COMPEITORS COLLABORATE

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Merger and acquisition activity among healthcare service providers continues at a blistering pace. Hardly a day goes by without learning of a new combination among providers. We expect this activity to continue as the factors driving consolidation (Affordable Care Act; declining reimbursement; transitioning away from fee-for-service model) are also contributing to the increasing rise in collaboration among competitors.

A recently announced example is the collaboration among Anthem Blue Cross and seven hospital systems in the Los Angeles and Orange County areas (Cedars-Sinai, Good Samaritan Hospital, Huntington Memorial Hospital, MemorialCare Health System, PIH Health, Torrance Memorial Medical Center and UCLA Health) that led to the creation of Anthem Blue Cross Vivity (“Vivity”). Vivity will initially target large employers in the Los Angeles market, and coverage will be effective January 1, 2015.

The “narrow market” Vivity plan is designed to align the financial risks and rewards of providers and payors through population health management in a manner that will (hopefully) be an appealing alternative to the high-deductible plans many large employers offer their employees. A person selecting the Vivity plan will not have to worry about whether he or she has met a deductible in deciding to undergo a certain diagnostic or medical procedure. In a back-to-the-HMO/PPO-future-type environment, Vivity members only need to be concerned with paying monthly premiums and any required copayments.

On its face, Vivity appears to be well positioned to facilitate Anthem’s and its hospital affiliates’ ability to capture market share from payors such as Kaiser and providers of healthcare services in the Los Angeles MSA. We foresee several potential obstacles, however, to the success of this collaboration among competitors.

1. Will the hospital systems be willing to share information and expertise with one another while implementing the population health management tools? For example, if Cedars has a competitive advantage in, for example, reducing readmissions, will it be willing to share those techniques with UCLA? If it is willing to do so, what prevents UCLA from using those techniques across the rest of its delivery system and thus negating the competitive advantage that Cedars formerly held?

2. Will the hospital systems develop two different care paths - one for Vivity members (with an eye towards driving down the cost of care) with another maintaining an emphasis on filling hospital beds with patients that are not Vivity members?

3. How will the anti-trust agencies react if the hospital systems are sharing competitively sensitive information outside the admittedly murky framework of clinically integrated organizations?

In light of the visionary experiment that the participants in the Vivity venture have embarked on, we suspect that they are more likely than not to overcome many, if not all, of these potential stumbling blocks.