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5 Days that Shook the Healthcare World

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In 1919, journalist John Reed published *Ten Days that Shook the World*, a first-hand account of the October 1917 Russian Revolution. During that dramatic 10-day period, Vladimir Lenin's Bolsheviks took control of the Russian government and established the world's first socialist government. Russia and the world would never be the same.

In early December, a series of blockbuster transaction announcements rocked the healthcare industry. Major healthcare payers, providers and retailers signaled their intention to reconfigure business models to compete effectively in the post-reform marketplace.

Their common mantra is that status-quo operations are insufficient to meet customer demands for higher-value healthcare services. It's not enough to get bigger, health companies must also become better. American healthcare may never be the same.

RUSSIA 1917: A WORLD TURNED UPSIDE DOWN

In rapid sequence, the new socialist government in Russia ceased fighting in World War I, moved the national capital from St. Petersburg to Moscow, branded themselves as Communists, won a civil war and created the Union of Soviet Socialist Republics (USSR).

Soviet central planners initially believed a "top-down" managed economy could outperform free-market capitalism. Day-to-day reality in Soviet Russia proved this socialist worldview wrong. The government could not allocate resources effectively, so its people remained poor and the nation fell further behind western, capitalist societies.

One hundred years later, American healthcare is experiencing a different kind of revolution. It's bottom-up, organic and results-driven rather than top-down and centrally-managed. This revolution in healthcare services is occurring as companies position themselves for a post-reform marketplace that rewards better outcomes, lower costs and superior customer service.

5 DAYS IN DECEMBER

When historians chronicle the transformation of the U.S. healthcare system, they will cite the events of December 3-7, 2017 as a major turning point. In this remarkable 5-day period, the following four seminal merger/acquisition announcements occurred:

- **December 3rd**: CVS Health announced its intention to acquire Aetna and its 47 million health insurance subscribers for $69 billion. The CVS **press release** stressed that the "transaction fills an unmet need in the current health care system and presents a unique opportunity to redefine access to high-quality care in lower cost, local settings whether in the community, at home, or through digital tools." Expect the expanded CVS to move aggressively into chronic disease management and risk-based contracting.

- **December 4th**: Advocate Health Care (Illinois) and Aurora Health Care (Wisconsin) **agreed to merge** their state-leading health systems to form "the 10th largest not-for-profit, integrated health care system in the United States, serving nearly three million patients each year." Advocate CEO Jim Skogsbergh captured the transaction's path-breaking aspirations when observing that "This merger is about transforming care delivery and reimagining the possibilities of health as bigger meets better and size meets value to benefit consumers."

- **December 6th**: UnitedHealth Group announced the **acquisition** of the DaVita Medical Group (DMG) for $4.9 billion. DMG serves 1.7 million patients annually through 30,000 affiliated physicians at roughly 300 medical clinics in 6 states. DMG also operates 35 urgent care clinics and 6 outpatient surgery centers. Once the transaction closes, DMG will operate as part of Optum. The DMG acquisition will enhance Optum's "asset-light" strategy of improving "care quality, cost and patient satisfaction through integrated ambulatory care delivery systems enabled by information by information technology and supportive clinical services."

- **December 7th**: Dignity Health and Catholic Health Initiatives (CHI) **announced** their intention to merge. The combined organization will be massive with 700 care sites, 139 hospitals, 159,000 employees and 25,000 physicians operating in 28 states. The new organization will strive to create healthier communities. Reinforcing this vision, CHI's chief executive officer Kevin Lofton remarked "We are joining together to create a new Catholic health system, one that is positioned to accelerate the change from sick-care to well-care across the United States."

Value follows payment. Payment formularies are increasingly rewarding integrated health companies that provide superior health prevention, health promotion and care management. That's why press releases for the four transactions described above highlight the combined companies' enhanced capabilities for delivering higher-value care services to customers.

More evidence of healthcare's transformational "tipping point" came on December 10th when the *Wall Street Journal* **reported** that mega-systems Ascension and Providence St. Joseph Health are engaging in merger discussions. If consummated, the combined company would surpass HCA as the nation's largest health system with 191 hospitals in 27 states and annual revenues approaching $45 billion.

Then on December 19th, Humana **announced** it was acquiring Kindred Healthcare's home health, hospice and community care businesses in partnership with private equity companies TPG Capital and Welsh Carson. Kindred operates 609 home health, hospice and non-medical home-care sites of service throughout the country. "Kindred at Home" will operate as a stand-alone company and enhance Humana's ability to manage chronic disease patients more efficiently and effectively.

Describing the transaction, Humana CEO Bruce Broussard noted its ability to "advance [the company's] vision for integrated care delivery…while building a transformative platform for the future." Broussard added that "care in the home is a vital element of improving the health of seniors living with chronic conditions, allowing them to receive services in the comfort of their home, [and spend] less time in [high-cost] institutional settings."

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AN INDUSTRY TURNING RIGHT-SIDE UP

These mega-transactions represent a major market shift. To succeed in post-reform healthcare, companies must reconfigure operations away from fragmented, high-cost, acute-centric care settings to deliver better care more conveniently at lower prices. They must keep their customers healthy as well as treat them when they're sick or injured. They must consistently deliver great customer experience.

Healthcare is having an "aha" moment and realizing it must deliver **A**ffordable, **H**olistic and **A**ccountable services that are Coordinated, Accessible, Reliable and Evidenced-based. This is a challenge for traditional health companies clinging to activity-based, revenue-centric business models. It's adapt or die time for them.

The power of bottom-up, market-driven reform emanates from the multiplicity of business models and strategies that companies employ to win market share and generate profits.

Many companies fail as markets evolve. Their business models have flaws, their timing is bad or their execution is poor. Some companies, however, succeed spectacularly by delivering more value to customers. This dynamic process constantly reshapes the marketplace.

The Soviet Union's leadership never grasped the bottom-up power of markets to create value and improve life. The country stumbled along for almost seventy years pursuing centralized economic decision-making with sub-optimal resource utilization. By the late 1980s, the center could no longer hold the Soviet Union together. The USSR dramatically dissolved on December 26, 1991 under the weight of its bureaucratic inefficiency and burdensome commitments.

Not unlike in the Soviet Union, centralized reimbursement for healthcare services in the U.S. has created significant market distortions and high costs. Value and consumerism have suffered. Traditional healthcare business models have become vulnerable to more nimble competitors focused on value creation and meeting customers' needs.

Major health companies are not retreating or retrenching. Instead, CVS, Aetna, UnitedHealth, DaVita, Advocate, Aurora, Dignity, CHI, Humana, Kindred and so many others are adapting their business models and strategies to meet the evolving needs of healthcare consumers.

Russia's socialist experiment failed because it could not deliver a better life to the Russian people. The American healthcare revolution will succeed if it gives the American people the right healthcare services at the right time in the right place at the right price.

When the dust settles, winning health companies will be the ones that demonstrate every day that outcomes matter, customers count and value rules.

David Johnson

David Johnson is the CEO of 4sight Health, a boutique healthcare advisory and investment firm. Dave wakes up every morning trying to fix America's broken healthcare system. He is a frequent writer and speaker on market driven healthcare reform. His expertise encompasses health policy, academic medicine, economics, statistics, behavioral finance, disruptive innovation, organizational change and complexity theory. Dave's newly published book, ***Market vs. Medicine: America's Epic Fight for Better, Affordable Healthcare***, is available for purchase on www.4sighthealth.com.

About 4sightHealth

4sight Health operates at the intersection of healthcare economics, strategy and capital formation. The company's four-stage analytic (Assess. Align. Adapt. Advance.) reflects the bottom-up, evolutionary character of disruptive, market-driven change and guides 4sight Health's professional services, which include the following: regular commentary on market-driven reform; public speaking; board education; strategic advice; capital formation design and execution; advancing organizational change; venture investing: strategic partnerships, capital funding, product/service design.