

# Success Amid Employer Alliances and Vertical Consolidations that are Reshaping Healthcare

By Jonathan Saylor

In today's healthcare model, employers, insurers and healthcare organizations are at odds. If consumers are sick, healthcare organizations profit at the expense of employers, insurers and consumers. On the other side, if consumers stay healthy, less is paid in medical bills, but healthcare organizations have fewer patients to treat (and fewer bills coming in). The skyrocketing healthcare costs associated with this transactional model have led employers and insurers to explore innovative ways to lower the cost of care.

In 2016, large organizations including Coca-Cola and Verizon came together to form the Health Transformation Alliance (HTA). This alliance is researching ways to lower the cost of healthcare. In 2018, Amazon, JPMorgan Chase and Berkshire Hathaway launched Haven, a joint venture to reduce costs and increase employee satisfaction.

At the same time, insurers are also building new business models to minimize healthcare expenses. Cigna acquired Express Scripts, CVS Health purchased

Aetna and Humana acquired a minority interest in Kindred at Home. These mergers focus on vertical consolidation as a mechanism to manage care—and cost—as insurers move from simply providing coverage to lowering the cost of care by sustaining and improving the health of those they cover.

## Implications of Employer Alliances and Vertical Consolidation

On their journey to lowering the cost of healthcare, employers and insurers are disrupting the traditional healthcare providers business model. For instance, HTA has negotiated contracts with pharmacy benefits managers to reduce drug costs by 15 percent. They've also negotiated with insurers, allowing employers to participate in value-based networks in select cities. While little is known about what Haven will do, one can imagine that as they drive down the cost of care, they'll also move care outside the four walls of the hospital—and possibly—outside of healthcare systems.

Vertical consolidations are blurring the lines between payors and nontraditional providers. The CVS-Aetna merger could create incentives for those covered by Aetna to use CVS retail clinics as a first line of care rather than going to a hospital-owned urgent care center or even a physician's office. Similarly, Optum,

a part of UnitedHealth Group, acquired DaVita. This adds dialysis and additional physician offices and urgent care centers to their healthcare portfolio, which also includes pharmacy benefits management and technology services. These new business models consolidate insurance and care delivery so providers and payors aren't competing. Instead, they are collaborating toward a shared goal of providing healthcare at a better value while focusing more on prevention and managing care outside the hospital.

As the lines between payor and provider blur through these acquisitions, and as employer collaborations continue, it's clear that payors are beginning to think about health differently and traditional healthcare organizations must respond.

## How Healthcare Organizations Should Respond

Employer alliances and vertical consolidations are reminders that the healthcare environment of the past is different from the present system, which is not sustainable, and therefore the future will also be different. Simply put, the business must evolve.

A strategy for the future that positions healthcare organizations as a player in driving down the cost of care will be critical. In doing so, one could imagine a future where healthcare organizations are more closely aligned with payors in keeping consumers well. This shift cannot happen overnight, so healthcare organizations must prepare today. To do so, healthcare organizations should:

- Invest in technology that creates a more consumer-centric experience. These could include telemedicine technologies, mobile lab testing capabilities, and tools for comparing costs and quality of care. Embracing these tools and continuing to develop innovative strategies for care delivery will allow organizations to manage care at a lower cost. In addition, giving physicians access to consumers' self-collected data can help them address their

patients' health challenges before they become more serious. Technology investments today will be a critical foundation for the future.

- Build their brand. As employers and insurers rethink the way they align around care, healthcare organizations must establish themselves as the brand of choice for consumers in their market. They must evolve into the most consumer-centric healthcare organization that provides high-quality care when, where and how consumers want it to differentiate themselves in the market. In doing so, it will be challenging for employers and insurers to restrict or remove access to the health system without facing friction from dissatisfied consumers.
- Participate in Medicare Advantage or risk-based contracts. These programs pay a provider a set rate for each patient regardless of their healthcare expenses for the year. As a result, providers who keep patients healthy make a larger profit than those who provide reactionary services. With a financial incentive to address health challenges more proactively, healthcare organizations can begin to build business models focused on health that more closely align with the goals of payors in driving down the cost of care.

By focusing on technology, building their brand and beginning to tackle risk, healthcare organizations will set themselves up for success in a future that is unfolding quickly before us. Those that embrace a shift from only caring for the sick, to developing a new business model built around health, will have the opportunity for financial success while improving the wellbeing of those they care for.

## Key Takeaways

To succeed in the changing healthcare landscape:

### Think differently.

Look at the impact of employer alliances and vertical consolidation in your market and what that could mean for the future.

### Plan differently.

Address the impact of these changes by considering ways in which you can transform your business so that it better aligns with the changes occurring in your market.

### Act differently.

Begin to take on risk and invest in technologies that will enable you to develop a new business model built on sustained health.



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