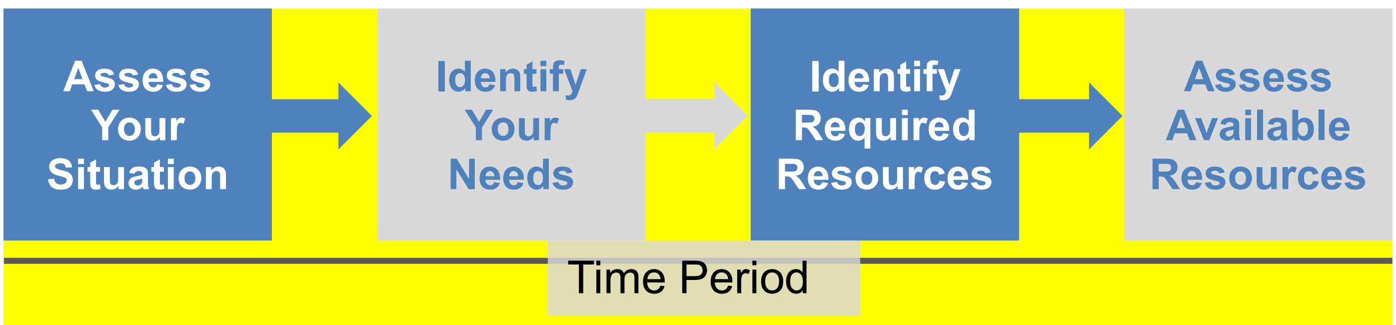
Is it Time to Find a Partner?
By Steve Valentine, MPA and Barbra Riegel, MBA

The magnitude of change occurring in healthcare is extraordinary. The impact of three major factors: economy, healthcare reform and changing payment mechanisms to improve quality, patient safety and satisfaction, will require new skills and strategies for success. If we stay on the current road without adapting, pressure on reimbursement rates coupled with escalating costs, will put increased pressure on operating margins. Yet transforming your organization to prepare for the future requires capital for investment in: information technology, facility upgrades, physician integration/partnership, etc., as well as demands to operate more efficiently and with better outcomes. Can you go it alone or is it time to select a partner?

So how do you decide if now is the time to partner? The following are four steps to determine if now is the time:



- *<u>Assess your situation</u>:* The first step is to assess your situation. Objectively evaluate the organization's:
  - **Market position:** Is your organization a "top three" in the market? The strength of an organizations market position will determine its ability to attract physicians, borrow, attract donations, be part of networks and contract at favorable rates.
  - **Physician alignment:** What is the compliment of your physician base? Do you have older physicians that are close to retirement and will want to "hold on" to the status quo vs. preparing for market change? Do you have competitive physician alignment model that will help your organization attract high-quality young physicians or those wanting to be employed? Do you have physician alignment for managed care contracting? Physician partners are critical to your success under reform and the strength of your relationships with them will determine the organizations' success or failure.

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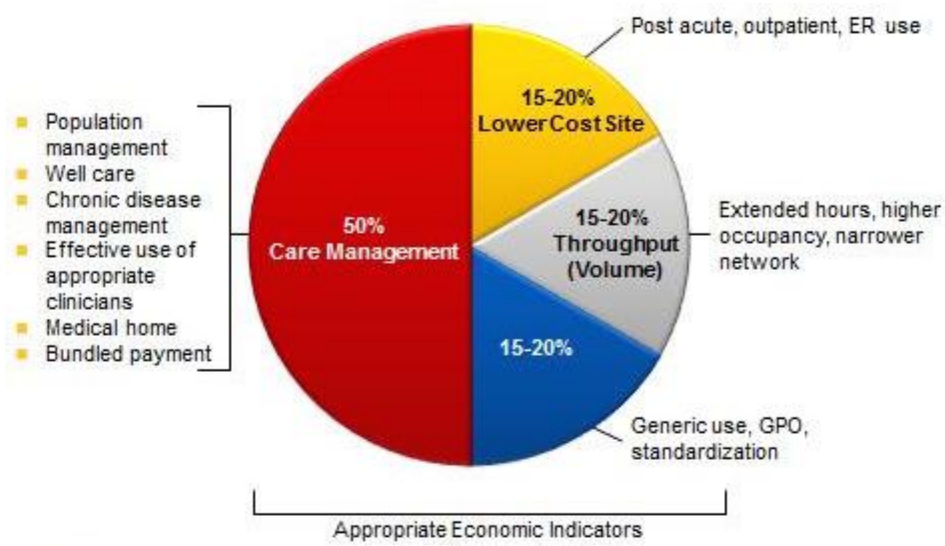
- **Utilization trends**: How have your volumes been trending? Are you growing (the economy has caused a 10-15 percent reduction in use)? With costs increasing faster that revenue, growth is a key factor in protecting profitability.
- **Cost position:** Can your organization survive on Medicare rates? Where do you stand vis-à-vis your competitors? As pressure on reimbursement rates continue to escalate, organizations will be forced to evaluate the most cost-effective ways to deliver care and other support services (e.g., outsourcing). What do your operating metrics tell you about your trends?



- **Performance on quality, safety, and HCAHPS metrics**: It is becoming increasingly important for organizations to meet quality, safety and patient experience metrics in order to receive payments. The draft Medicare ACO regulations specify 65 quality metrics. Many private payers (BlueCross, IHA) also use metrics that require quality and service performance in order to receive payment.
- **Financial performance:** including operating margin trends, strength of balance sheet and debt capacity will determine your ability to access funds, amount to be financed, and your cost of capital.
- **Healthcare reform:** The organization may have what it needs to survive today, but how well positioned is the organization for healthcare reform?

- **Information Technology:** Do you have EMR, PACS, results reporting and CPOE? Do your employed physicians or aligned community physicians have an EMR? Where are you with enterprise data warehouse (“EDW”) and health information exchange (“HIE”)?

- *Identify your needs*: Based upon your situation assessment, you can now determine your needs in those specific areas we have listed. After you inventory your needs, you need to identify the possible solutions, associated costs, and timing to implement.

Identification of Needs			
Need	Possible Solutions	Cost	Timing
1.			
2.			
3.			
4.			
5.			

Ultimately, you need to assess the organizations’ ability to provide the needed resources to meet your mission.

So as your organization firms-up its needs, it becomes time to seriously address your available resources.

- *Identify required resources*: Once the organizations’ needs have been identified, the next step is to identify the resources required to meet these needs. What resources do you have internally as well as on your balance sheet? What is your cost of capital and how much can you access? Do you have other resources such as a strong donor base that support the organization? Also, consider your internal resources. Do you have models that allow for physician alignment? Joint venturing with physicians or third parties? Do you have strong expertise that assists you with obtaining strong contract rates? Do you have a breadth of strong services and access points that position you well in your market? Are you providing overhead and administrative services that have a high level of expertise, cost-effectively?

Balancing your needs, resources (using your projected financial performance, situation assessment, and debt capacity) and timing will point you in the direction of a serious assessment of your organization’s ability to meet its mission.

- *Assess available resources*: Now it is time to compare your needs to your available resources in order to determine the gaps. Evaluate each gap to determine the probability of acquiring the skill or resource on your own or if a partner is needed. Deciding to partner or go it alone can be emotional as senior leaders, medical staff, and Board members are invested in their organization. Many organizations find it useful to seek outside advisors to assist with this process as it brings objectivity and expertise to the assessment.

Part 1 was published in The Camden Quarterly, 2011. Stay tuned for part 2 where we will discuss selecting a partner.