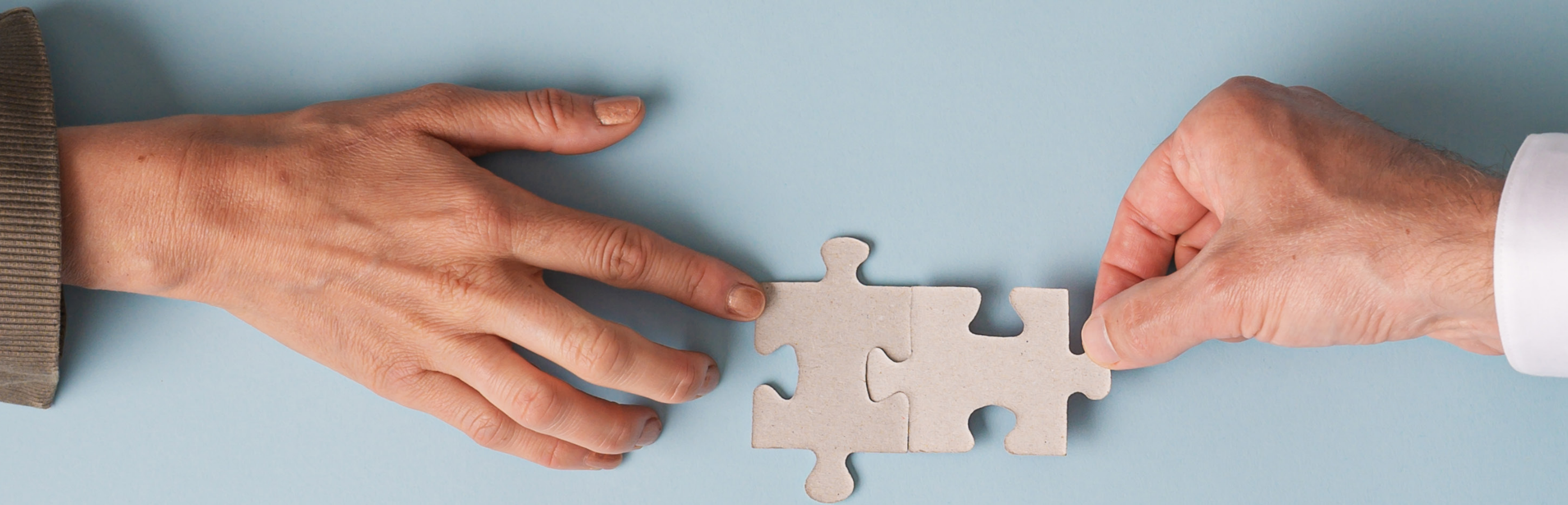

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HOW SMART DATA OPTIMIZES HEALTHCARE MERGERS & ACQUISITIONS

Prepared by SupplyCopia

Introduction

Healthcare is no stranger to M&A activity. No longer content to serve one or two cities, healthcare providers are enlarging their market footprint to become regional powers. That quest has led to a number of notable mergers and acquisitions in recent years:

- Atrium Health and Wake Forest Baptist Health merged to form a 49-hospital system
- Emory-DeKalb Memorial Hospital grew into a 10-facility system in the Atlanta market
- Jefferson-Einstein Healthcare of Greater Philadelphia continued to add locations
- Fairview-HealthEast added 11 locations in the Minneapolis-St. Paul market
- Ascension-Presence added 10 hospitals in metro Chicago, while Northwestern-Centegra grew to a 10-hospital system in the same market
- UnitedHealth Group acquired several physician practices, including DaVita Medical Group
- HCA Healthcare expanded its presence to now include half of all the states in the U.S.
- Humana bought Kindred Healthcare
- CVS Health merged with Aetna

Healthcare M&A Challenges

The reality of M&A is that stated expectations are not often met. The Harvard Business Review reports that 70 to 90 percent of mergers and acquisitions fail to meet their goals. Problems include lack of due diligence on the part of one or both of the parties; overpaying for an acquisition; underestimating the logistical costs of combining operations; failing to provide a perception of increased value to key customers and to stakeholders; difficulties in aligning the cultures of disparate staffs; and failure to properly integrate data and process management procedures to realize savings.

Healthcare M&A Goals

In all this activity, healthcare companies are seeking strategic connections to increase cost efficiency and accelerate their growth patterns.

These and other mergers and acquisitions are propelled by lofty expectations:

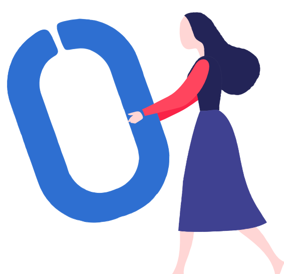
- Expand the geographic footprint and increase market penetration to increase market share
- Leverage a new, larger size to improve purchasing power
- Increase funds available for capital investments
- Deliver services more efficiently
- Decrease costs by eliminating redundant operations, staff and inventories
- Improve the quality of care
- Improve the bottom line and share value

With the desire to improve share values & the added cost pressures arising from the COVID-19 pandemic, healthcare M&A activity is likely to accelerate.

Focus on Assets that Improve Competitiveness

Companies that focus on how their assets will make the acquired company more competitive are much more likely to succeed.

An acquirer can improve its acquisition's competitiveness in a number of ways: smart application of capital for growth & infrastructure; provide better strategic direction and managerial oversight; add & share new skills and capabilities; apply best practices in process disciplines, particularly those where improved use of information technology can eliminate waste & improve outcomes.



Post-merger Integration in the Digital Age

Of all the assets that allow opportunities to realize value from a merger or acquisition, a smart digital strategy is likely the most promising.

Post-merger integration (PMI) is the complex process of combining and rearranging business units. The goal is to create a scalable infrastructure based on two distinct operational entities in such a way that the new company can reduce costs and, in the best of cases, define new revenue opportunities. With the right data, these goals can be realized.

Nowhere is that more important than in Materials and Procurement services, collectively known as Supply Chain. Supply Chain PMI requires planning, not only to optimize costs by identifying redundancies and merging inventories, but to also provide a roadmap that aligns healthcare procurement practices with existing ERP, EHR, and other system infrastructures and anticipates how procurement will evolve within the organization & in future regulatory environments.

A Path to an Optimized Supply Chain

Technology has already transformed healthcare, from faster and more efficient document processing to cutting-edge medical devices. For Supply Chain, the great promise is to use data management to merge data from the two entities to create a single master inventory list and to then use analytics to optimize purchasing and movement of goods systemwide, at any location. By using a Cloud-based platform, access to the system is available to authorized users 24/7/365, from any device, anywhere.

Among the features of an optimized Supply Chain software platform:

- Full data transparency
- Identify improvement metrics and best-practice procurement processes
- Optimize and rationalize inventory and vendor management
- Create vertical metrics that measure success and prioritize support needs for individual elements
- Harmonize supply chain processes across current organizations
- Align systems and capture economies within the first year of acquisition

Initiating an Optimized Supply Chain System

Three tasks are key to creating a single, optimized Supply Chain system for merged entities:

1) Normalize the sourcing and quality of item master data
2) Capture the existing inventory in every location
3) Align the infrastructure and processing of the new Supply Chain ecosystem

These three elements provide the health system with the tools to better manage procurement. Once reliable data is in hand, the organization can create a scorecard with actionable metrics and a playbook of resources for improvements.

Reducing Costs with an Optimized Supply Chain System

With the right data and analytics, a healthcare system can identify cost-saving opportunities, from merging inventories at warehouse facilities to improving procurements from individual hospital units.

To realize these opportunities, the new company needs to derive specific information:

- Extract data from multiple item masters within the newly formed organization
- Extract data from contracts, pricing constructs, tiered pricing and payment terms
- Extract supplier masters and any supplier diversity information
- Force rank the products based on unit pricing and tiered rebates
- If data from these sources proves to be insufficient, extract data from purchase orders, invoices, GL accounts & other sources
- Clean and classify the data using UNSPSC, GTIN and other standardized unique identifiers
- Map the cleaned data to a single customized nomenclature

A similar process of data-gathering and analysis is necessary to optimize storage facilities:

- Create an accurate baseline inventory record with a map of inventory network locations
- Identify opportunities to consolidate inventories and potentially reduce the number of storage locations

A Data System to Reduce Costs at the Micro-level

Consolidating inventory and closing redundant storage facilities is a relatively easy way to save money.

A merger provides an opportunity to use smart technology to realize cost savings over the lifetime of the new company, even with the potentially thorny subject of PPI (Physician Preference Items).

To realize savings, a healthcare system needs software to analyze the inventories of both companies:

- Compare and analyze unit cost pricing for all products to identify price-performance variances and create benchmarks of best-pricing from existing or alternative vendors
- Standardize products across the merged entity and consolidate volume
- Consolidate purchases for potential volume pricing re-negotiation
- Sell off dead stock to realize an immediate, one-time revenue event.

PPI inventory bears particular scrutiny: this category typically represents 40 percent of a healthcare system's inventory spend, with an even higher percentage for implant-related items. In a merger, management must find a way to reduce duplication of inventory for items meant to deliver the same medical outcomes.

Fortunately, data analysis can address PPI:

- Use analytics and machine learning to build models for an "optimized bill of materials" (BOM) for each physician procedure
- Standardize purchases based on the new BOM

Once implemented, standardizing PPI-related purchases can deliver 20 to 40 percent cost savings, a far greater value than the three to five percent savings on merger process efficiency improvements.

Management may get push-back from individual physicians. Education is key: plan to distribute studies that validate the efficacies of standardized items.

Is a new ERP necessary?

Management may face the challenge of merging organizations with two different ERP systems, or two variations of the same ERP system. The question arises: do we need a new ERP system?

Many merging companies opt for a new ERP system, despite the significant, multimillion-dollar cost and long and complex implementation process.

Despite the allure of a "shiny new system," management should consider that it is data, not the system, that is of paramount value. Time and expense devoted to creating a single, integrated data warehouse makes smart decision-making possible – on allocation of resources, pricing and purchasing of items and procedures, optimizing processes to maximize efficiencies. Such a "decision support system" will deliver measurable benefits, regardless of the ERP system.

Smart Data is the key

The combination of clean data and analytics provide a solid foundation for a merged healthcare organization to improve its operations and realize cost savings.

The centralization of Supply Chain functions strengthens the merged entity's network and creates the opportunity not only for cost savings, but to also transform Supply Chain into a revenue center.

Smart Data can Improve Quality of Care

Considerable research has been done that compares prescriptions and procedures to desired outcomes.

Aligning Physician Preference inventories (PPI) across the system can not only realize costs savings, but with the proper analytics, will also deliver higher quality patient care.

For example, software data analytics can use machine learning and natural language processing to cross-reference medications to find functional equivalents at better price points and optimize the procurement and inventory processes.

Summary

Smart Data Improves a CEO's Decision-making

Once clean data is available from both parties, a CEO can make informed and intelligent decisions that lead to an optimized merger or acquisition. This data-centric approach supports the goals of growth in scale and revenues, improvements to the bottom line, and a leadership position within the market.

SupplyCopia was created to address the critical lack of supply chain intelligence faced by healthcare organizations. This is especially problematic because it can adversely affect quality, costs, and patient outcomes, and the development of more effective relationships among providers and suppliers. SupplyCopia applies the latest data science and software technology to bring maximum transparency to both major constituent groups of the supply chain - to the benefit of both and expense of neither.