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Critical Healthcare M&A Strategies:
A Data-driven Approach

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Healthcare mergers and acquisitions (M&As) continue at a rise following a trend that began in 2009 with 50 M&A deals. 2017 recorded the highest number in recent history with 115 deals, and 2018 could be even higher. The scope and scale of M&A activity is changing as organizations seek to align for growth and access, and position for new competitive value-based markets. Hospitals now expand and capture market share, not only by building a larger footprint, but by focusing on more consumer-friendly means to deliver care. This focus means care is distributed through both virtual and physical access points. In those entities, enriched data can be used to deliver care outreach that actually makes a difference for patients. And that is where the new margins are.

Historically, technology and talent were primary assets used to weigh the value of M&A activity, but data is an equal pillar. Early and regular due diligence cycles that fairly attribute value to an organization's data are essential to seeing the full value of the M&A. The ultimate goal, of course, is data integration across the organization. Often the approach has been to rip and replace the EHR of at least one of the organization. But this approach is costly and culturally disruptive. Integrating data through a digital platform like the Health Catalyst® Data Operating System (DOS™) allows organizations to use their current systems and manage core financial and other KPIs in the first six months of a merger. Organizations can never be fully integrated until the data is integrated, and with a rip-and-replace strategy, that integration will take years and cost tens—if not hundreds—of millions of dollars.

Aggregating data and connecting with patients are survival strategies for managing population health, reducing costs, and improving outcomes. These gaps are often filled by adding services, clinicians, patients, or technology. An M&A process, using data as the means of integration through a DOS-like platform, can be an effective way to acquire these assets.

Try to find a healthcare organization that doesn't have some type of merger, acquisition, partnership, or joint venture (JV) in its strategy. And, reflecting on the pace of activity in the last five years, organizations are still seeking to reduce complexity and achieve integration. M&A activity has moved beyond one hospital system acquiring another. Horizontal and extra-regional acquisitions are common: hospitals acquire free-standing ancillary services and health plans buy provider groups. National and regional mega-deals are increasing the size and complexity of organizations.

Buyers (the acquiring organizations) face enormous responsibility and risk with M&A transactions. C-suite leaders have a lot to consider—enterprise-wide technology, finances, operations, facilities, talent, processes, workflows, etc.—during the due diligence process. Information technology (IT) is a huge investment and risk for healthcare systems that position it, and the CIOs who manage it, at the top of the list in the due diligence process. Effectively bringing together and rationalizing the IT organization, systems, and data is a prerequisite for organizations to achieve desired scale advantages for cost and quality. But attention is often heavily weighted toward time-honored balance sheet and facility assets rather than next-generation assets with the long-term strategic value in the M&A process: data. The tangible nature of data makes it relatively easy to organize in advance and use for strategic planning, benchmarking, measuring, and reporting. A data-first approach also positions organizations well for population health, chronic disease management and value-based contracting: all synergetic goals of expanding in size and scale as a result of the M&A process. Data is easier to merge than IT systems that require everyone to have the same technology. Focusing on data is a faster way to gain strategic results.

Healthcare C-suite leaders must aspire to match the strategic objectives of their M&A, partnership, or JV to the demands of population health, value-based care, and a shifting healthcare economy. They must understand the implications of M&A activities and ask the right questions along the way:

- Is our organization well positioned for the M&A?

- What are our key concerns about the M&A process?

- Is aggregating IT systems a good strategy?

- What due diligence disciplines do we need around data?

- How do these disciplines apply at various points on the M&A timeline?

- What tools and services can support our work throughout the M&A process?

Key Healthcare M&A Strategies and Concerns for C-suites

Every C-suite executive makes key contributions to the M&A strategy, and each has highly specialized obligations, though data is a common thread:

- ❯ The CEO targets sellers that help advance the strategy of the organization, whether it's serving a new market, adding scale and presence, or improving contracting abilities. The CEO considers the overall organizational strategy, including how data supports M&A operations, and the risk strategy, preparing for unforeseen delays or barriers that may not surface during due diligence.

- ❯ The CFO is motivated to know all costs and risks associated with the deal, how much to invest, and what's at risk financially. The CFO is interested in operating expenses, balance sheets, and debt implications, but requires education on the long-term value of data as an asset.

- ❯ The CIO must address the rationalization and rapid progression to standardization in key areas such as data governance, digital health, population health, and value management, which requires a combination of disciplines and convincing other C-suite members that a data-first approach is the right strategy.

In M&A operations, CIOs are challenged to meet many goals that go beyond the IT infrastructure and solutions, which heightens the importance of their responsibilities.

The Digital Health Environment Elevates the CIO Role

CIOs are legitimately worried about how their roles are changing and how they can best deliver value to their organizations. CIOs should consider expanding their roles to be sure they are providing the thought leadership for the next generation of technology, whether that's providing change management, data analytics leadership, or advancing digital health. In doing so, along with a partnership with the executive team, they will enable the desired value realization from the M&A.

CIOs are responsible for lining up the systems and data portfolio for the partner organizations. They may have to apply strong data governance across the new enterprise even if governance in the existing organization is inadequate. They will take on additional cost and complexity, design and build a new IT organization, all while still delivering on the standardization and value from the last M&A. And they need to fulfill the organization's current IT initiatives while taking on a new set of initiatives.

One of the key leadership responsibilities, CIOs must also gain the sponsorship of the other leaders to support data governance, definition, and sharing with the new organization. This is necessary because leaders naturally use data and talent to meet specific, often specialized, objectives, so data and talent become siloed and further decentralized as a result of M&A activity.

CIOs must prepare themselves with strategies, tools, and methodologies to make their M&A work more predictable and cost effective, beginning with due diligence around data.

Data Due Diligence

The due diligence process is comprehensive and demanding, but it lays the groundwork for a successful M&A. M&A deals can move quickly, and the groups that prospectively plan and position for the M&A will benefit the most from this work.

Organizations spend significant due diligence on financial components (balance sheets and assets). IT leaders typically look at information systems and talent, but rarely look prospectively at data. Unfortunately for these leaders, a new company isn't integrated until the data is integrated.

The model for conducting due diligence around data involves four disciplines:

- Establish the strategic objectives of the M&A with the leadership team.
- Prioritize data along with the standardization of solutions and the design of a new IT organization (i.e., a co-equal effort for data, tools, and talent).
- Identify the near-term data strategic priorities, stakeholders, and tools.
- Assess the talent and consider creating an analytics center of excellence (ACOE) to harness organizational capabilities.

Establish the Strategic Objectives of the M&A

The first step of any sound M&A strategy is to establish strategic objectives, then determine how to support those objectives. Buyers may want access to population health contracts. They may want more patient population data to better understand what's going on with care in the community. For example, many M&A deals involve physician practices, so the acquiring company can expand services and market reach. Buyers often seek to improve operating efficiency and quality, establish new care coordination capabilities, or offer new specialty services. Will these new assets allow the acquiring company to reach its goals? Due diligence around data helps form insights about prospective assets and their ability to help the acquiring company achieve its strategic objectives.

Prioritize Data Over Systems and Solutions

Organizations must conduct due diligence to appraise the value of data prepare for the M&A. The typical question posed from the buying organization's CIO to the seller is, "What systems do you own?" Instead, the questions should be: "How do you manage your data? Where does it exist? How strong is your data governance? How are you using that data today for high performance?"

M&A due diligence typically focuses on scaling existing technology, solutions, and platforms. Acquiring new practices seems to warrant new platforms, but once the M&A is complete, the new enterprise is left to figure out exactly which divisions and departments own what systems.

Systems are rigid when it comes to change. People get very attached to systems because they are hands-on with them every day. Change somebody's workflow and it changes their view of the world; it's very disruptive and expensive.

Unlike systems change, data change is welcome. People like to know that an M&A will give them access to more data and a greater variety of data. Data becomes a rallying cry for the organization because it's less disruptive to the day-to-day use of technology. Disparate source systems, such as finance, supply chain, registration, scheduling, A/R, and EMRs, are just a few of many source systems that contribute data to the organization. Ripping and replacing these systems is costly from a financial and intellectual perspective, but it can be avoided. A data-first analytics platform (such as DOS) alleviates systems disparity, aggregates and harmonizes data, reduces complexity, and mitigates risk during M&A activity.

Data is easier to acquire and organize than systems, so organizing around data is a better way to reach strategic objectives. Most organizations don't do the diligence on data as if it were an asset, even though it warrants the discipline equal to or exceeding that which is applied to finance and information systems.

There's simply too much focus on technology systems and not enough focus on how to harmonize data. Due diligence needs to center on acquiring, aggregating, organizing, and stewarding data.

Identify the Value of Data

Data is an organization's most strategic asset and leaders must consider all the ways it provides value:

- Quality and performance data can help an organization evaluate the target partner's ability to meet strategic objectives in a M&A. The nature of emerging partnerships (e.g., pharmacies buying health plans) means more uncertainty about a partner's operation because it's in a different vertical. These are new types of partnerships, and leaders from both sides can use data to help qualify the relationship.

- Data aggregation creates access to data and insights at the division, department, and team levels, allowing each group to lay the groundwork for performance improvement. Data aggregation also ensures data quality when the time comes to establish benchmarks and measure performance.

- Data can assist population health efforts and care management programs. Aggregating data provides a more complete picture about the quality of patient care, gives clinicians information about patients throughout the continuum of care, and facilitates coordination beyond individual episodes of care.

- Data allows organizations to be proactive so they can anticipate problem areas with merging operational and clinical workflows.

- Enriched data creates intelligent analytics that improves retrospective dashboards to give care and financial managers prospective views of risk-based patient populations.

- Data can verify claims of high-quality care, strong financial performance, and superior brand reputation.

A buyer must often demonstrate its performance potential relative to risk-based contracts. Value-based care is not about what or how many services health systems provide; it's about becoming more efficient in providing those services and more focused on improving outcomes for patients. This new era of value-based care puts a greater premium on data, the due diligence of that data, and data governance.

Assess the Talent to Harness Organizational Capabilities

Analytics leaders, information officers, data analysts, and data architects are high-value roles that deserve special attention during the due diligence process. It's important to catalog and analyze all skills in both organizations and ask important questions: Are the right people in place to ensure interoperability of data and systems? Does the organization have an analytics center of excellence?

Without a center of excellence or common culture, talent can't be effectively leveraged. During the organizational changes that accompany M&A operations, data and analytics staff are among the most valuable assets in an organization. The CIO should share how the staff will be organized to retain them through the M&A disruption.

Apply Lessons Learned to Future M&A Activity

Organizations can focus on a flawless M&A process that results in a high-functioning, cohesive company by developing and applying the concepts outlined in this article. This is worth noting because the consequences of a flawed M&A strategy will be magnified for the buyer during future M&A ventures.

A year (or five years) down the road, companies tend to set their sights beyond the latest acquisition, especially when planning another one. But the best M&A strategy requires long-term due diligence around data that continuously monitors and identifies hotspots for improvement:

- A cultural divide between the merged partners.

- Workflows established during the M&A process that don't match performance and quality expectations.

- Unresolved data complexity from past acquisitions.

- An acquired organization that still acts as an independent entity.

Data enables insights that can empower organizational leaders to anticipate problems and develop solutions.

M&A Strategies Should Be Data-driven and Prospective

C-suites consider a multitude of competing priorities during the due diligence process, all through a prospective lens. Culture, mission, finances, talent, operations, and facilities usually top the list. IT also makes the list, but data is usually a more obscure priority. Data must be well-governed leading up to the M&A if effective governance is to survive after the M&A.

The prospective nature of the M&A process creates a window of opportunity, usually in the first year, when people are focused on the changes. Whatever goals make it into the project plan during this time are likely to get done. Later in the M&A timeline, it becomes very difficult, if not impossible, to achieve goals not prioritized up front. By proactively applying the four data disciplines described in this article, CIOs can use this early window of opportunity to their advantage. CIOs can prioritize data, up front, as an asset equal to the buildings, clinicians, and talent.

Aggregating data after the fact in the frenetic pace of healthcare—whether it's the next regulation, the next market change, or the next acquisition—is a tough undertaking.

Data Builds the M&A Framework

Healthcare C-suite leaders increasingly look to M&As to build or increase infrastructure, capabilities, services, patient populations, and more. The data involved in these M&As plays a critical role in determining if the partnership can serve larger populations while managing costs and assuming greater risk. It can assist C-suite leaders to prospectively build the case for (or against) M&A ventures. A data-first approach using a platform like DOS gives access to disparate data from across the system, and is indispensable for successfully executing and seeing the full value of an M&A or partnership.

About the Authors

Tim Zoph, *Client Executive and Strategist at Impact Advisors*

Tim joined Impact Advisors as Client Executive and Strategist engaging leading healthcare providers in technology strategy and digital health. He also serves as an advisor to the Health Catalyst leadership team. He has served as Senior Vice President and CIO for Northwestern Medicine for over 20 years. In Tim's tenure, Northwestern Medicine advanced to a $5B integrated academic health system and is a recognized leader in quality, education and technology. In addition to his CIO role, Tim had management responsibility for the Facility Design and Construction team and Enterprise Project Management Office. He had oversight for designing, building and activating over $1B of new facility projects. Tim earned graduate business degrees from the Kellogg School of Business at Northwestern University and the McDonough School of Business at Georgetown University. He completed his undergraduate degree at the University of Utah. Through Tim's technology leadership, Northwestern Memorial Hospital has been awarded one of the 100 Most Wired Hospitals for 12 years. In December 2012, he received the Legacy Award from the Board of Trustees of the College of Healthcare Information Management Executives (CHIME) for his decade of commitment to training over 875 emerging technology leaders as Program Director and Faculty of the CIO Bootcamp. Tim is the recipient the John Gall CIO of the Year award co-sponsored by the Healthcare Information Management Systems Society (HIMSS) and CHIME in 2003. He was named the 2008 CIO of the Year by the Executives' Club of Chicago along with the Association of Information Technology Professionals. Tim has served on the Board of Trustees for the Chicago Academy of Sciences and its Notebaert Museum. He is a member of the Economic Club of Chicago. Tim and his wife Jodi have been married 26 years and have one son Barret. Tim is a coach and cyclist with the VisionQuest Coaching Team.

Dale Sanders, *President of Technology*

Dale Sanders has been one of the most influential leaders in healthcare analytics and data warehousing since his earliest days in the industry, starting at Intermountain Healthcare from 1997-2005, where he was the chief architect for the enterprise data warehouse (EDW) and regional director of medical informatics at LDS Hospital. In 2001, he founded the Healthcare Data Warehousing Association. From 2005-2009, he was the CIO for Northwestern University's physicians' group and the chief architect of the Northwestern Medical EDW. From 2009-2012, he served as the CIO for the national health system of the Cayman Islands where he helped lead the implementation of new care delivery processes that are now associated with accountable care in the US. Prior to his healthcare experience, Dale had a diverse 14-year career that included duties as a CIO on Looking Glass airborne command posts in the US Air Force; IT support for the Reagan/Gorbachev summits; nuclear threat assessment for the National Security Agency and START Treaty; chief architect for the Intel Corp's Integrated Logistics Data Warehouse; and co-founder of Information Technology International. As a systems engineer at TRW, Dale and his team developed the largest Oracle data warehouse in the world at that time (1995), using an innovative design principle now known as a late binding architecture. He holds a BS degree in chemistry and minor in biology from Ft. Lewis College, Durango Colorado, and is a graduate of the US Air Force Information Systems Engineering program.

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Health Catalyst is a next-generation data, analytics, and decision support company committed to being a catalyst for massive, sustained improvements in healthcare outcomes. We are the leaders in a new era of advanced predictive analytics for population health and value-based care. with a suite of machine learning-driven solutions, decades of outcomes-improvement expertise, and an unparalleled ability to integrate data from across the healthcare ecosystem. Our proven data warehousing and analytics platform helps improve quality, add efficiency and lower costs in support of more than 85 million patients and growing, ranging from the largest US health system to forward-thinking physician practices. Our technology and professional services can help you keep patients engaged and healthy in their homes and workplaces, and we can help you optimize care delivery to those patients when it becomes necessary. We are grateful to be recognized by Fortune, Gallup, Glassdoor, Modern Healthcare and a host of others as a Best Place to Work in technology and healthcare.

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