Strategic Regional Healthcare Organizations

The National Association 2017 Survey Report

March 27, 2018
Updated May 15, 2018

SRHOs: Who They Are, How They Drive Value

SRHO
THE NATIONAL ASSOCIATION

Introduction

SRHO, The National Association is excited to present the results of the first annual SRHO survey. The survey was conducted in October and November 2017. We received responses from 12 SRHOs, representing over 324 hospitals and healthcare organizations.

The report, developed in collaboration with ECG Management Consultants, a national healthcare consulting firm, presents findings on how SRHOs are organized and the types of activities they pursue. The Strategic Pursuits section provides information on the types of population health, cost reduction, value-based contracting, and innovation-related initiatives being used to improve the position of members in a value-based healthcare economy.

The analytics team of SRHO, The National Association supports its members by converting data and information into knowledge. The data published in this survey is intended to be used by SRHO leaders to make critical decisions about their businesses. We strive to publish a report that meets the evolving needs of these leaders whose goal is to optimize their organizational design and continuously improve their value proposition based on data from similar organizations.

To ensure confidentiality, all participant responses are maintained by ECG, with no general access provided to SRHO, The National Association members. Special reports analyzing the data in a customized way may be requested and separately produced, subject to minimum data count requirements.

Definition of a Strategic Regional Healthcare Organization (SRHO)

A legal entity composed of two or more significant healthcare organizations, situated across contiguous geographies and focused on the achievement of economies of scale and the development of capabilities necessary to succeed in population health

SRHOs
Overview

Contents	Slide Numbers

Participant Profile
Demographics

Demographics of Survey Participants

Demographic	Number of SRHOs	Percentage of SRHO Total
By Years in Operation		
0 to 2	3	25%
3 to 5	7	58%
6 to 9	1	8%
10 or More	1	8%
By Geographic Region		
Eastern	4	33%
Southern	4	33%
Midwest	4	33%
Western	0	0%

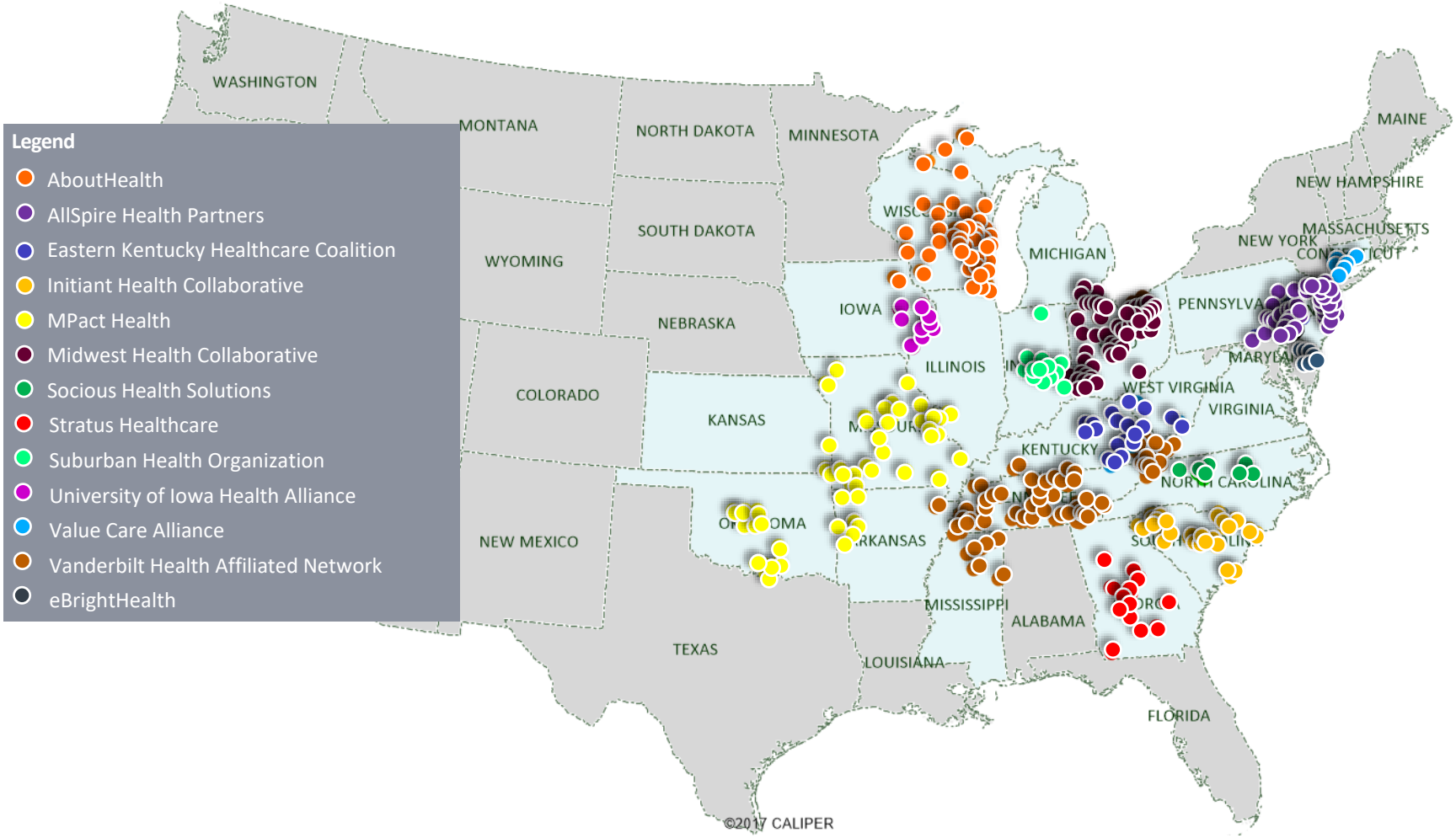
Note: Years in operation were calculated as of January 1, 2018, based on the self-reported year operations began or the date of incorporation if the participating organization did not respond to this survey question. Figures may not be exact due to rounding.

Participant Profile
Demographics

The SRHO survey was sent to 14 organizations, including current and prospective members of SRHO, The National Association. Survey responses were received from 12 of those entities, representing 324 hospitals and other types of provider organizations. Participants ranged from newly formed SRHOs to alliances with more than 30 years of service.

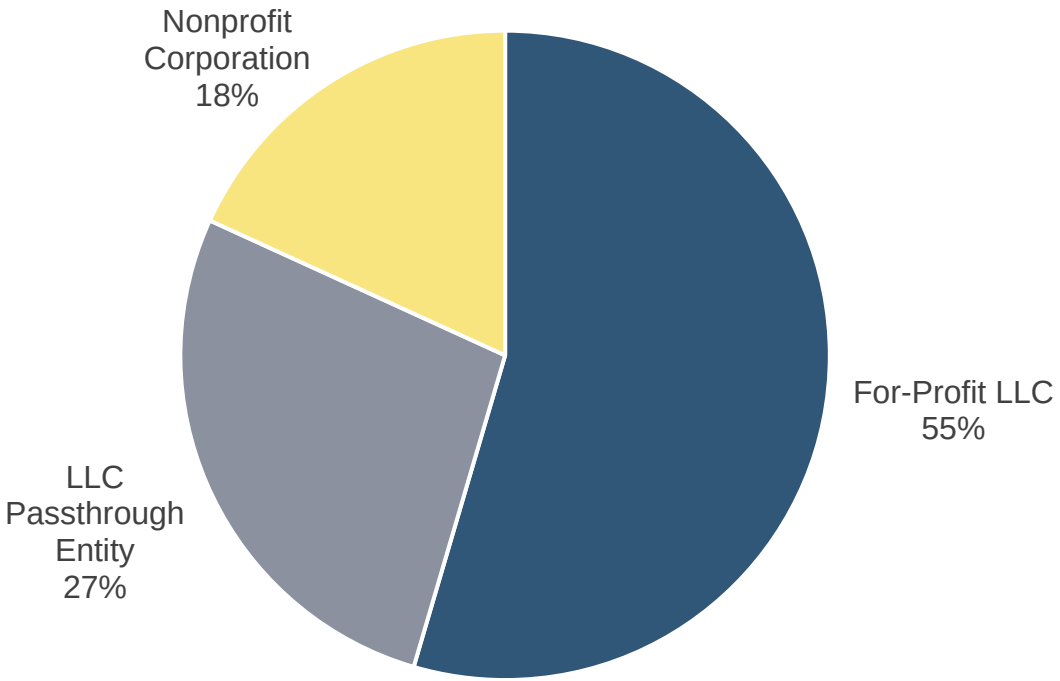
Participant Profile

Map



Participant Profile
Organization Type

Legal and Tax Classification (n = 11)



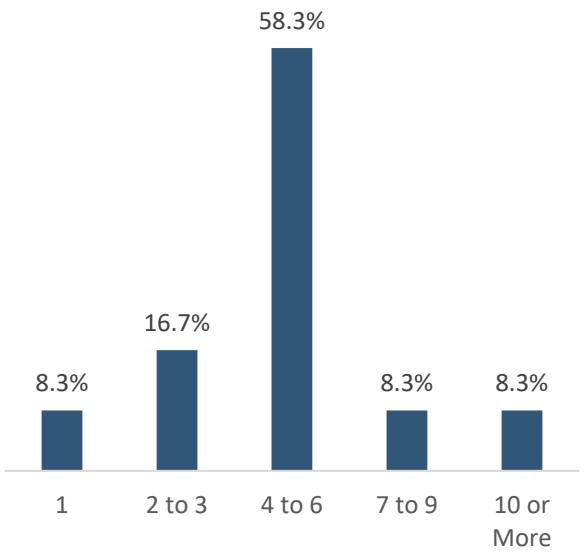
Participant Profile
Organization Type

Of the 11 organizations that responded to this survey question, 55% were a for-profit limited liability company (LLC), and 45% were recognized by the IRS as nonprofit or pass-through entities.

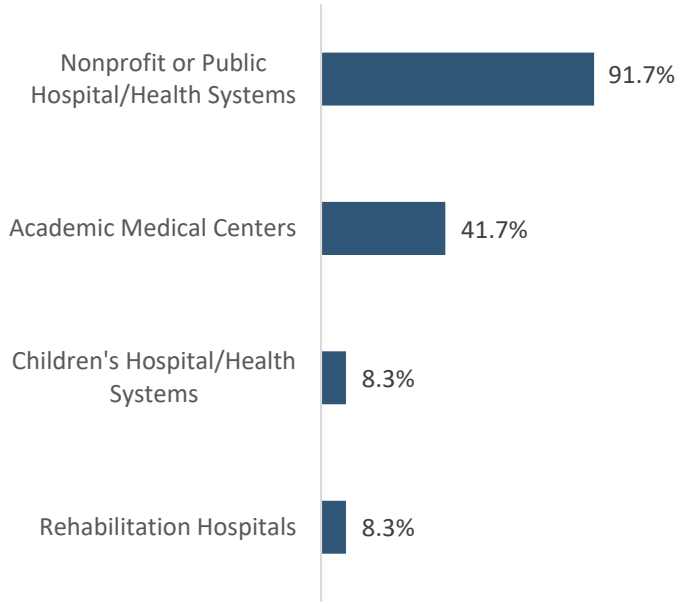
Participant Profile

Number and Types of Owners

Number of Owner Members (n = 12)



Types of Owner Members (n = 12)



Key Interview Findings: SRHOs are dynamic organizations.

- Membership is not static. Members may be added for strategic purposes or leave due to market factors.
- Reductions in the number of members can lead to financial strain but often result in a greater strategic focus and momentum toward achieving initiatives.

Participant Profile

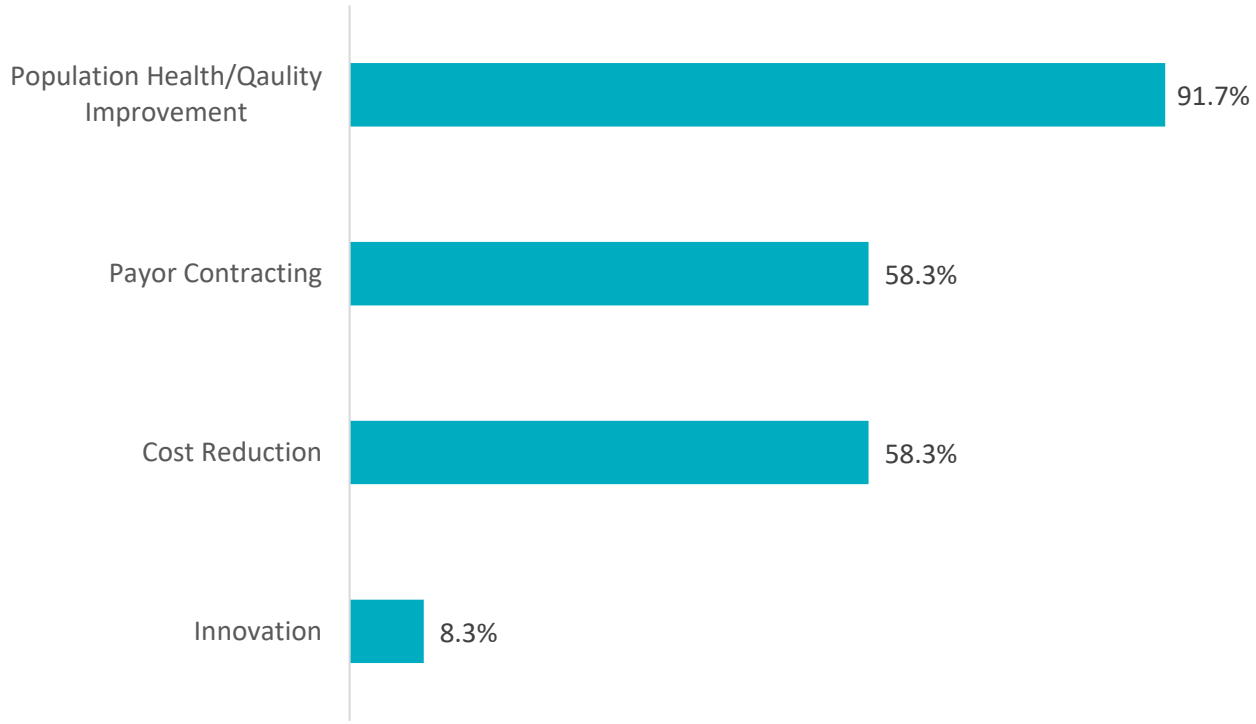
Number and Types of Owners

SRHO entities are most commonly owned by four to six members (58.3% of respondents). SRHOs are typically anchored by nonprofit or public hospital/health system and/or academic medical center owner members. For-profit hospitals/health systems, physician entities, and payor entities are not members of the SRHOs surveyed.

Strategic Pursuits

Strategic Priority Areas

Strategic Priority Areas (n = 12)



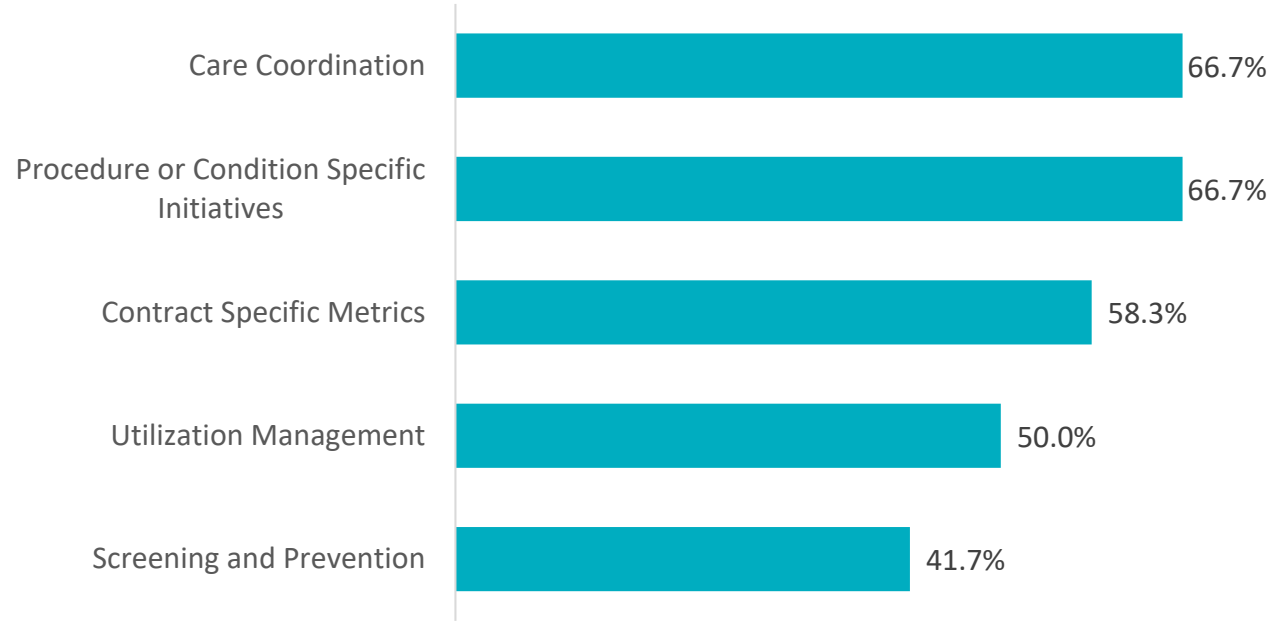
Strategic Pursuits

Strategic Priority Areas

SRHOs are broadly organized around value-based care delivery and radical cost reduction strategies. SRHOs typically pursue population health/quality improvement (QI) and payor contracting in tandem; however, SRHOs may have no involvement in payor contracting where their members own the payor relationships. All SRHOs reporting a cost reduction focus also reported having one or two other areas of strategic focus.

Strategic Pursuits
Population Health Initiatives

Types of Population Health/QI Initiatives Pursued (n = 12)



Strategic Pursuits
Population Health Initiatives

SRHOs typically assist with the prioritization and implementation of common population health/QI initiatives across separate organizations by convening clinical teams and supporting data aggregation and reporting.

The wide variation in clinical focus areas (shown on the following page) suggests that SRHOs are deliberate in selecting initiatives that (1) address the priorities of their members and communities or (2) are consistent with quality metrics dictated by value-based contracts or ACO participation.

Strategic Pursuits

Population Health *(continued)*

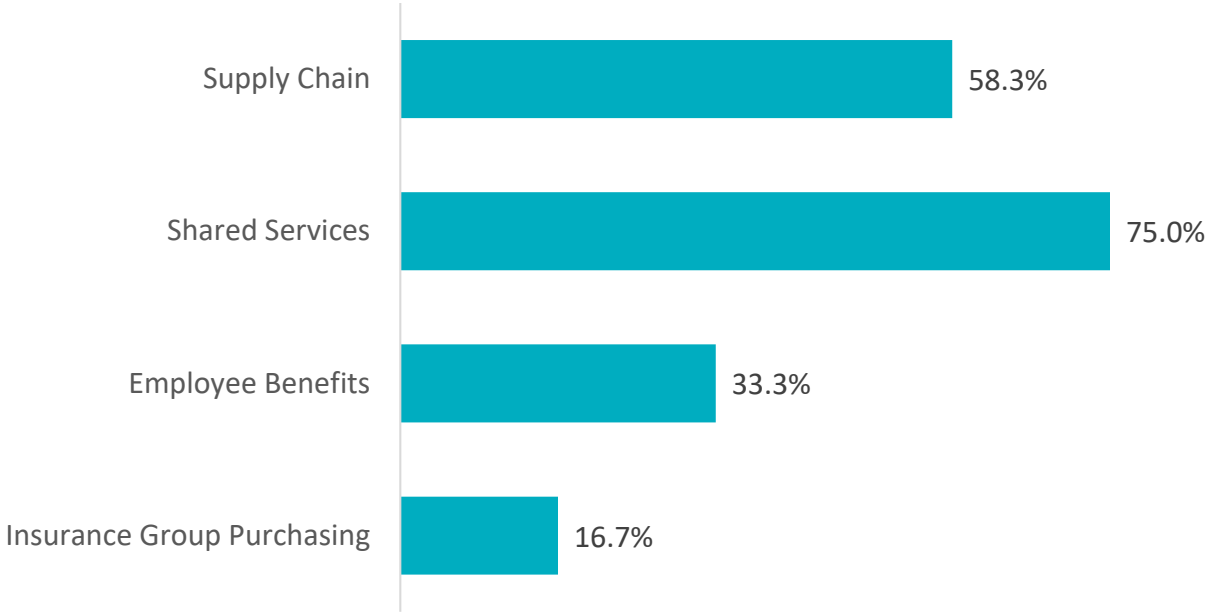
Specific Population Health Initiatives Pursued by Type (n = 12)

Initiative	Prevalence
Care Coordination	
Advanced Care Planning	41.7%
Complex Care Management	50.0%
Patient Risk Stratification	41.7%
Post-Acute Care	25.0%
Transitions of Care Coordination	41.7%
Contract Specific Metrics	
ACO Group Practice Reporting Option (GPRO)	33.3%
Medicare Shared Savings Program (MSSP) Measures	41.7%
Other Value-Based Contract Defined Metrics	50.0%

Initiative	Prevalence
Procedure or Condition Specific Initiatives *(continued)*	
Asthma	16.7%
Chronic Kidney Disease	16.7%
Diabetes Management	50.0%
Orthopedic Postoperative Infection Rates	16.7%
Sepsis	16.7%
Total Knee Replacement	16.7%
Screening and Prevention	
Screening and Preventive Care	41.7%
Utilization Management	
Prescription Drug Utilization (including antibiotics)	41.7%
Emergency Department Throughput	16.7%

Strategic Pursuits
Cost Reduction Initiatives

Types of Cost Reduction Initiatives Pursued (n = 12)



Strategic Pursuits
Cost Reduction Initiatives

SRHOs are positioned to provided value to members through joint purchasing.

Over half of the SRHOs surveyed pursue at least one supply chain, and two-thirds pursue at least one shared services initiative. Of the 12 SRHOs, 4 reported working toward a common benefits package for hospital employees, and 2 of the SRHOs have consolidated insurance purchasing across their member organizations.

Strategic Pursuits

Cost Reduction Initiatives *(continued)*

Specific Cost Reduction Initiatives Pursued by Type (n = 12)

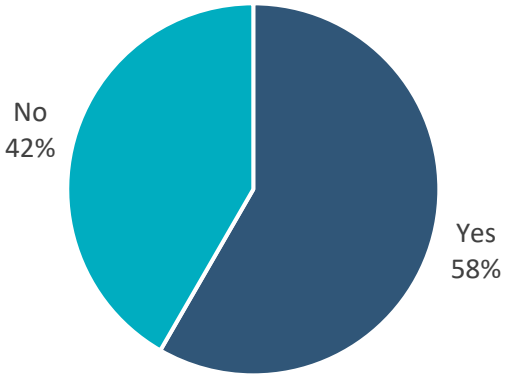
Initiative	Prevalence
Supply Chain	
Biomedical Products and Services	16.7%
Blood and Blood Products	16.7%
Group Purchasing Organization (GPO)	25.0%
Capital Equipment Purchasing (e.g., Imaging)	8.3%
Surgical Supplies	8.3%
Other Supply Chain/Materials Management	25.0%
Employee Benefits	
Employee Benefits Offering	33.3%
Insurance Group Purchasing	
Captive Insurance Products	8.3%
Cyber Insurance	16.7%
Property and Casualty Insurance	16.7%

Initiative	Prevalence
Shared Services	
CME Offerings and Services	8.3%
Courier Services	16.7%
Elevator Maintenance Services	16.7%
Emergency Transportation Services, Air	8.3%
Equipment Maintenance and Service Contracts	33.3%
Information Technology	41.7%
Laundry and Linen Services	25.0%
Managed Print Services	16.7%
Pharmacy Benefit Manager	25.0%
Reference Lab Services	33.3%
Revenue Cycle Services	16.7%
Third-Party Administrator	41.7%
Waste Management Services	16.7%

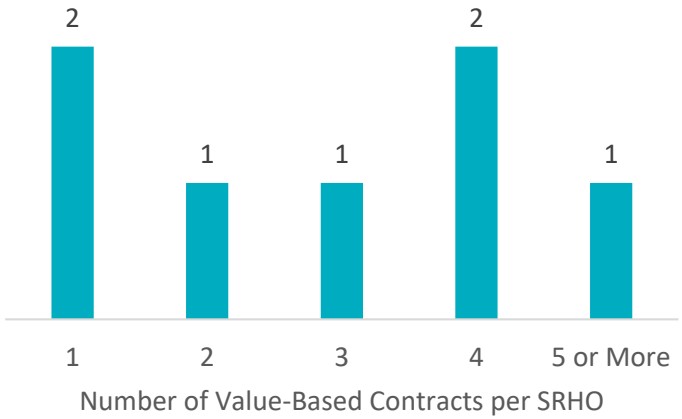
Strategic Pursuits

Payor Contracting

Prevalence of Value-Based Contracting Role (n = 12)



Number of Value-Based Contracts Arranged by SRHO (n = 7)



3 Average number of value-based contracts per SRHO involved in payor contracting

Note: Value-based contracts are defined as reimbursement based on the value of services delivered, rather than the volume of those services, or contracts that include a significant cost and/or quality component. This includes participation in the Medicare Shared Savings Program (MSSP), Medicare Advantage (MA) plans, Medicaid Shared Savings plans, and other SRHO-branded local/regional plans intended to move toward value-based payments and capitation.

Strategic Pursuits

Payor Contracting

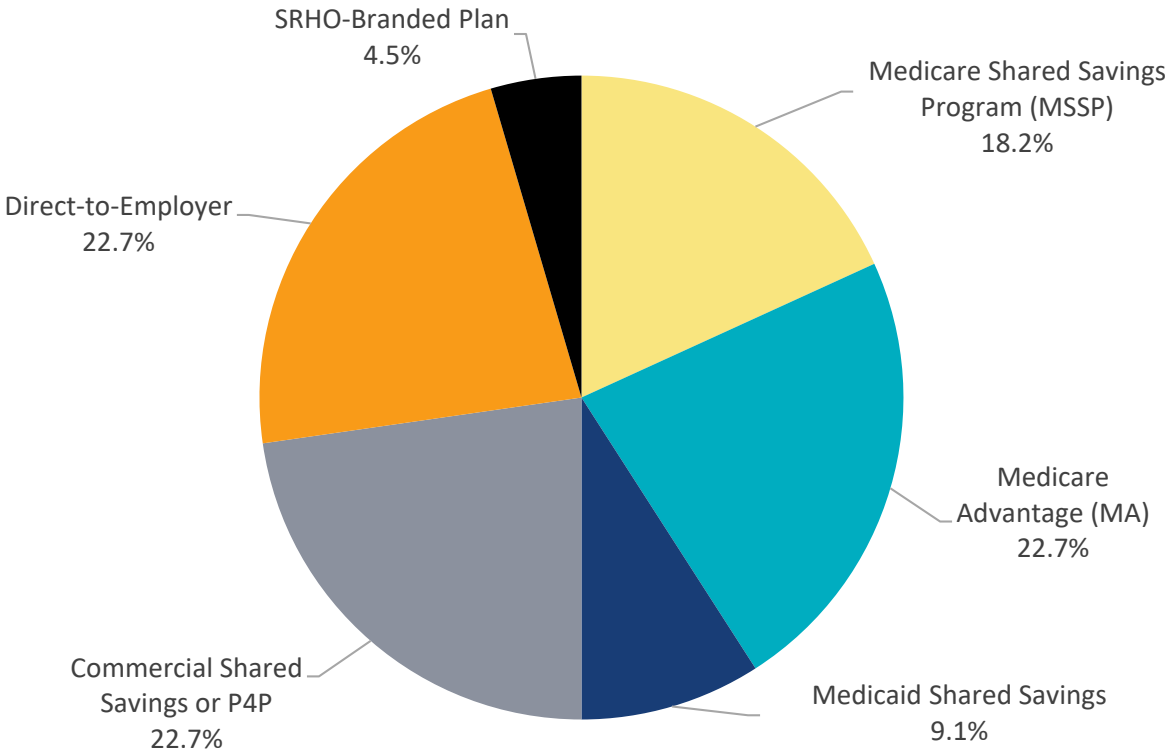
Seven of the responding SRHOs have arranged value-based contracts on behalf of their member organizations.

Of those that have arranged value-based contracts, most are participating in more than one contract.

Strategic Pursuits

Payor Contracting *(continued)*

Value-Based Contracts by Payor and Contract Type (n = 21)



Note: Value-based contracts are defined as reimbursement based on the value of services delivered, rather than the volume of those services, or contracts that include a significant cost and/or quality component.

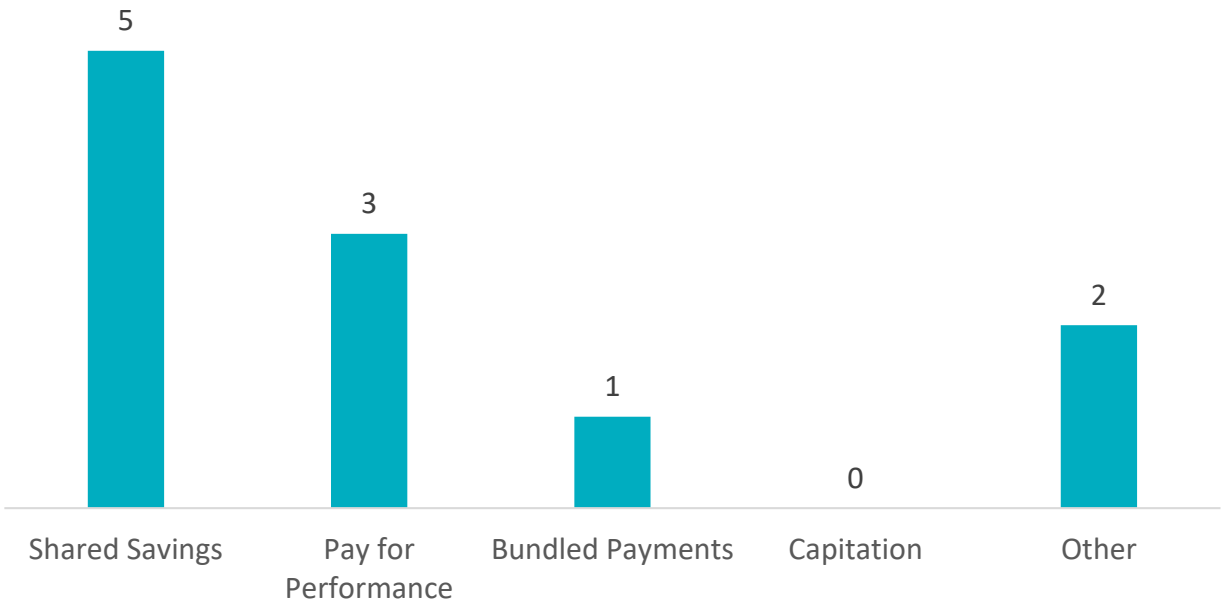
Strategic Pursuits
Payor Contracting

Half of the reported value-based contracts are with government payors (Medicare and Medicaid). SRHOs have also entered into value-based contracts with employers and commercial payors or through their own branded health plans. There is no singular strategy for pursuing payor contracts.

Strategic Pursuits

Payor Contracting *(continued)*

Number of Organizations in Value-Based Contracts by Payment Methodology (n = 7)



Note: "Other" denotes a base fee schedule arrangement intended to move toward value-based payment terms and capitation according to the respondent.

Strategic Pursuits
Payor Contracting

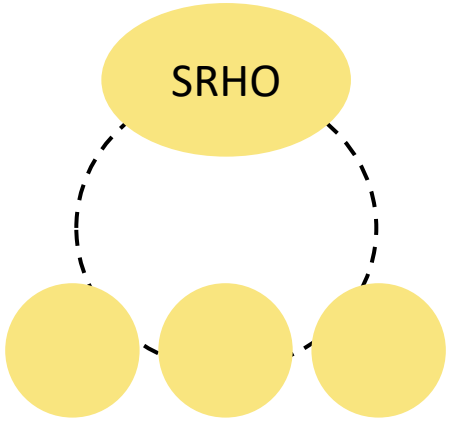
Shared savings contract terms were the most common type of value-based payment methodology.

A common theme among respondents was the intention to move toward increasing levels of risk. Two of the seven SRHOs that reported value-based contracts indicated their intention to eventually assume downside or full risk.

Strategic Pursuits

Characteristics of Clinically Integrated Networks (CINs)

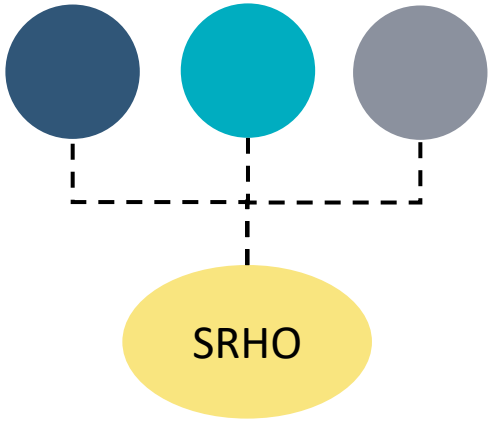
Model A
Centralized: Unified CIN



Characteristics

- Centralized data reporting
- Standard quality and cost metrics, which set minimum participation requirements
- Centralized payor contracting
- Rates potentially negotiated at a central level depending on clinical integration status

Model B
Decentralized: Local CINs



Characteristics

- Individual affiliates form local or regional CINs.
- The SRHO offers support services as needed.
- The SRHO provides a common set of quality and cost performance metrics, which are suggested but not required.
- Local CINs have the option to aggregate as clinical integration progresses.

SRHOs

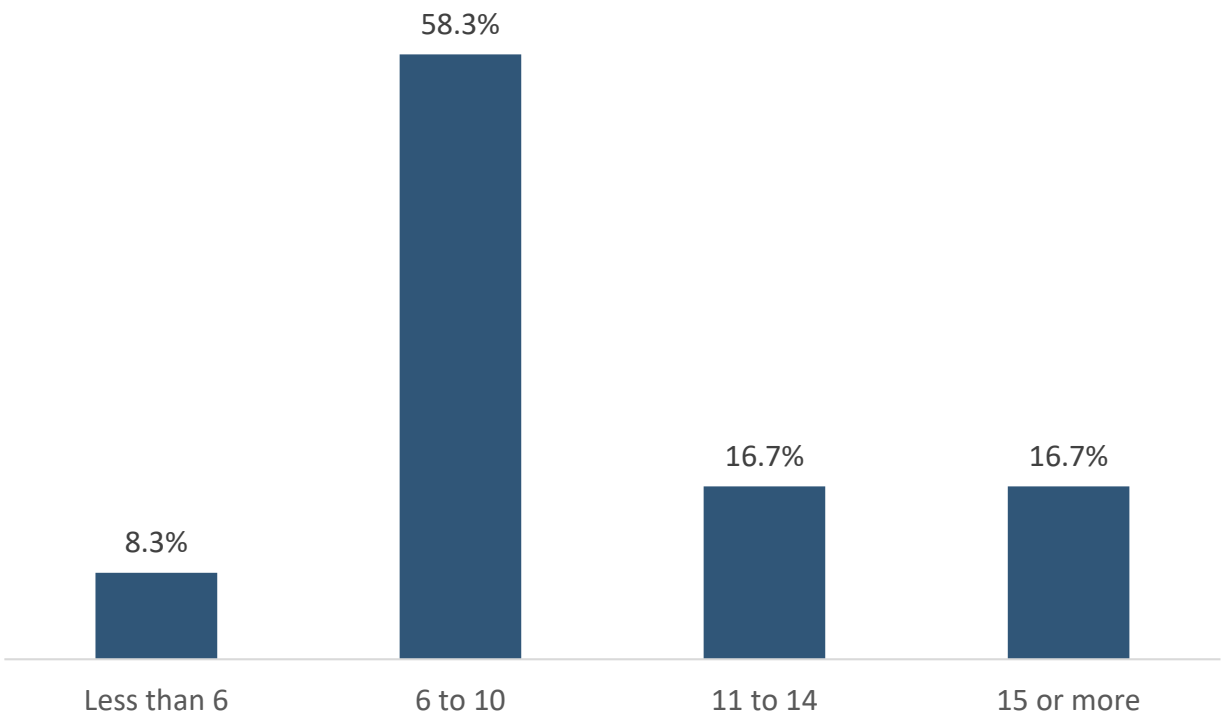
Characteristics of CINs

The majority of SRHOs are pursuing clinical integration; however, several different structural approaches are used to establish CINs.

- Currently, only a few SRHOs are driving clinical integration via a standardized approach using the SRHO as the central integrator (see model A).
- The majority of SRHOs are serving in a support role by offering members data analytic support, providing sample performance metrics, and establishing a conduit for information sharing among member CINs (see model B).

Governance
Size of SRHO Boards

Number of Board Seats Held for Voting Members (n = 12)

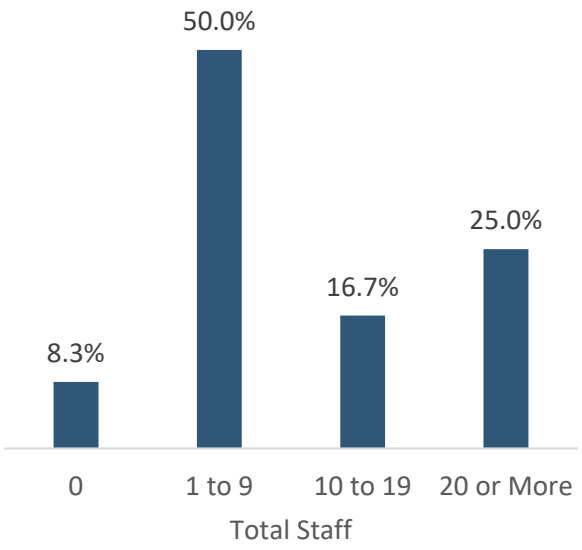


Governance
Size of SRHO Boards

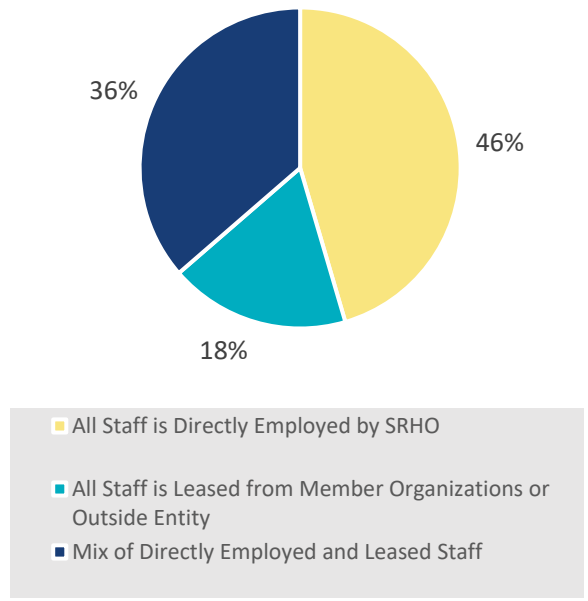
Each SRHO is governed by a board of directors. Typically, each member hospital/health system appoints one or two representatives to the board. These individuals typically include the hospital/health system CEO and a member of the board but may include other members of the C-suite (e.g., CFO, COO, CMO) and physicians. Most SRHO boards consist of 6 to 10 voting members.

Staffing
SRHO Staffing Approach

Size of SRHO Staff (n = 12)



Staffing Model (n = 11)



Member-provided business support services:

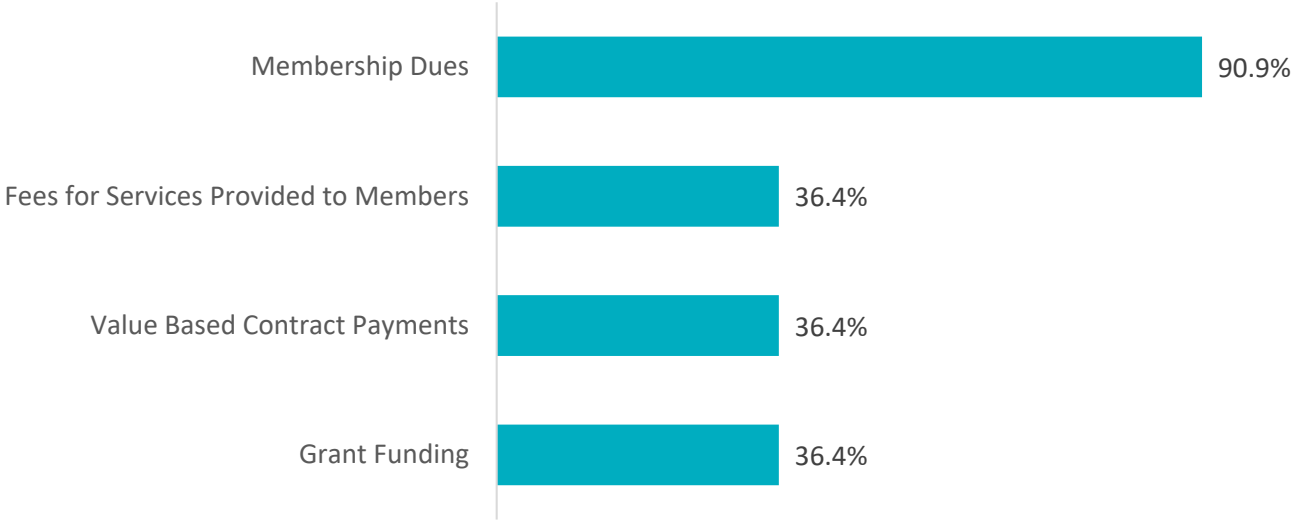
- Human resources/benefits
- Finance
- Information technology
- Analytics

Staffing
SRHO Staffing Approach

SRHOs tend to be lean organizations that hire based on need, lease staff from their members, and contract with their members for business support services. This allows SRHOs to keep operational expenses low as they define strategic priorities develop key initiatives and leverage the expertise of member organizations. As SRHOs mature and expand their strategic pursuits, they typically add employed staff and develop the capabilities to stand alone from their members in terms of business support services.

Finance
Revenue

Sources of Revenue (n = 11)



Common Fee-For-Service Categories:

- GPO administration
- Care management facilitation
- Data analytics
- Physician recruitment
- Medical staff credentialing
- Advisory/consulting services provided to other start-up collaborative CINs

Finance
Revenue

SRHOs are typically dues-supported organizations, especially in their early years. Most SRHOs reported an intention to move away from a dues-only model to one in which value-added services related to their strategic pursuits are used to generate revenue. Three of the responding SRHOs are using the expertise they have developed to provide advisory/consulting services to other organizations for fees.

Key Takeaways
SRHOs

- While the key strategic direction of SRHOs reside primarily in two areas, population health/value-based delivery and/or cost savings, the variability of specific initiatives pursued by SRHOs illustrates the dynamic nature of these alliances.
- SRHOs offer several strategic advantages to participating providers: scale, accelerated knowledge sharing, reduced purchasing costs, and efficiencies from shared services.
- The survey reported a correlation between member commitment and benefits realized, with the highest performing SRHOs being those with greater financial commitments and more stringent participation requirements.
- All of the SRHOs surveyed reported a focus on operating the organizations with minimal staffing and a commitment to avoid adding redundant costs to member organizations.
- The ownership of surveyed SRHOs is concentrated with health systems and hospitals; however, the majority of SRHOs indicated that the alliances are actively pursuing clinical integration with independent physicians and other providers.
- The majority of the SRHOs surveyed are in the early organizational stages with less than five years of history. SRHO executives indicated the importance of continuity and engagement of board leadership.

Pending Questions

What is the five-year return on investment (ROI) of the capital expended to establish and operate SRHOs?

What is the performance of value-based payor arrangements? And, does participation in an SRHO elevate performance?

What level of clinical delivery restructuring (e.g., consolidation, joint ventures, etc.) will occur among SRHO members?

What new business ventures will arise from the collaboration of members within SRHOs?