

# THE POWER OF TWO

## MORE HEALTH CARE COMPANIES THAN EVER SEE THE VALUE OF ROBUST PARTNERSHIPS IN A CONSTANTLY CHANGING INDUSTRY.

*Here's how to make sure the collaboration is seamless.*

**S**EISMIC NEW FORCES—technology, value-based agreements, fresh industry players, and many more—are creating major shifts in health care, prompting companies of all sizes to collaborate in sometimes unexpected ways. Among payers and providers in particular, we've seen 22 partnerships<sup>1</sup> emerge in the first half of 2018 alone, according to an analysis from the consulting firm Oliver Wyman Health—only six fewer than occurred throughout all of 2017.

To thrive—even just to survive—in this new environment, those in the health industry are recognizing the need to rethink the strategic norms that have guided them for years, exploring the benefits of both collaboration and conglomeration. Nontraditional health care companies seeking to enter the market, too, are increasingly realizing those benefits as they get more familiar with the fiendishly complex health care landscape. Many see opportunity in health care but lack sufficient knowledge of reimbursement structures

and regulations, privacy and security concerns, and patient-safety stipulations to enter the market effectively—which makes working with an experienced partner that much more appealing.

Success in an increasingly collaborative health care environment requires understanding the industry's drivers for change as well as what its new participants have to offer. It's critical, too, to understand the potential pitfalls when organizations work to implement a cross-industry collaboration.

### A Shifting Conversation

For many years, the United States has struggled to contain the costs of insurance and health care services. Indeed, the United States spends a disproportionate amount on health care<sup>2</sup> relative to its wealth. This generates additional pressure on health care companies to control costs from the public, the media, and the government.

In response, payers increasingly focus on “value”—frequently through expanding the group of parties subject to financial risk for care as well as the

quality of care. This has required provider organizations, the financial stability of which has traditionally been determined by volume and rates for services rendered, to refocus on new metrics for success, while simultaneously needing to operate under the still dominant “fee for service” model. Consumer demands for a more responsive health care system, meanwhile, put pressure on both payers and providers to improve its service and engage more meaningfully with its “customers.” Forward-thinking tech companies and management teams are looking to satisfy these demands innovatively through means including enhanced use of consumer-oriented information technology.

Faced with these pressures, health care players recognize that they might not be able to make all changes alone. As such, many of them are looking to partner with others who have the necessary expertise and resources rather than attempting to build them themselves when budgets are already stretched thin.

Collaborations of this sort bring rapid change—and show tremendous promise—for the entire industry. By acting on these new possibilities and working together, companies are proactively bringing about much-needed change in a shifting marketplace.

### Pillars of Success

While new collaborative models hold great promise to change the delivery of health care, the collaborations themselves must also work, which

<sup>1</sup> Mikuckis, Tomas, et al. Analysis: Payers and Providers Continue to Partner. Oliver Wyman Health, 31 May 2018, [health.oliverwyman.com/2018/05/analysis\\_payers\\_and.html](http://health.oliverwyman.com/2018/05/analysis_payers_and.html).

<sup>2</sup> Sawyer, Bradley, and Cynthia Cox. “How Does Health Spending in the U.S. Compare to Other Countries?” Peterson-Kaiser Health System Tracker, 13 Feb. 2018, [www.healthsystemtracker.org/chart-collection/health-spending-u-s-compare-countries/#item-start](http://www.healthsystemtracker.org/chart-collection/health-spending-u-s-compare-countries/#item-start).



goes well beyond simply signing a well-drafted contract. Any company embarking on a new tie-up like this must focus on these three pillars of success:

**1. Scope.** Collaborations can suffer from “mission creep” even during initial discussions, as the parties learn more about each other and recognize potential opportunity. Successful partnerships are generally designed around a specific, actionable mission—and while exploration of other potential collaborative benefits is usually a good idea, it shouldn’t come at the expense of the collaboration at hand. Failure to stick to that can lead to unrealistic expectations, unachievable goals, and confusion during negotiations. Staying focused on the goal at hand takes discipline, and it’s critical to success.

**2. Compliance.** Organizations outside the health care industry may have limited experience with the unique risks its regulatory structure creates. This experience gap sometimes produces not just confused expectations with respect to deal structure and partnership goals, but also problems in the transaction process itself as the two groups talk past each other. It’s vital that both health care and non-health care companies recognize their differences of experience and approach the negotiations, deal structuring, and business planning with a suitable focus on compliance and their respective levels of risk tolerance.

**3. Culture.** Cultural fit is often crucial to partnership success. Within the broader industry, cultural differences

among for-profit and nonprofit health systems, payers, physician practice-management firms, and others can be dramatic; the difference between traditional health care and technology firms can be even more so. These differences need not be deal killers—rather, an understanding of them is often all that’s required to avert conflict. That can also lead to recognition of opportunities and benefits the parties might not have considered. In these circumstances, even if problems arise, including “scope creep,” the groups can address them on the basis of mutual understanding and respect. A relationship built on trust is a primary component of the glue that holds any collaboration together.

### **Trial, Error...and Ultimate Success**

While it can be thrilling to get caught up in the excitement of new capabilities and opportunities in health care partnerships, it’s important to remember that the increasingly collaborative sensibility we’re witnessing isn’t always elegant. More often, these endeavors are driven by experimentation, and with no established “right” way of doing things.

In this trial-and-error environment, it can be easy to overlook details as simple as due diligence. Given the trajectory of technological and innovative advances in health care, we can expect to see the number of partnerships continue to spike in 2019

and beyond—and with it, most likely, a somewhat lesser spike in failures. As more organizations realize that their work could be amplified with a partner by their side, keeping all of the above in mind will help provide peace of mind to all parties that their collaboration will not end up one of the failures. ●



**Kerrin Slattery**



**Dale Van Demark**  
**MCDERMOTT WILL & EMERY LLP**  
[mwe.com](http://mwe.com)