

Some of the emerging partnerships in health care these days are between unexpected and diverse players. In a time that can most recently be described as ‘another day, another deal,’ industry forces across various sectors such as Uber, Google, WalMart and others, are rapidly dipping their toes in health care to spark a massive value-based transformation.

Capitalizing on new and unique alliance opportunities will be critical to thrive in a highly competitive market, but how can organizations ensure that they are thinking outside of their own four walls, and in innovative ways about the potential benefits that unlikely alignments might bring? In these Essential Insights, we explore some of the key drivers and observations behind this dynamic trend reshaping the marketplace.

Consolidation is the New Norm

“Healthcare executives will have their hands full in 2018 as issues that dominated most of 2017 continue to disrupt the industry and force providers to experiment with nontraditional care delivery approaches to lower costs and improve care,” Ilene MacDonald wrote [in a Fierce Healthcare article](#) earlier this year. And those forces are definitely still at work. Merger and acquisition (M&A) activity is on the upswing and predicted to continue throughout 2018, [according to Bain & Company](#). In 2017, “total disclosed deal value reached \$42.6 billion, the highest level since 2007, and deal count rose to 265 from 206 in 2016,” according to the report.

Value-based care is driving a lot of the activity, [as providers reevaluate their investments](#) to reduce costs and improve patient care. Having invested a lot of time and capital on value-based programs, including accountable care organizations, healthcare organizations are looking for demonstrable clinical and financial savings on their investments. For many, that means considering how new types of alignments and partnerships can help them gain a competitive edge, especially when it comes to leveraging new technologies that are rapidly driving change in the healthcare industry.

Factors Driving “The Healthcare Consolidation Frenzy”

Tom Schramski, president and managing partner of Vertess, and a certified merger and acquisition adviser and consultant pointed to [nine key factors driving the trend](#):

- Increasing reimbursement pressure and complexity
- Increasing reliance on managed care
- High cost of U.S. health care
- Technology that is becoming more advanced and costly

- Insurance companies becoming the new provider
- Funding environment instability
- Transparency that requires a retail mindset
- Strategic opportunities that abound and pent-up Baby Boomer exits
- An abundance of capital

In addition, much of the activity is self-fulfilling—in an era of consolidation and non-traditional pairings, healthcare leaders can't afford to sit back in complacency. Simply keeping up requires considerations of how creative partnerships can help them not only gain a competitive edge, but simply stay viable.

Identifying the Right Opportunities

When considering opportunities, healthcare organizations should consider their goals, their strengths and gaps in their capabilities and the capabilities needed to compete in today's market. It's no longer simply about forming alliances with other healthcare providers. Healthcare organizations are more likely [to explore partnerships with technology firms](#) that can help them keep up with the way consumerism is changing the way patients consider healthcare delivery—competition no longer comes only from the provider across town—today competition can come from anywhere in the world, with access to only a keyboard or mobile phone away.

Still, healthcare leaders are wise to exercise caution. Despite the high level of M&A activity, research shows that a high percentage of these partnerships fail. About 70 percent of the mergers in its database failed to achieve expected synergies, [says McKinsey & Company](#). According to McKinsey, much of the failures were generally related to customer issues and “assuming growth or share targets out of line with overall market growth and competitive dynamics.”

In the healthcare industry, particularly as partnerships between non-traditional players become more the norm, opportunities and challenges related to the success of these partnerships can be even more significant. Still, as industry analysts predict, M&A activity is likely to continue to be strong in the healthcare arena for the foreseeable future.