Heathcare's future is being shaped by some of the biggest companies in the world. However, the Federal Trade Commission seems intent on keeping hospitals from shaping that future.

In April of 2015, IBM launched Watson Health. Less than a year later, IBM has invested more than $4 billion in the division. It acquired Explorys, a cloud-based healthcare intelligence company; Phytel, a population health company; and Merge Healthcare, a provider of enterprise imaging, interoperability, and clinical systems. Most recently, it announced plans to acquire Truven Health Analytics for $2.6 billion. Watson Health also has relationships with Apple, Medtronic, Johnson & Johnson, and CVS Health. The division has more than 5,000 employees. “Our goal was to enter the healthcare industry in a big way,” said John Kelly, IBM’s Senior Vice President of Cognitive Solutions and Research.

Within just over a year, Roche, the world’s largest biotech company, made six acquisitions and investments in genomics companies: GeneWEAVE, Kapa Biosystems, Genia Technologies, Bina Technologies, Signature Diagnostics, and Foundation Medicine. Roche’s 2015 revenues were more than $48 billion, and it has more than 90,000 employees.

These are the kinds of companies that will be influencing and controlling healthcare in the future: Big data companies looking to narrow the use of high-intensity services through predictive analytics and personal health monitoring. Big pharmacies trying to gain more influence on the provision of low-intensity healthcare. Big insurers looking to position themselves as the organizers of care. And big drug companies looking to change the very nature of care with new genomic technologies. To stay in the healthcare game, a company needs big operations, big intellectual capital, big cash flow, and the ability to raise big capital.

At the broadest level, hospitals have two choices: stick to tradition and see their share of the healthcare pie and relevance shrink, or figure out a way to get big enough to compete in a much larger and more taxing arena.

Enter the FTC

The FTC appears determined to keep hospitals in the smallest box possible. Ignoring the changing nature of healthcare described above, the FTC applies an antiquated, price-focused view of competition, while other federal agencies take a relatively hands-off approach as hospitals’ new competitors grow.

In recent months, the FTC has picked up the pace of challenges to hospital mergers and acquisitions. Within six weeks, the FTC challenged a proposed merger between Advocate Health Care Network and NorthShore University Health System in the Chicago area; a proposed merger between Penn State Hershey Medical Center and PinnacleHealth System in the Harrisburg, Pennsylvania area; and a proposed acquisition by Cabell Huntington Hospital of St. Mary’s Medical Center in Huntington, West Virginia.

In these cases and others, the FTC’s challenges rest on the assumptions that these health system combinations will reduce...
competition, giving hospitals power to charge higher prices. Further, the FTC says that these combinations will not improve quality and efficiency.

These contentions are flawed. The FTC tends to define service areas narrowly, heightening the appearance of potential anti-competitive effects. The FTC assumes a pricing power that even large healthcare organizations don't have in the face of larger and growing insurers. And the enhanced capabilities for capacity management and care coordination that these hospital mergers facilitate are key to the federal government's own policies aimed at achieving improved quality and efficiency of both inpatient and outpatient services.

Far more problematic is the narrowness of the FTC's view of consolidation. By seeing hospital mergers primarily through the lens of pricing acute-care services, the FTC misses the enormity of change in healthcare and the critical importance of encouraging the not-for-profit provider community to be an essential part of that change. Hospitals will be pushed out of the market by IBM, the large insurers, CVS, Walgreens, and others unless they are big enough to compete both through traditional services and by expanding in many, many new directions.

Given current FTC policies and procedures, hospitals' battle for relevance is being lost before it can even be fought.

The Role of Consolidation for Hospitals

Government policymakers and market forces have converged on population health management as the starting line for our nation's efforts to reduce healthcare costs, improve care quality, and reduce fragmentation. Without scale and size, the vast majority of hospitals and health systems will be unable to develop the network size and breadth, talent, and technology to reach this starting line.

However, companies like IBM, CVS, and others are already moving aggressively beyond population health management, toward a new healthcare ecosystem built on sophisticated interactions among science, technology, scale, and service. Already, hospitals' competitors are more likely to be these multi-billion-dollar companies than another hospital down the street.

Despite the increasing pace of hospital and health system mergers in the last 10 years, very few existing provider organizations have the size to be a meaningful player in this environment. Any growth that hospitals have been able to achieve pales in comparison with the size of existing and emerging industry giants.

Hospitals are critical to the effectiveness of healthcare in America. Their pervasiveness, community focus, expertise in high-intensity services, and mission to stay by the sides of their patients across all levels of health and stages of life make hospitals central to a high-functioning national healthcare system. However, without the ability to get big, hospitals will find that they are at a competitive disadvantage in the emerging healthcare ecosystem.

The FTC clearly has a mandate and a job to do, but this set of problems should be thought about differently.

Your comments are welcome. I can be reached at: kkaufman@kaufmanhall.com.

Blog From the Chair


