

In the Midwest, Health Systems Go Big or Go Home: The New Reality of System Dominance

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Mergers and acquisitions play a critical role as hospitals focus on providing coordinated, cost-effective care. Hospital consolidation is occurring in markets across the nation, particularly those in the Midwest.

Several hospital deals were born in the Chicagoland area in recent years. One proposed merger in this market involves Evanston, Ill.-based NorthShore University HealthSystem and Downers Grove, Ill.-based Advocate Health Care. The systems are looking to join forces to create the largest system in the state with 16 hospitals. Chicago-based Northwestern Memorial HealthCare and Crystal Lake, Ill.-based Centegra Health System have also signed a letter of intent to explore an affiliation. The Northwestern-Centegra deal would create a 10-hospital system.

Central Michigan is another area ripe for consolidation. Detroit-based Henry Ford Health System recently expanded its Michigan footprint with the addition of Allegiance Health — a single-hospital system in Jackson, Mich. With six hospitals and more than 23,000 employees, Henry Ford is a dominant force in the Detroit area.

Becker's Hospital Review recently caught up with Gregory F. Hagood, senior managing director and president of SOLIC Capital, to get his insight on hospital consolidation in the Midwest and how some of the proposed transactions will affect local markets.

Question: What is driving healthcare consolidation in the Midwest?

Gregory Hagood: The same trends that are driving consolidation nationally are pushing partnerships in the Midwest. Both Medicare and commercial payer cuts (many commercial plans now reimburse just higher than Medicare) are requiring levels of operating efficiency that are very difficult for a standalone hospital or health system to achieve. For pull factors: the cost of IT and accounting go down significantly if you can amortize across multiple hospitals. Similarly, purchasing discounts increase substantially, and the ability to offer specialty and tertiary services expands because you can use system volume to offset the cost of recruiting specialists and achieve designated centers of excellence which in turn attract greater volume.

Q: Northwestern Memorial HealthCare and Centegra Health System recently signed a letter of intent to explore an affiliation. If that transaction and the Advocate-NorthShore merger go through, what are the repercussions for the Chicago healthcare market?

GH: Consolidation by market leaders in Chicago will continue to put significant pressure on smaller and independent hospitals around Chicago. There are several successful independent systems in that market, but these mega-systems can cut deals with employers and lower the cost of care in ways that make it difficult for smaller independents to compete. If these deals go through, they will spur even greater consolidation. In most major metro markets, including New York, we are starting to see the emergence of two to four dominant systems with six to 12 hospitals.

Q: With Henry Ford's recent acquisition of Allegiance, do you predict further consolidation will take place in Central Michigan?

GH: Yes. There remain a number of independent systems that are a similar size to Allegiance in Central Michigan that will increasingly feel pressure as larger systems begin to leverage their expanded presence from recent consolidation initiatives. While none of these independents are financially troubled per se, they are likely to be at risk of market share loss as bigger systems invest in branded services, proprietary health plans and narrow networks with large payers.

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