



Quantifying the Rural Value Proposition to Existing and Prospective Partners

Jeffrey Sommer, Eric Shell, Clare Kelley

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Introduction

Meet the Speakers



Jeffrey Sommer, MPP

Managing Director

jsommer@stroudwater.com

207.221.8255



Eric Shell, CPA, MBA

Chairman

eshell@stroudwater.com

207.221.8252



Clare Kelley, MPH

Consultant

ckelley@stroudwater.com

207.221.8267

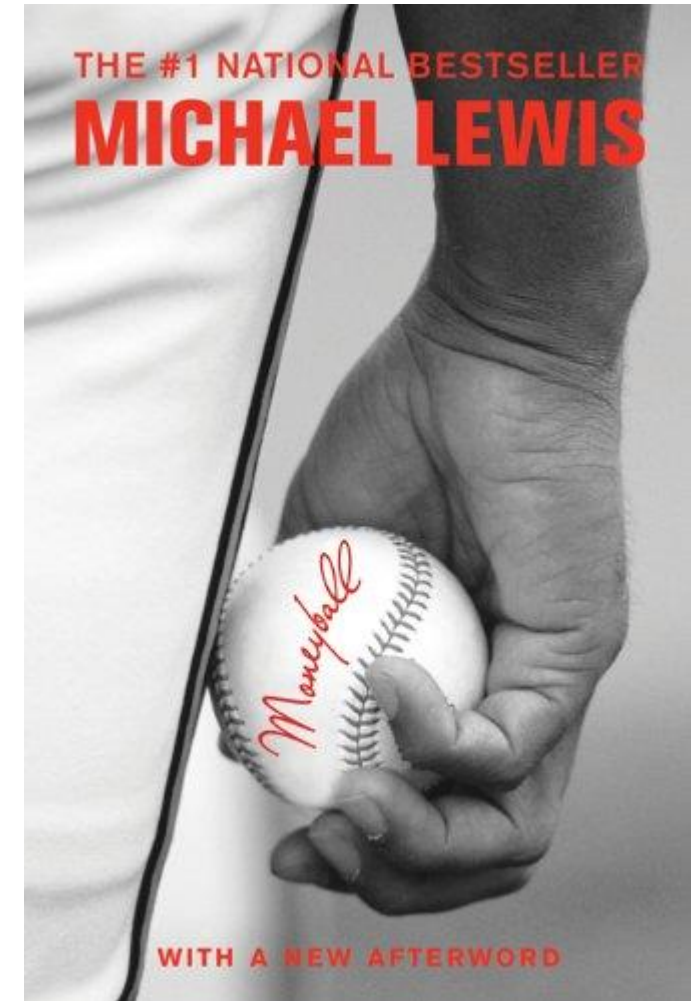
Stroudwater is a leading national health care consulting firm specializing in mission-critical strategic, operational and financial opportunities for health care leaders' most pressing challenges

Webinar Objectives

- 1** Ensure that rural hospitals and health systems understand the unique attributes and value that they bring to existing and prospective system partners
- 2** Outline the fundamental value drivers for rural provider organizations that existing and prospective partners should understand to create win-win, sustainable partnerships and affiliations
- 3** Provide a framework to help rural hospitals and health systems engage with existing and prospective system partners so appropriate resources and investments in rural communities are realized
- 4** Define the processes and structures that will best optimize the rural value proposition

Moneyball: What Can it Tell Us?

- › The central premise of Moneyball (2003, Michael Lewis) is that the collective wisdom of baseball insiders (including players, managers, coaches, scouts, and the front office) over the past century is outdated, subjective, and often flawed.
- › The best-known Moneyball theory was that on-base percentage was an undervalued asset and sluggers were overvalued.
- › At the time, protagonist Billy Beane was correct. Jahn Hakes and Skip Sauer showed this in a very good economics paper.
- › From 1999 to 2003, on-base percentage was a significant predictor of wins, but not a significant predictor of player pay.
- › **Players who draw a lot of walks were cheap relative to their actual value.**
- › **Does rural healthcare present a “Moneyball” opportunity for savvy healthcare leaders?**



Moneyball: Is This Happening in Rural Healthcare?

- **Our experience says yes.**
- Many system parents that have significant rural operations do not optimize these operations:
 - ❑ Experience: missed annual payments approaching eight figures annually via flawed designations and alignment
 - ❑ Experience: cost-accountants undervalue incremental referrals from rural affiliates
- Rural health systems have too few or unattractive partnering options:
 - ❑ Experience: initial skepticism replaced by awareness of the value proposition and much more robust affiliation terms
 - ❑ Experience: initial, flawed LOI replaced by LOI that reflects value proposition and includes major investment commitment, service commitments and reserve powers
- **Many decision-makers bring assumptions regarding existing and prospective rural affiliates based on flawed or incomplete data, resulting in missed opportunities, flawed decisions and suboptimal affiliation structures.**

Why Does This Matter?

Larger health systems not understanding the value of rural affiliates results in the following:

- Under-investment or disinvestment in rural operations – resulting in a sub-optimal allocation of resources and diminished access to needed services
- Risk of “leakage” of referrals and attributed lives for the parent system
- Failure to capitalize on opportunities, resulting in insufficient returns from rural operations which depresses future investment
- Partnership terms not representing the value of the prospective affiliate
- Rural health systems’ partnership options not reflecting their actual value

Value Levers for Rural Health Systems



- The following value levers are often misunderstood or undervalued by existing and potential partners:
 - Cost-based payment
 - Cost-report optimization opportunities
 - Home office cost allocation
 - Access to 340B
 - Swing beds
 - Rural health clinics
 - Decanting volume and utilizing CAHs as specialized components of continuum of care
 - The value of attributed lives and a primary care base that is cash flow positive
 - The “true” value of incremental referrals

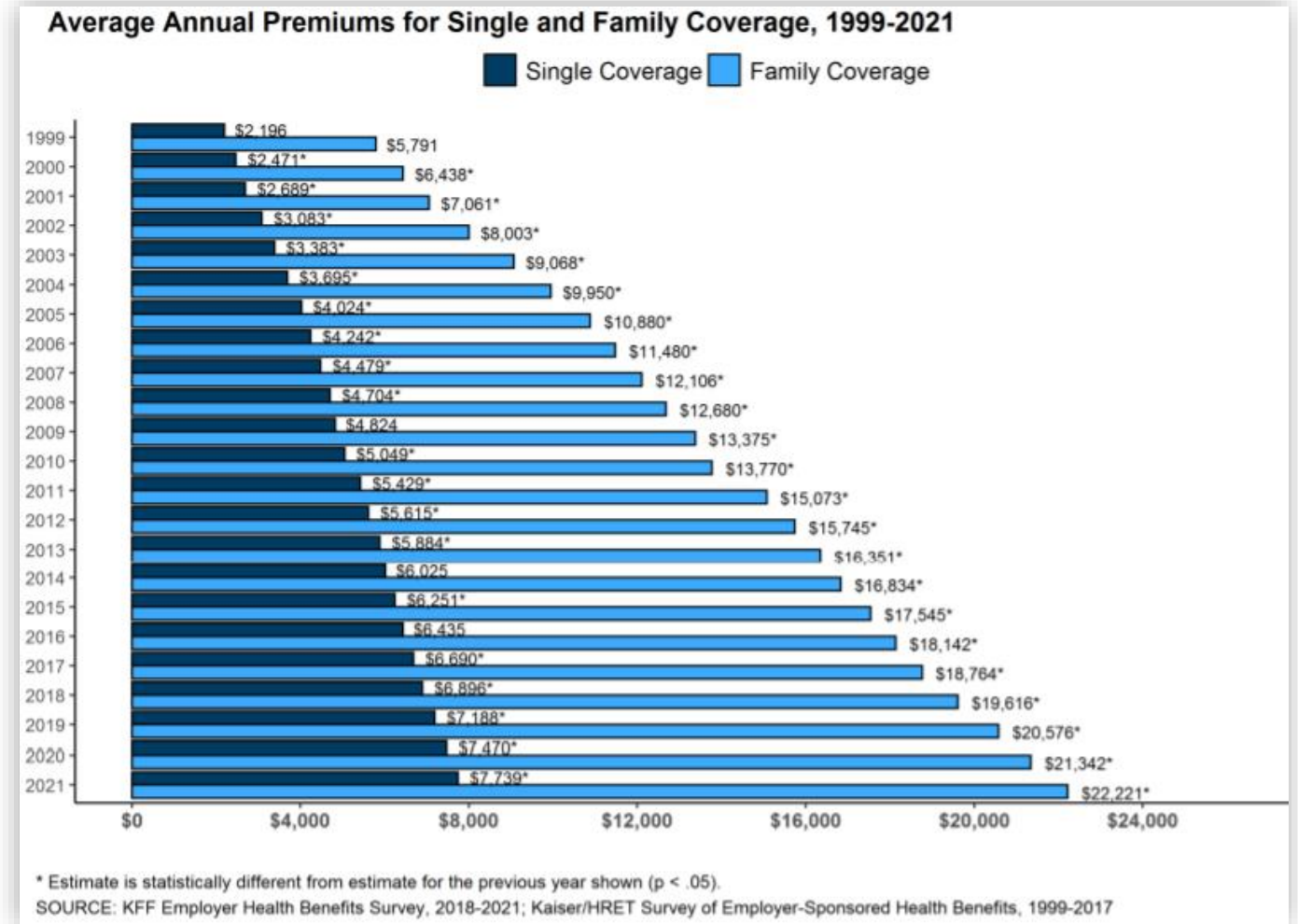


Industry Context

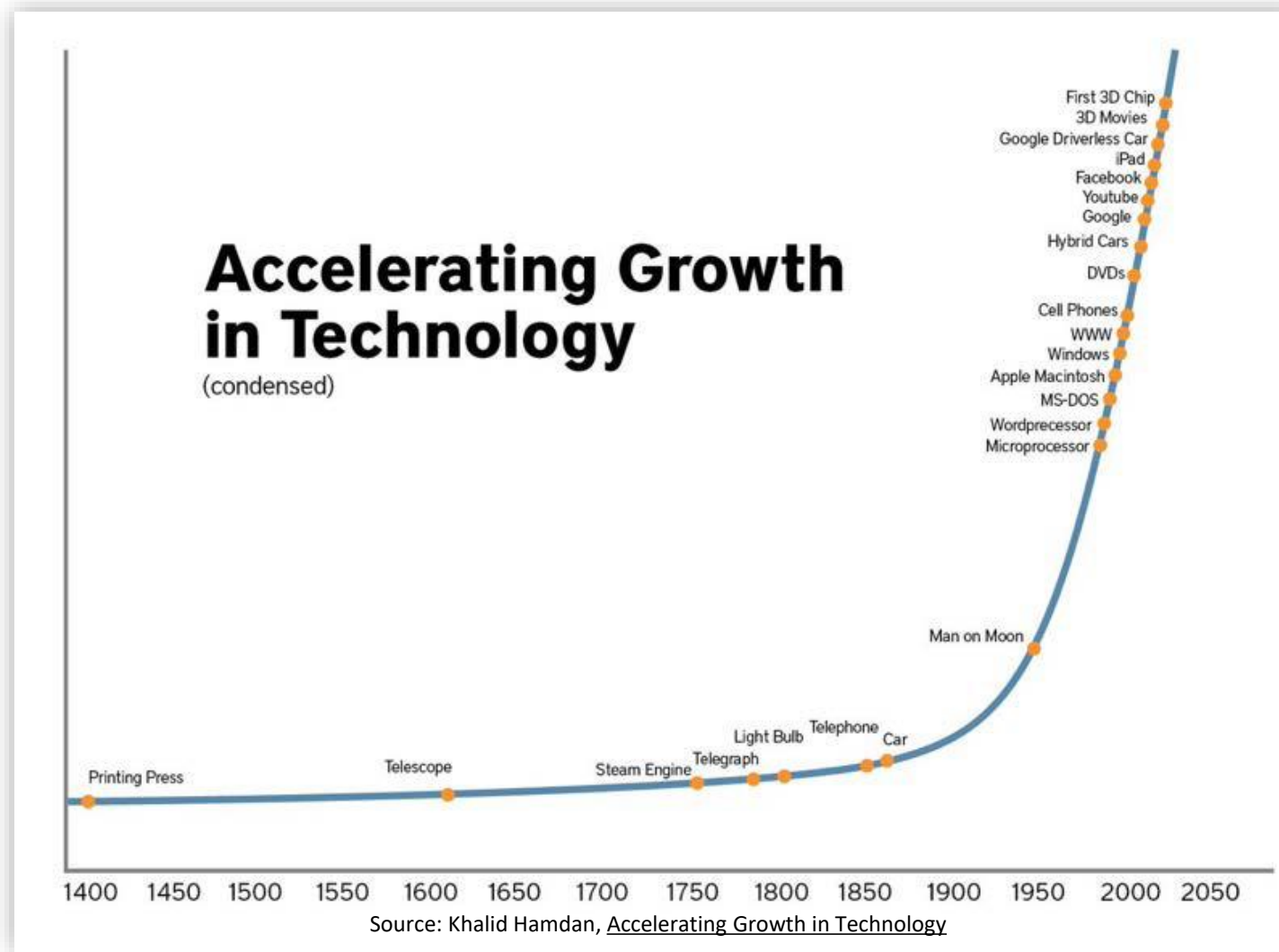
Market Has Not Stopped Moving During The Pandemic

- › Cost of healthcare continuing to rise
 - › Kaiser Family Foundation reports 2021 family health insurance premiums have risen to \$22.2K
- › Advances in technology and new market comfort for telehealth have led to an acceleration of new market competition
 - › Amazon
 - › Walmart
 - › Walgreens
 - › CVS
 - › Private Equity
 - › Google
 - › Etc.
- › Hospital IP and OP volume declines
- › Federal government maintains commitment to transitioning payment system
 - › “WE NEED TO FIND A WAY TO BRING EVERYONE ALONG. WE CAN’T HAVE FEE-FOR-SERVICE REMAIN A COMFORTABLE PLACE TO STAY.” Dr. Liz Fowler, Director CMMI
- › Payment system is transitioning from FFS to accountable care

Call to Action: Insurance Premiums

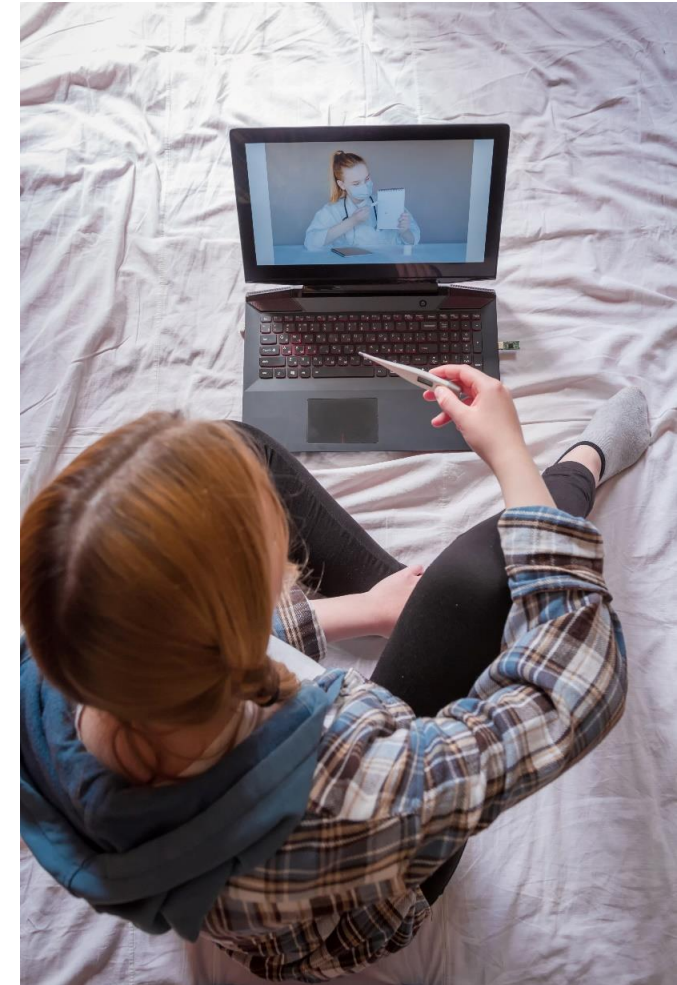


Call to Action: Advances in Technology



Amazon Expands Amazon Care

- On March 17, 2021, Amazon announced the expansion of Amazon Care, its first primary care offering accessible by non-Amazon employees.
 - In February 2022, Amazon announced that its telehealth services are now available nationwide.
- Amazon Care was originally limited to Amazon employees in Washington State. It is now available to employees in every state and to employees of new customers including Whole Foods, Silicon Labs and TrueBlue.
- In-person locations are now in Seattle, Baltimore, Boston, Dallas, Los Angeles, Washington, D.C., Austin, Texas, and Arlington, Virginia, with further expansion planned for this year targeting 20 cities
- Amazon care has two components
 - Telemedicine
 - In-person care, where a professional is dispatched to a patient's home
- Amazon Care provides both urgent and non-urgent services including such as COVID-19 testing, vaccinations, prescription refills and preventive care






Amazon Introduces Amazon Pharmacy

- Amazon introduces pharmacy services
 - Consumers can shop for best price with known prices
 - Pharmacists that work with prescriber and insurance
 - Deliver medications



Shop common medications

Prescription Required	Prescription Required	Prescription Required
		
Insulin Lispro (Pen Injector) \$50⁰⁹ \$174.24 72% OFF includes Prime savings or view copay price in cart amazon pharmacy Free Delivery FSA or HSA eligible	Atorvastatin (Generic for Lipitor, Oral Tablet) \$13¹⁰ \$120.60 90% OFF includes Prime savings or view copay price in cart amazon pharmacy Free Delivery FSA or HSA eligible	Pantoprazole (Generic for Protonix, Delayed Release Oral Tablet) \$14⁶⁰ \$169.50 92% OFF includes Prime savings or view copay price in cart amazon pharmacy Free Delivery FSA or HSA eligible

There's more to Amazon Pharmacy

BENEFITS

- Accepts most insurance plans
- Reviewed by pharmacists
- Available to you 24/7
- Show prices upfront
- Delivers to your door
- Meds are as low as \$1/month
- Offers 6-month supply

The average pharmacy



Amazon Pharmacy



Through Numerous Acquisitions and Initiatives, Walmart Plans to Become Major Force in Healthcare (10/19/21)

- Joining other major retailers such as CVS, Amazon, and BestBuy, **retail giant Walmart seeks to become a major healthcare provider and transform the way Americans engage with their health**
- Walmart plans to use technology to streamline the consumer healthcare experience and capitalize on its reputation for low-cost products to build trust and confidence in its healthcare offerings
- Over the last few months, Walmart has added **virtual care, discount drug programs, a unified EHR system, and a discount drug program to its healthcare services for both consumers and employees**
- Among other healthcare ventures, Walmart currently operates and/or provides:
 - Walmart Health Centers within its stores
 - Freestanding health centers in Georgia, Texas, Arkansas and Chicago
 - Direct-to-consumer telehealth through purchased app Ro
 - Telehealth partnership with Doctor on Demand to offer services to its 1.3 million workers at a reduced price
- In October, it began a partnership with healthcare technology platform Transcarent to streamline its self-funded healthcare offerings for employers, the first time Walmart has made such an agreement to offer its prices on pharmaceuticals and other healthcare services to other employers
- **Cheryl Pegus, M.D., executive vice president of Health & Wellness at Walmart: “We are committed to providing care to customers and the communities we serve through an integrated, omnichannel approach that improves engagement, health equity and outcomes”**

Sources: Becker's Hospital Review, *Walmart to bring telehealth nationwide with acquisition of MeMD: 8 details*, Jackie Drees and Hannah Mitchell, 5/6/21

<https://www.beckershospitalreview.com/telehealth/walmart-health-to-acquire-telehealth-provider-6-details.html?origin=CIOE>; FierceHealthcare,

Walmart unveils employer market team-up with Transcarent, Paige Minemyer, 10/15/21 https://www.fiercehealthcare.com/payer/walmart-unveils-employer-market-team-up-transcarent?utm_source=email; Fierce Healthcare Tech; *Tech HLTH21: Where Walmart is focusing its health efforts in the next 5 to 10 years*, Dave Muoio, 10/19/21

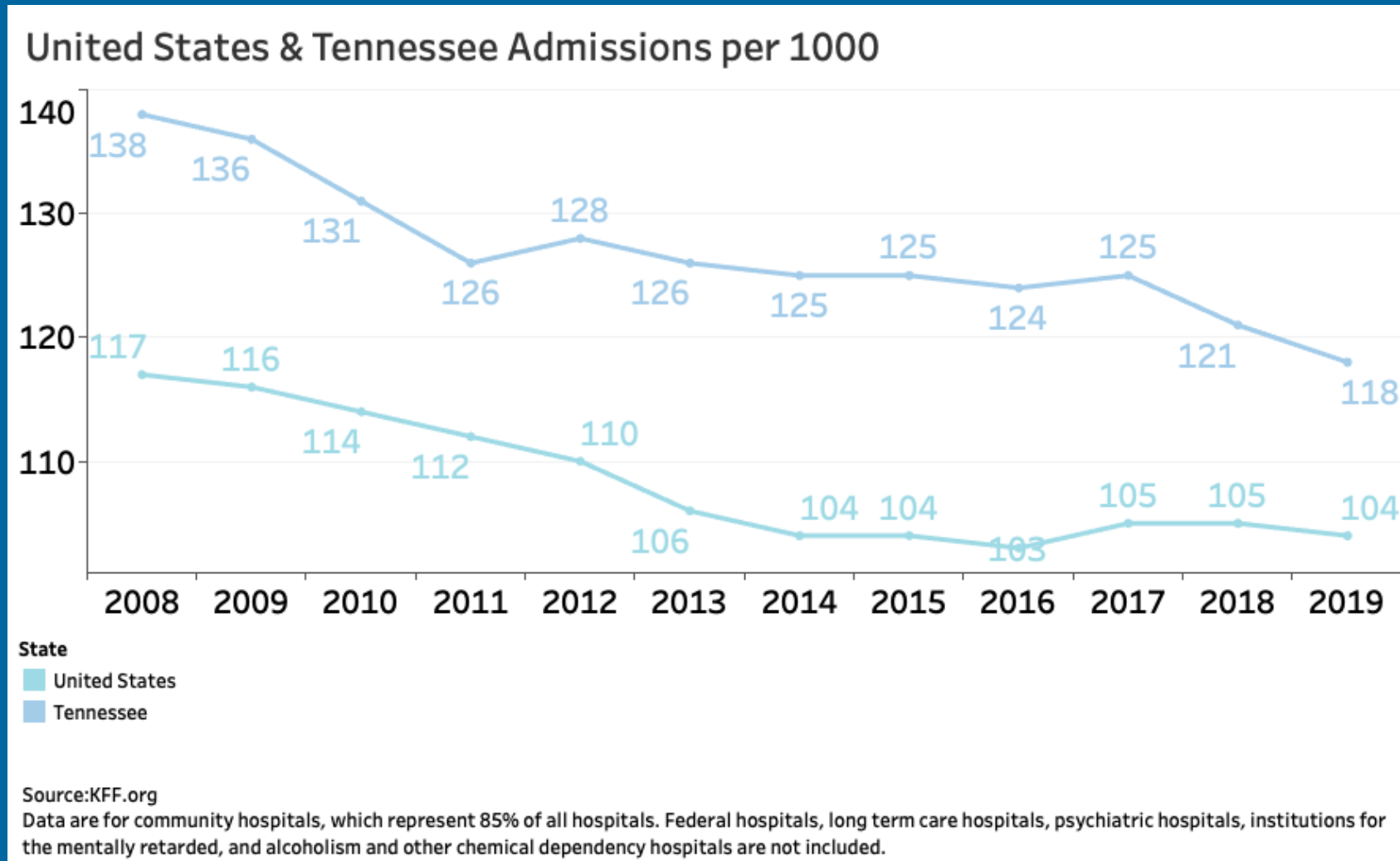
Call to Action: Anthem Expands Virtual Primary Care Services

- On 2/8/22, Anthem announced the expansion of its telehealth primary care services to 11 new states, with plans to offer virtual services to all of its service area and cover 10 million self-insured lives by the end of 2022
- Anthem launched its “virtual-first” program during open enrollment this year. *The plan requires members to see a provider via telehealth before visiting one in person and is available in six states.* Expansion of this type of plan depends on regulatory approval.
- While other insurers expanding into primary care tend to buy up physician practices, Anthem differentiates itself by using technology to connect independent physicians and promote value-based care through facilitating use of new payment models
- The company also invests heavily in value-based care companies including Vera Health, Privia Health, Caremax and K Health
- In 2021, approximately 60% of Anthem's 45.4 million members' medical spend came from value-based relationships

"Our strategy is being a digital platform for health... That being the case, it's what can we connect and interoperate is the primary driver for us, versus needing to own our care delivery."

Rajeev Ronanki, chief digital officer

Call to Action – Declining IP Volume



Call to Action – Declining OP Volume



In 2018, US hospital outpatient visits declined for the first time since 1983, specifically in the number of emergency outpatient visits



Per the American Hospital Association's [2020 Hospital Statistics report](#), 6,146 US hospitals delivered 879.6 million outpatient visits in 2018, 0.9% less than in 2017, when they delivered 880.5 million outpatient visits



The report cites that the amount of outpatient care delivered has most likely increased, but that care is being delivered in competitive new options such as urgent care centers and retail clinics such as those recently launched by CVS Health



Insurers have contributed to the trend, with UnitedHealthcare recently refusing to pay for certain outpatient surgeries in hospital settings to save money

New CMMI Director Dr. Liz Fowler on “Strategic Refresh”

“WE NEED TO FIND A WAY TO BRING EVERYONE ALONG. WE CAN’T HAVE FEE-FOR-SERVICE REMAIN A COMFORTABLE PLACE TO STAY.”

“We need to have a clear path for the innovators who are ready and willing and able to take on...risk, but I think we also need to push the laggards and then we need to reach those who have challenges participating....It may not be one-size-fits-all.”

On CMMI innovation models: “A lot of what we’ve done has been aimed toward certification of models to become a permanent part of Medicare....In trying to get a model certified, it really does suggest a very specific model and a very specific way of thinking about evaluations and the assessment by actuaries. I wonder if we can instead think about the overall goal being transformation of the system instead of certification, or both.”



Source: HFMA.org, *Why the federal agency that oversees healthcare payment innovation is rethinking its approach*, Nick Hut, 4/26/21 https://www.hfma.org/topics/news/2021/04/why-the-federal-agency-...utm_source=rasa_io&PostID=29248522&MessageRunDetailID=5032322143

Payment System Drives Functional Imperatives

Finance

Macro-economic Payment System

- Government Payers
 - Changing from F-F-S to PBPS
- Private Payers
 - Follow Government payers
 - Steerage to lower cost providers

Function

Provider Imperatives

- F-F-S
 - Management of price, utilization, and costs
- PBPS
 - Management of care for defined population
 - Providers assume insurance risk

Form

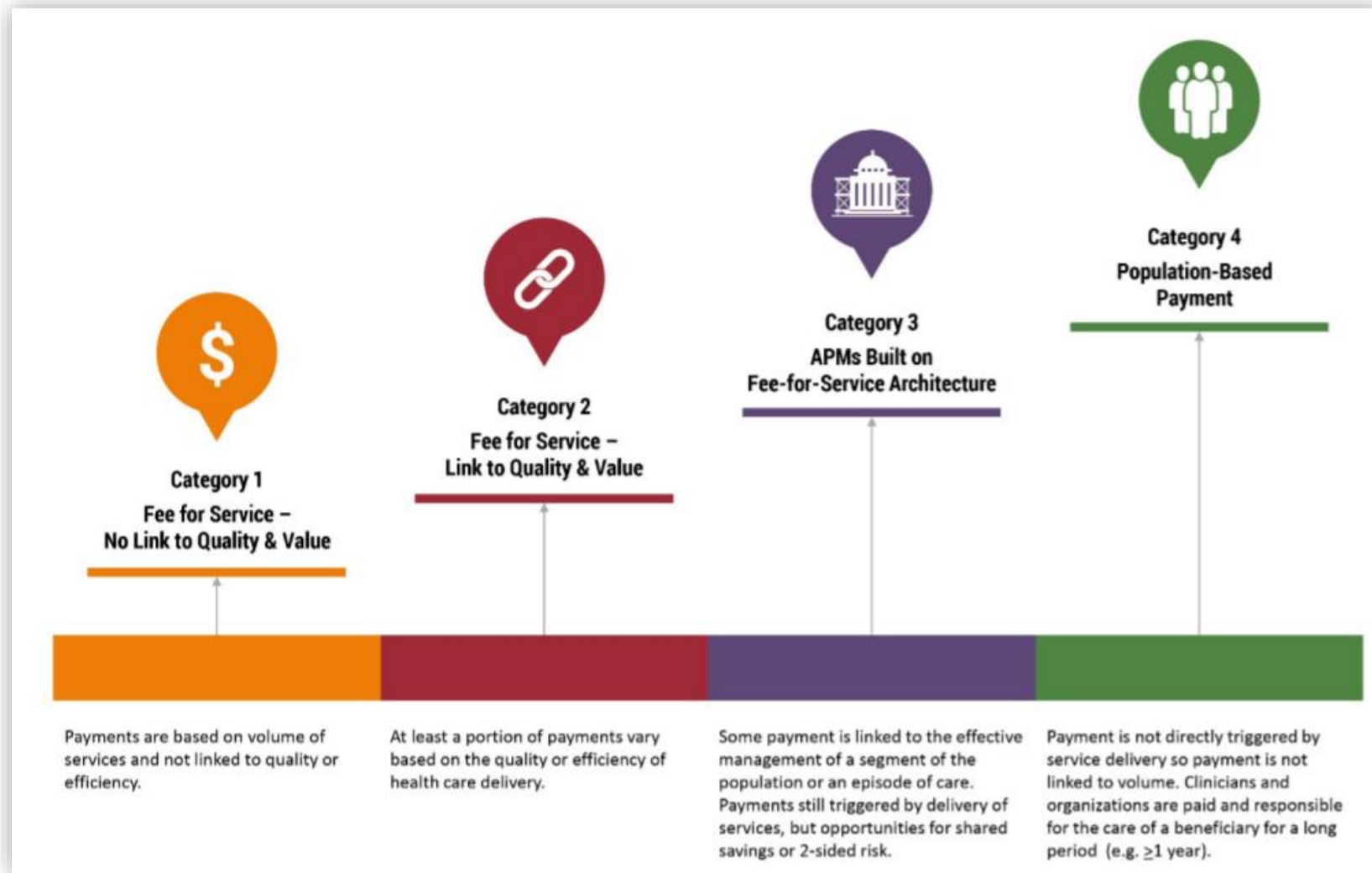
Provider organization

- Evolution from
 - Independent organizations competing with each other for market share based on volume to
 - Aligned organizations competing with other aligned organizations for covered lives based on quality and value

Network and care management organization

- New competencies required
 - Network development
 - Care management
 - Risk contracting
 - Risk management

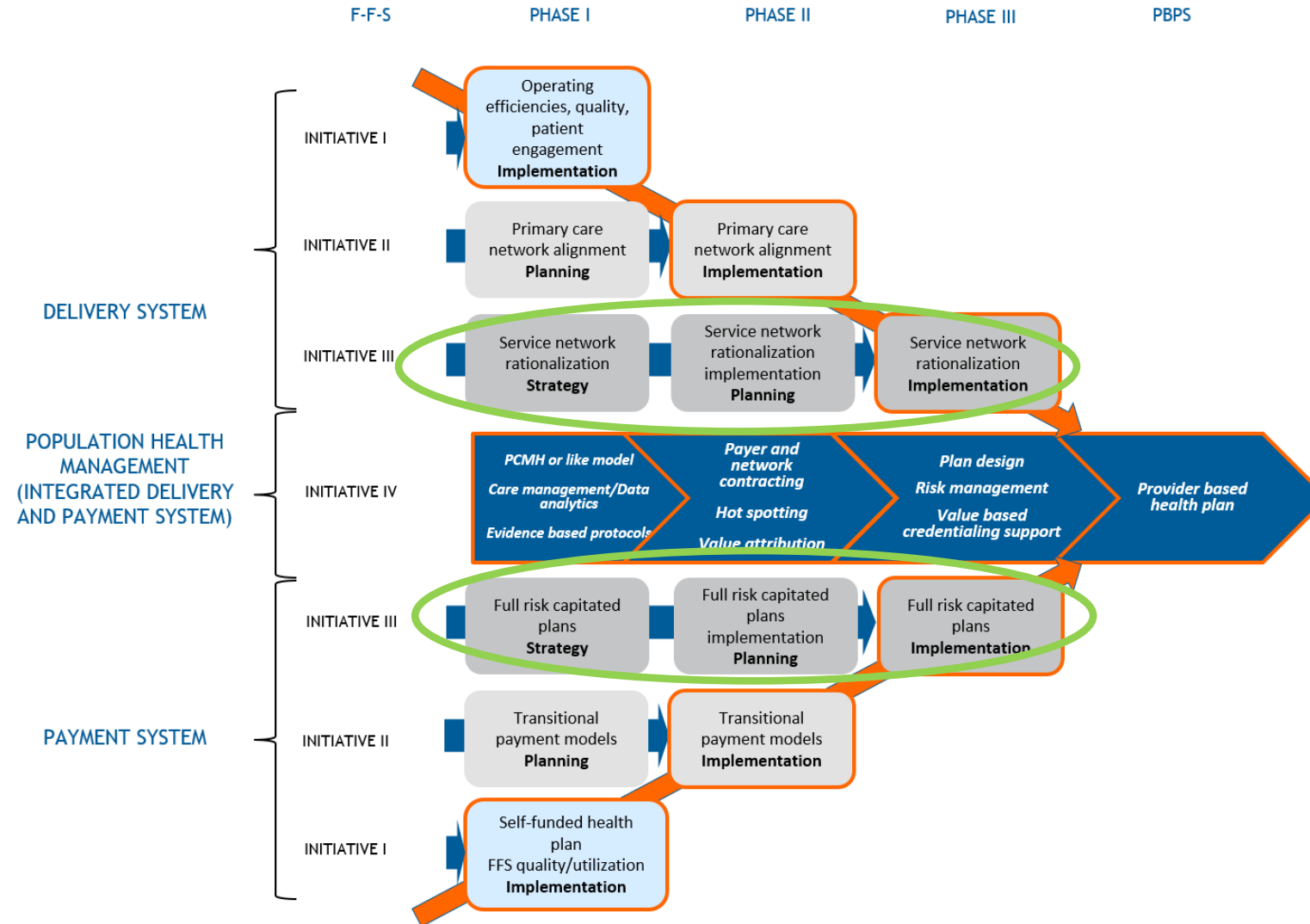
Payment Transition: CMMI's Original Payment Model



The Challenge: Crossing the Transition



Health System Strategy – 2021–2030





How To Best Ensure Existing or Potential Partnerships Reflect Your Value

Evaluate How Well Existing or Prospective Partners Understand the Unique Opportunities and Challenges of Rural Healthcare Delivery

- Do your existing or prospective partners understand the value available via **home office cost allocation** for CAH affiliates?
- Do they appreciate the opportunity that CAHs have related to the **340B program**?
- Do they have any experience with **rural health clinics** and do they understand how to leverage this designation?
- Have existing or prospective partners optimized the designations and organization of their **existing rural affiliates**?



How Well Do Your Partners Understand Rural Healthcare?

- How well do your they understand the operational and financial intricacies of **cost-based payment**?
- Do they have expertise in operating **swing bed programs**?
- To what degree have your existing or prospective partners demonstrated a **track record at their rural affiliates** of investing and expanding access to services?
- What value do prospective partners place on your **aligned primary care base, referrals and attributed lives**?

Partnering Is Not A Risk-Free Endeavor

Prospective Partners

- Vet and select a strategically aligned partner
- Select an affiliation structure that fits your strategic objectives and constraints
- Craft contractually enforceable terms
- Do their strengths and commitments mitigate your risk profile?
- Assess their track record
 - Do they understand rural?
 - Does their track record back up their promises?

Existing Partners

- Ensure that your partner understands your value proposition
- Ensure your affiliation structure enhances the value provided by the partnership for both parties
- Identify and quantify any missed opportunities
- Quantify the ROI of investments to reflect the unique rural value proposition
 - One size does not fit all
 - E.g., variable vs fixed cost allocation

Examples from the Field

Case Study: Large Southern Multi-State System



The internal finance and accounting staff of a large multi-state system placed a very low contribution margin on incremental referrals

The approach greatly diminished the value of incremental referrals sourced by the system's rural affiliates

After significant discussion, Stroudwater was able to convince system leadership that a more appropriate contribution margin assumption made sense



This revised approach placed a higher value on incremental referral volume and changed how the system view the value of its rural affiliates

The result is a revised understanding of the ROI of incremental referrals and the ROI from new investments in the rural affiliates

Case Study: CAH & Large Multi-State Health System



Our client entered discussions with a large multi-state health system regarding a potential affiliation.

While both parties saw strategic value for the engagement, the large health system misunderstood the value of the home office cost allocation, placing only \$100K incremental value on this allocation vs an estimated \$3M+ annual value calculated by Stroudwater.

A greater than 50% share of cost-based payment also is critical to include in the prospective partner's evaluation of investment needs and opportunities at the CAH.

The benefit of a modest change in referrals (+2.5% market share gain) would also generate significant additional ROI.

Result: the prospective partner revised their offer from minimal capital commitment and virtually no local role in governance to an offer that included major investment commitments, major service commitments and a significant continuing affiliate role in governance.

Case Study: Quantifying the Value

Stroudwater is jointly engaged by a CAH and regional referral center to explore the potential opportunities that an affiliation could create for both organizations.

The scope of work focused on the following potential value drivers:

- Orthopedics/Spine service line operational and clinical opportunities, including decanting volume
- Cardiac service line operational and clinical opportunities, including decanting volume
- Swing bed program opportunities
- 340B program opportunities
- Rural health center opportunities
- Home office cost allocation opportunity

Both organizations were concerned that the affiliation be a good “fit” strategically and not become a distraction relative to the potential value to be realized.

Quantifying the Value, cont.

- The following table quantifies the financial opportunities based on the ability for each initiative to be operationalized at various levels of system integration ranging from each organization maintaining complete independence up through a formal affiliation.
- The deeper the level of integration, the greater the benefits produced through the formal establishment of a system relationship.

Summary Financial Opportunities	Independent	Limited Partnership	Full Affiliation	Clinical and Operational Benefits
Spine & Ortho Service Reassignments		\$960K	\$960K	<ul style="list-style-type: none"> Capacity constraint in ORs at Regional Referral Center is distributed to Critical Access Hospital ("CAH") in need of volume in ORs Decanting volume to CAH will increase clinical capabilities
Cardiology Service Reassignments		\$160K	\$160K	
Swing Bed Program Growth	\$140K	\$180K	\$180K	
RHC/340B Drug Pricing Program Net Revenue			\$270K	<ul style="list-style-type: none"> Creates improved financial environment for expanding qualified clinics
Net Impact of Home Office Allocation			\$2.0M+	<ul style="list-style-type: none"> Improved cost-based reimbursement on system overhead costs
Total Annual Impact of Opportunities	\$140K	\$1.3M	\$3.6M+	

A large, light blue silhouette of a lighthouse is positioned on the left side of the slide, extending from the top to the bottom. It features a multi-tiered lantern room with a grid pattern and a spiral staircase on the exterior.

Capturing the Value Proposition

Process Recommendations for New Partnerships

For prospective partners, it is beneficial to have them compete for the privilege of being your partner.

Use the process to gather information about your options

Also, use the process to educate prospective partners as to your value

Assess whether a partner is willing to adjust terms and commitments to reflect the quantification of your value

Leverage the analyses of your value, the competitive process and the asymmetry of information to negotiate improved terms

Evaluate prospective partners' track records with their rural affiliates

Do not sign an exclusive Letter of Intent until you have an acceptable term sheet in hand

Partnership Process for Existing Partnerships



- Unleashing previously untapped value should be beneficial to both the rural affiliate and the parent.
- Quantify opportunities with a pragmatic and realistic mindset – do not over promise and under deliver.
- Get some early wins on the board to build confidence and buy-in.
- Prioritize opportunities based on:
 - Low cost to implement
 - Quick ROI/time for payback
 - Ability to execute
 - Value to partner, affiliate and system
 - Strategic fit of the opportunity
- Focus on educating colleagues about recurring benefits and including benefits in future capital allocation decisions.



Key Takeaways

Key Takeaways

- The significant intrinsic value of rural health systems is too often missed or undervalued by existing and prospective partners.
- Know your value! Do your homework and engage with prospective and existing partners.
- Your value will be obscured and overwhelmed by poor fee-for-service based operating results.
 - Very few prospective partners will be interested in a prospective affiliate with a negative trajectory and no workable plan or turnaround progress.
 - If you have poor operating results, you need to have a plan to improve operations and be working that plan before your talk to prospective partners.
- You need to be able to explain and quantify your value to partners – either existing or prospective.
 - Ensure that your rural health system is appropriately valued to craft a sustainable, win-win partnership.
- You need to be persistent; don't assume that partners or leadership know the intricacies of rural payment, designations or cost reports.



Questions and Thank You



Jeffrey Sommer, MPP

Managing Director

jsommer@stroudwater.com

207.221.8255



Eric Shell, CPA, MBA

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Real-world, mission-critical, actionable advisory services as you and your community navigate the dynamic risks of today's healthcare environment.

Stroudwater Associates is a leading national healthcare consulting firm serving healthcare clients exclusively.

We focus on strategic, operational, and financial areas where our perspective offers the highest value.

We're proud of our 37-year track record with rural hospitals, community hospitals, healthcare systems, and large physician groups.

Strategic Advisory

- Strategic Planning
- Mergers, Affiliations & Partnerships
- Population Health Strategies
- Physician-Hospital Alignment
- Strategic Facility Planning
- Capital Planning & Access
- Post-Acute Care Strategy

Operational Advisory

- Performance Improvement & Restructuring
- Provider Practice Operations Improvement
- Revenue Cycle Solutions
- Post-Acute Care Operations
- Payor Contracting Advisory
- Staffing & Productivity Improvement
- Cost Report Reviews and Analysis

Stroudwater Clients: A National Rural Perspective

6.6.2021

