Consolidation logical in light of health reform
Leslie Williams Johnson, Contributing Writer
July 15, 2011

When it comes to gaining strength in a weak economy and gearing up for health-care reform, which will see more bundling of services and collaboration, industry experts say Atlanta’s recent hospital deals make sense.

“Most providers and health systems recognize health reform will contribute to already existing market forces which favor a larger health system,” said Armand Balsano, managing director of Navigant Consulting Inc. in Atlanta.

Henry Medical Center and Piedmont Healthcare announced in April discussions about a partnership that would give Piedmont control over the hospital. Emory has operating control of Saint Joseph’s Hospital of Atlanta under an agreement with Saint Joseph’s Health System, announced in March. Southern Regional Health System of Riverdale is also looking at options, including a possible joint venture, it was reported in June.

Nationally, in 2010, there were 227 mergers and acquisitions, up from 130 in 2008 and 140 in 2009, according to Modern Health Care’s Annual Mergers and Acquisitions Report, Balsano said.

“The key theme with the recent hospital deals announced in this market is that they are centered more around scale growth, and thus they do not appear to offer much value for the buyers in terms of adding new services, increasing diversification, or providing significant economies of scope that position them better for clinical integration and ACOs or accountable care organizations,” said Mark Reiboldt, vice president of Coker Capital Advisors LLC.

According to the federal government site www.healthcare.gov, accountable care organizations create incentives for health-care providers to work together in the treatment of an individual patient, spanning a number of environments: doctor’s offices, hospitals and long-term care facilities.

The reasons behind hospital consolidation deals of today are different from those of agreements forged years ago.
“In the past, consolidation was really driven by a desire for better managed care positioning and concerns of future uncertainty. The concern for the future still exists, but managed care penetration is now not the dominant factor,” Balsano said. “In the past, hospital mergers were more to gain negotiating clout in order to better compete.

“There’s strength in numbers and whether it’s dealing with managed care or redefining the way care is delivered in the market, you can do it more effectively if you have a concentrated provider base,” he said.

Not all partnerships have withstood the test of time. This past April, HCA’s TriStar Health System became the sole owner of Eastside Medical Center, following a previous joint partnership between HCA and Emory Healthcare, which was dissolved.

The recent deals could mean some struggles for other players in the hospital market — single hospitals, either on the small side or even the larger community hospitals.

“In the old days, when there were maternity births where mom was in the hospital for six days, when [a person with] appendicitis was in the hospital for a week, you needed a big county hospital,” said Dave Smith, president of Kearny Street Consulting Inc. in Alpharetta. “Today, moms are doing one- and two-day stays, and appendicitis is now outpatient.”

“From a competitive standpoint,” Balsano said, “what we’re seeing is fewer larger systems and if you’re a stand-alone or a small hospital system you’ll find it increasingly difficult to meet the organization’s goals or have access to capital due to competitive pressures.”

Health-care systems generally continue to face very tough times. For example, Grady Memorial Hospital is looking to slash about 120 jobs, which will result in savings of about $7 million annually; Piedmont Healthcare plans to cut 464 jobs.

Despite the challenges, there appears to be plenty of room in the metro area for more hospital partnerships and affiliations, and some observers expect more of them to happen.

“In some markets, like Atlanta, the population base is large enough to support several competing integrated systems,” said Bill Custer, associate professor in the Institute of Health Administration and director in the Center for Health Services Research at Georgia State University’s J. Mack Robinson College of Business.