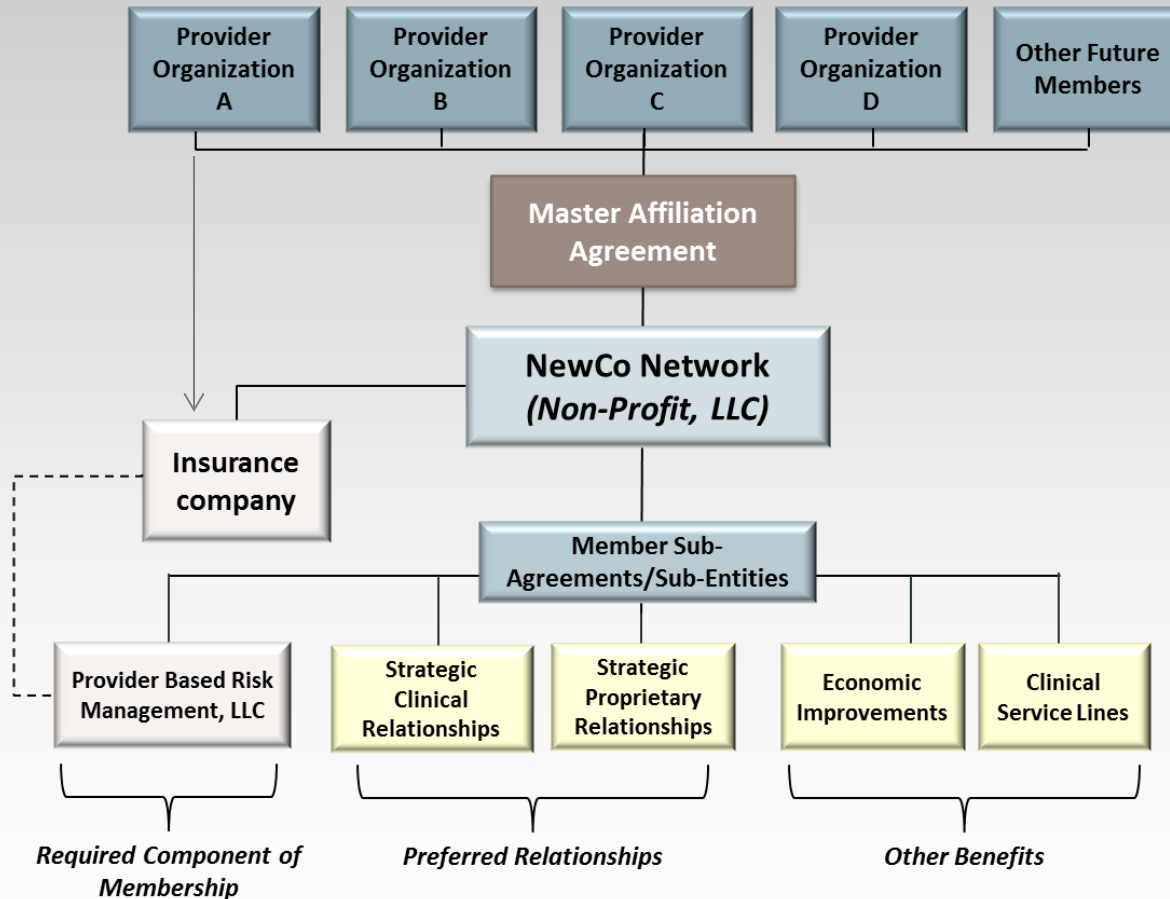
Other Value-Added Activities

SRO development enables members to pursue a number of activities together beyond risk contracting that can drive considerable value for some or all parties. Examples include:



Example of a Prototypical SRO Arrangement

The diagram below represents a prototypical SRO arrangement between multiple parties:



SRO Relevance to Proprietary Hospital Companies

- There are **many markets** where proprietary hospital companies **have one or very few hospitals** and **lack the geographic mass** to build regional networks.
 - The model by which they have historically pursued acquisitions focuses on amassing hospitals in distinct markets and then bringing national economies and management practices to drive better performance.
- **Achieving economies of scale is not an issue** for these hospitals given the operational efficiencies they enjoy at the corporate level.
- However, these hospitals face the very same **challenge** as other hospitals in **reaching a large enough patient population to successfully accept risk.**
- **SROs can serve as a vehicle to become connected** to other types of provider organizations in the market to enhance their positioning for risk contracts.
 - The **challenge is finding a value proposition** and **economic model that works** for all parties, including the investor-owned and not-for-profit member entities.
 - Becoming clinically integrated also requires proprietary hospitals find a way to **achieve interdependencies while still meeting national operating imperatives.**

SRO Relevance to Religious-Based Hospitals

- There are a number of religious-based health systems that are **trying to reposition their assets** to adjust to the strategic realities of the day:
 - Need **to achieve economies of scale** at least equal to competitors
 - Need **to build the infrastructure for population health management**
- These new imperatives pose a challenge for two reasons:
 - In **many markets** these health systems have **only one or very few hospitals**; and
 - In **all markets** they are **committed to preserving the Ethical and Religious Directives (ERDs)** of the Catholic Church.
- Some major Catholic health systems are **exchanging assets to try to create greater consolidation** in naturally occurring markets.
- Other Catholic health systems are **compelling member hospitals to develop SROs** as a means to address the need for size, scale and market reach:
 - Requires **engagement with non-profit organizations** with no religious mission
 - Must be **designed in a way that the ERDs are respected** but the total structure still meets the full service needs of the contracted population.

SRO Relevance to Academic Medical Centers

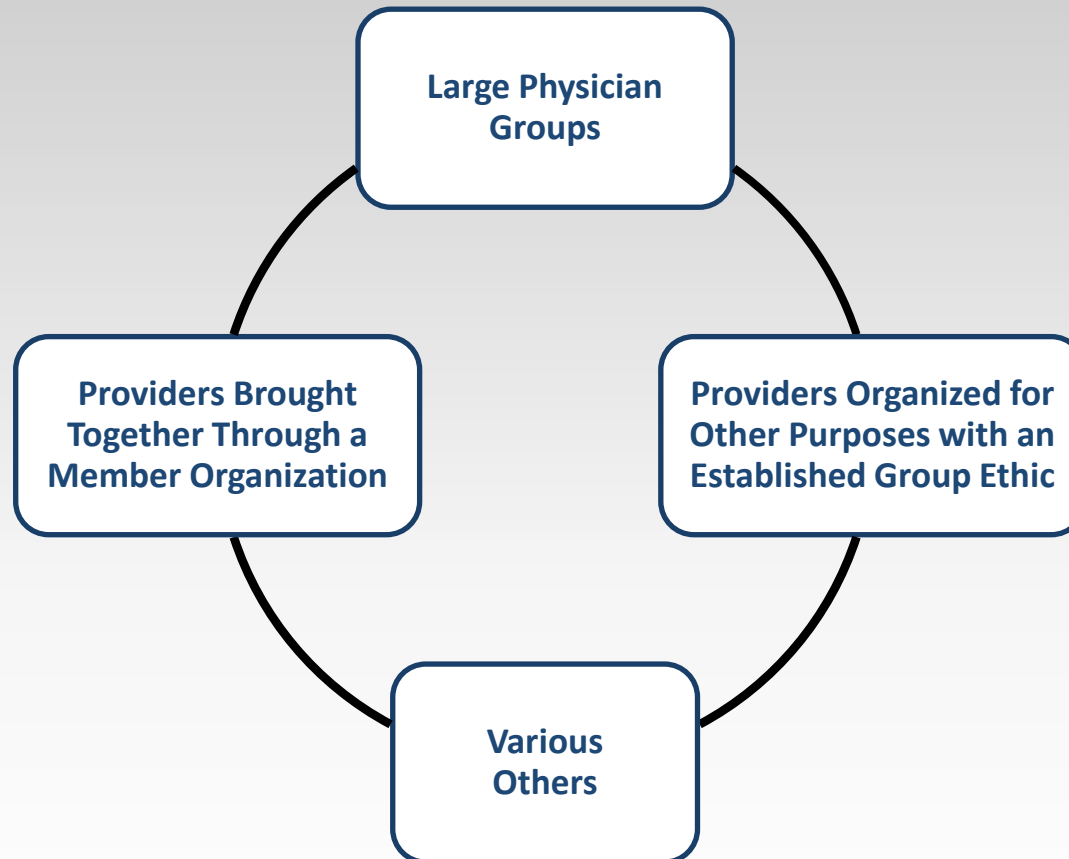
The new era of healthcare poses a number of challenges to the long-term viability of our nation's AMC's and their ability to carry out mission critical activities:

Emerging Challenges...	Implication for AMC's
Growth in Value-Based Payment Structures	• AMC are looking for ways to reduce their cost structures (typically 10-20% higher) to compete on a cost basis for care others also provide.
Reductions in Provider Payments	AMC's will benefit from a new covenant with community-based hospitals and an economic model that drives care to the most cost effective and competent setting that services can be provided.
Shift Toward Population Health	AMC's are pursuing partners along the continuum to position as primary contracting entities under population health.
Utilization Shifting to Outpatient Settings	AMC's are seeking influence over broader markets to drive enough volume to support key programs and investments in facilities/technology.
Tradition of Concentrated Clinical Education	• AMC's are rethinking their concentrated clinical education models at limited inpatient sites as utilization shifts to outpatient settings.
Multiple Missions of the Academic Organization	• AMC's are seeking ways to reconcile their multiple mission commitments with changing economic realities.

SRO development is a viable strategy to position AMC's with other types of providers in the market to address these emerging challenges.

Various Other Likely SRO Candidates Exists

The types of provider organizations just discussed are not the only ones likely to find relevance and strategic value in SRO development. Other likely candidates include:



Critical Success Factors to Optimize Results



Have certain **required member commitments** and **mandatory components** for participation (e.g., single signature contracting, shared capitalization of IT, etc.)



Agree on a **group ethic** and **common vision** of what is being developed before deciding what form it should ultimately take.



Ensure sufficient **physician involvement** in development of the new structure to achieve the commitment of these key partners.



Build sufficient **accountability** into the structure to help ensure its sustained functioning and success in the rapidly changing marketplace.



Work out an **approach to governance** that ensures proper oversight without compromising members' independence.



Build-in a very **clear and nimble decision-making structure** that is stratified across all decisions that need to be made at the time of SRO development.



Commit to a **common set of aspirational metrics** that will drive performance and fundamentally differentiate the SRO from competitors in the market.



Create an **opt-in principle** whereby subsets of members are able to act on initiatives that create meaningful value for them without the total membership.

Market Conditions That Foster SRO Development

- ✔ Provider organizations are already part of a **'natural' network with historical relationships** that can be leveraged in a more formal partnership arrangement.
- ✔ There are **large tertiary providers or academic medical centers** within the market that are highly dependent on referrals from others.
- ✔ The market includes a **significant number of unaligned, non-profit hospitals or health systems** that want to preserve their long-standing independence.
- ✔ The market includes one or few **religious or proprietary hospitals** already part of large national systems but without the local reach or scale to accept risk.
- ✔ There is a **collection of small to mid-sized hospitals (100-200 beds) spread over a contiguous geography** serving complementary, not competitive markets.

Questions & Answers



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Thank You!

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