Partnerships & Affiliations As A Strategy For Sustainability & Growth

Meeting Dates: May 12th, 2022 1:00PM

May 17th, 2022 10:00AM

Agenda

I. Reasons To Develop A Partnership Strategy
II. Models For Organizational Partnerships
III. Creating A Partnership Strategy Roadmap
IV. Positioning For Partnership Success
V. Questions & Discussion

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Learning Objectives

Participants will learn how to:

1. Understand how partnerships can align with organizational strategy and what options exist.
2. Discuss how to identify the “right” partner.
3. Identify the key factors that lead to a success partnership.

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I. Reasons To Develop A Partnership Strategy

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Key Reasons For Post-Pandemic Partnerships, Affiliations & Mergers

Strengthen Core Business	Collaborate For Integration	Strengthen Intellectual Capital
Strategic assessment and deployment of organizational resources to create a nimble organization that adapts as the industry changes, but continues to focus on performance improvement and outcomes Align with organizations that have innovative services that are complementary or are not provided by the acquiring organization	Build partnerships with organizations to address system gaps and improve whole health service delivery	Acquiring significant talent and intellectual capital helps navigate innovation in a changing market – technology, new clinical protocols and service paradigms, new market development, changing business models

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The Advantages Of Economic Scale

1. Economic scale can make larger organizations more efficient as costs are spread over more services—resulting in a lower unit cost.
2. Size alone doesn't matter—it needs to be combined with strategy, efficient operations, quality systems, and key performance factors.
3. Organizations need to be careful to not lose focus on innovation and nimble leadership as they grow larger.
4. Informed strategy, targeted synergies, clear performance outcomes, and effective execution are key success factors.
5. Many large organizations don't achieve the efficiencies of scale because they have too many different programs that prevent leverage of their infrastructure.
6. A key goal of scale is increasing your "talent" ratio.

- **Synergy** – the concept that the combined organizations have greater potential than the original organization alone
- **Revenue Synergy** – an opportunity where two combined organizations can earn more revenue than as separate organizations
- **Expense Synergy** – an opportunity where two combined organizations can reduce expenses

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Why Pursue Partnerships, Affiliations & Other Business Combinations As An Organizational Strategy?

- Economies of Scale/Reduced Costs Per Unit
- Expansion of Services
- Expansion of Geographic Reach
- Opportunity to Rebrand
- Enhanced Collaboration / Population Health Opportunities
- Increased Internal Talent
- Increased Opportunities for Innovation
- Better Infrastructure & Technology
- Enhanced Opportunities for Payer Contracting

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Opportunities For Partnering Organizations

A “failing” organization that may not be able to continue services

An organization seeking to be acquired

A competitor organization with talent, reputation, and a strong culture where there have been ongoing discussions about a potential partnership

A competitor organization whose CEO is retiring

A primary care or other specialty provider with complementary services

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II. Models For Organizational Partnerships

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Lexicon Of Business Combination Terms

Merger – a combination of two organizations into one structure where the legal structure of one, or both, organization does not continue

Acquisition – a combination of two organizations where one organization purchases the assets or stock of another organization

Affiliation – an agreement where two organizations with separate legal structures work together with varying combinations of governance, leadership and asset sharing

Joint Venture – a commercial enterprise of two or more organizations that retain their separate legal structures

Stock Purchase – an acquisition of an organization by purchasing stock (including organizational identity and potential liabilities)

Asset Purchase – an acquisition of specific assets of another organization, but not the corporate identity

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There Are Many Collaboration Models

- Merger – Two Non-Profit Specialty Organizations
- Merger – Non-Profit Specialty & Primary Care Providers
- Acquisition – Non-Profit By For-Profit Provider
- Acquisition – For-Profit By Nonprofit Organization
- Acquisition – Specialty Provider By Non-Profit Health System
- Acquisition – Specialty Provider By Health Plan / Managed Care Organization
- Joint Venture (New Company) – Two Or More Provider Organizations
- Joint Operating Agreement – Shared Administrative Organization
- Administrative Service Organization – Shared Services For Multiple Providers

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Organizational Impact Of Different Business Combinations

- Collaborative
- Lower Risk
- Greater Autonomy
- Less ROI

- Efficient
- Higher Risk
- Less Autonomy
- Greater ROI

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III. Creating A Partnership Strategy Roadmap

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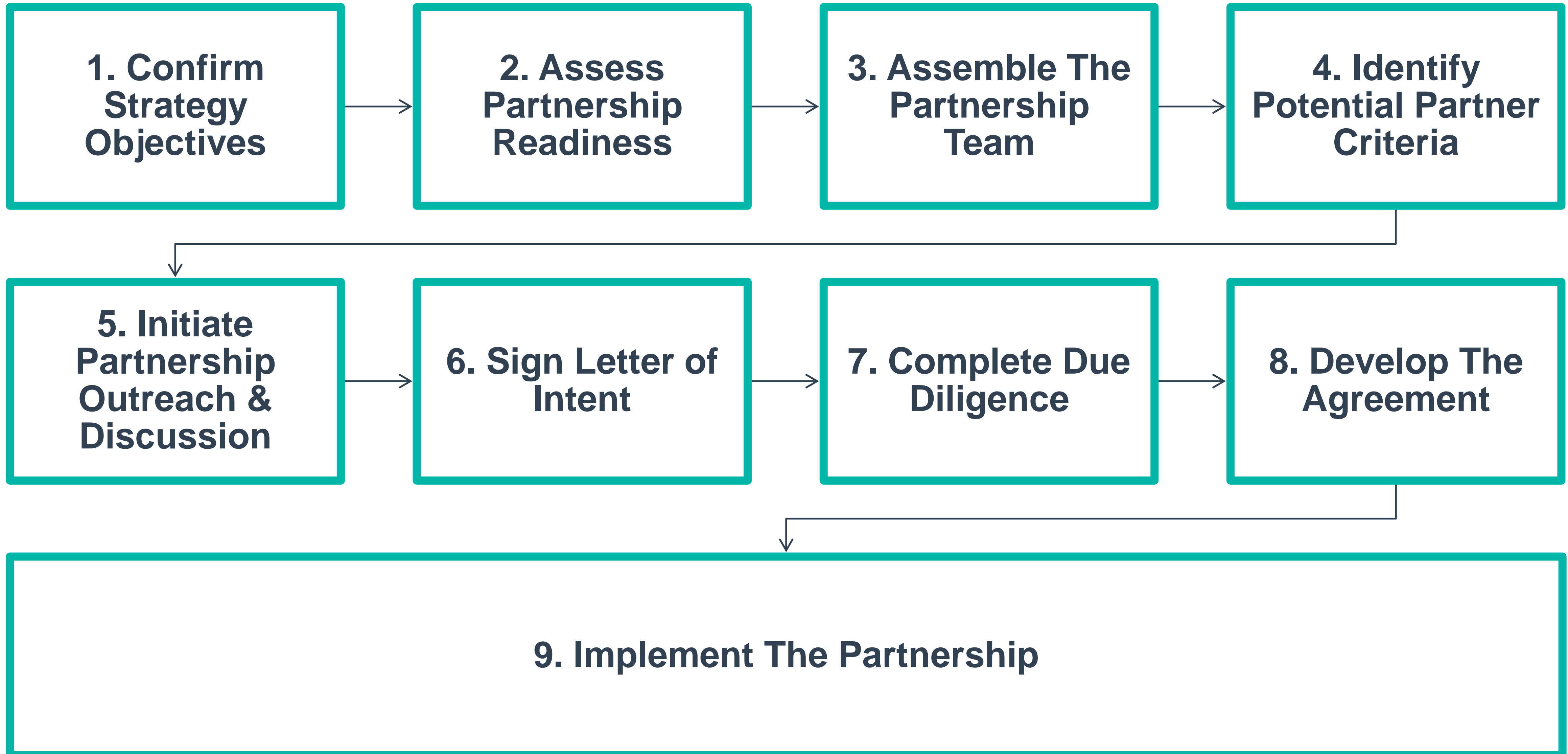
Key Milestones In The Partnership Strategy Roadmap



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Confirm Strategy Objectives

1. Alignment - Having an intentional partnership strategy will ensure that it supports the overall mission, vision, values and strategic plan of the organization.

2. Focus – A clearly defined partnership plan will give clarity to the selection process of potential partners – avoiding wasted time, money, and potential failed integrations.

3. Acceptance – Board members, staff, community stakeholders and consumers will be more supportive of partnership activity if they understand the strategic reasons and potential impact of improving and expanding services.

4. Impact - Partnerships will have an increased probability of benefiting the organization and improving operations if they are strategic and follow a plan based on best practices.

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Partnership Goals Need To Reflect Organizational Strategy

Partnering strategy must reflect your mission, geographic location, service lines, expansion priorities, and infrastructure:

- A merger of two major provider organizations in an area (city or state) to provide a more comprehensive array of services for consumers
- Affiliation between multiple provider organizations in a densely populated area to strengthen overall service delivery and create economic scale and better infrastructure while preserving the cultural focus on diversity.
- Joint venture of two provider organizations to create a new service for a specialized population with separate contracting, marketing and technology needs.

Common Partnership Goals:

1. Diversification of services, geographic reach, or income.
2. Value creation through revenue and expense synergies – eliminating inefficiencies and building on a stronger infrastructure.
3. Expansion of specialized talent – technology, marketing, finance, and clinical specialists (building competitive "bench strength").
4. Integration of provider organizations that no longer have the economic scale or leadership to compete in the increasing complex market – digital first, value-based contracting, well-financed competitors entering the market.

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Key M&A Strategy Planning Questions

What are your goals for the partnership?

What is your organizational culture, and how will you assess the cultural fit of the other organization?

What talent do you want to bring into your organization?

How will you identify potential organizations to partner with, and how will you confirm they align with strategic market objectives?

Who will you choose as your internal and external implementation teams?

How will the partnership be funded?

How will you bring your board, executive team, managers, donors, and other stakeholders into the process, and when?

Who will drive the integration process?

2

Assess Partnership Readiness

A. Board Engagement

B. Resource Planning

C. Eyes Of The Buyer

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Assess Partnership Readiness

Continued

A. Board Engagement

The nonprofit board's governance responsibilities play a key role in the partnership process.

1. Engage the entire board in the partnership strategy planning process – goals, resource planning, partnership workplan, communications, and determine if any board members have partnership experience.
2. Assess the relationship between the leadership team and board, and the relationships between the board members – strained relationships or communication issues may lead to challenges as the partnership process progresses.
3. Determine whether issues related to high turnover in the leadership team or board members have been identified and resolved.
4. Clarify the role of the board in the M&A process – (Will the they form a partnership committee? Will leadership staff lead the process?)
5. Discuss the ideal structure of the future merged board – how many board members from each organization, and who will be in officer positions?

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Assess Partnership Readiness

Continued

The partnership plan requires a budget to ensure that there are adequate resources for each stage of the process. The resources required vary based on the size of the organizations and the timing of the process. The budget should consider the potential costs listed here.

B. Resource Planning

Stage	Potential Costs
Partner Identification	▪ Legal fees associated with educating the board ▪ Consultant fees associated with educating the board and identifying potential partners
Due Diligence	▪ Legal fees related to assessing risks, drafting partnerships documents (i.e. letter of intent) ▪ Accounting fees for assessing financial operations and projecting future operations and potential synergies ▪ Consultant fees associated with assessing due diligence relations to clinical services and operations
Partnership Implementation	▪ Consultant fees associated with integration activities ▪ Additional staff with partnership project implementation expertise ▪ Temporary reductions in revenue due to inefficiencies in the implementation process, revenue cycle integration issues ▪ Technology systems integration cost

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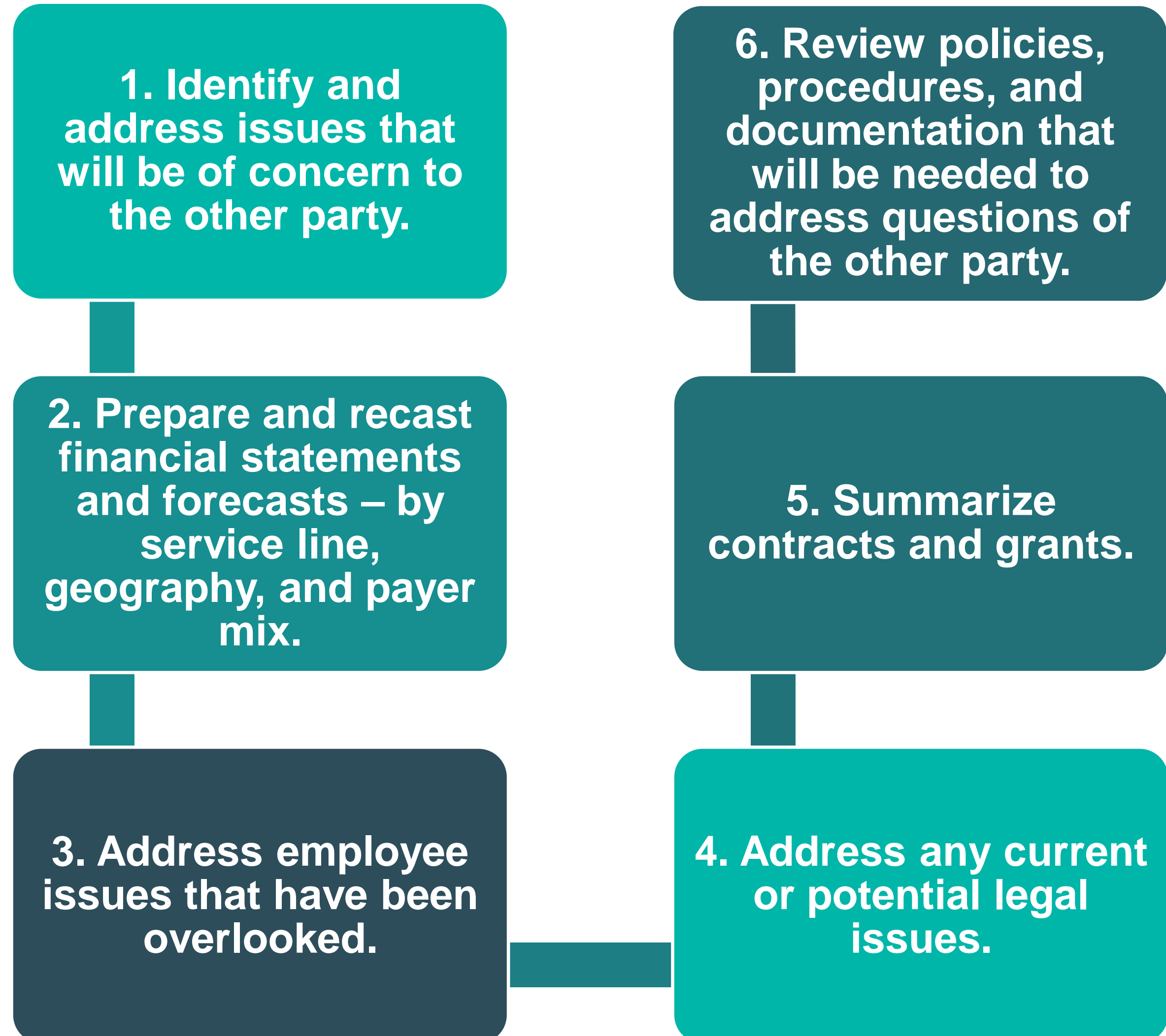
Assess Partnership Readiness

Continued

Questions to consider

- How do we add value to the partnership?
- How do we meet the joint goals of both partners?

C. Eyes Of The Buyer (EOTB): Steps by Both Organizations to "Clean House"



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Assemble The Partnership Team

A successful partnership needs an experienced team with the necessary expertise to keep the process moving, reduce risk, and maximize the final value:

Partnership Facilitator – may play a number of roles in the process; market intelligence and strategy, identification of potential partner organizations, recommended business combination, facilitation of communication.

Legal Counsel – ensures that both parties understand all legal ramifications to make informed decisions, ensures compliance with all regulations, reduces risk by providing legal counsel, prepares all formal documents.

Financial Counsel – prepares and/or reviews financial reports, advises on regulatory reporting on tax issues, and may be involved in estate planning or compensation structuring in for-profit acquisitions.

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Identify Potential Partner Criteria

1. Develop the profile of an ideal provider.

- For-profit or not-for-profit
- Size in terms of revenues
- Geographic location(s)
- Service lines
- Clinical specialties and expertise
- Key contracts, provider numbers, licenses, etc.

2. Identify provider organizations that meet the profile criteria.

- Formal Process - Engage a partnership "facilitator" to identify potential partners that meet your criteria to create a target list, reach out in a "blind" outreach process, and initiate communication.
- "Opportunity Knocks" Approach – You become aware of an organization in transition that meets your partnership criteria - another organization reaches out to you, CEO retirement, provider organization facing sustainability issues.

3. Assess potential partners and create a partnership pipeline.

- The partnership pipeline tracks each potential partner, and the priority, timing and approach for contacting the organization. The pipeline will identify the state of the partnership process for each organization (initial outreach, letter of intent, due diligence, etc.).

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Initiate Partnership Outreach & Discussion

The key objective of initial outreach and discussion is to determine if the partnership is a reasonable possibility for both organizations.

This step is also known as the "dating phase" and should not go on forever. The parties should be able to determine whether there is a likely fit within months, not years.

1. Non-disclosure agreements are usually signed to create the opportunity for both organizations to be open and confidentially explore the potential opportunities and challenges of a partnership before formally agreeing to move forward with the process, and allows for some preliminary due diligence.
2. The agreement may have "exclusivity" for a specific time period during this dating phase.
3. This is an important step because moving forward will require an investment of resources.

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Sign Letter Of Intent

The letter of intent is the document that moves the parties from consideration of a partnership to an agreement to work together on the partnership framework – it moves the parties from concept to commitment.

The agreement will:

1. Contain binding and non-binding terms.
2. Identify the type of business combination to be implemented.
3. Set the expectation of confidentiality on the part of both organizations.
4. Identify an overall schedule for moving the partnership along – timeline, access to records, due diligence schedule, internal and external communications.
5. Provide an opportunity to ensure that the need for full disclosure is documented and that the timeline is sufficient, but no longer than necessary.

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Complete Due Diligence

- This is the phase where a thorough due diligence is conducted and documented.

- There are two key goals:
  1. Ascertain that there are no problem areas that would make the partnership a bad idea;
  2. Determine financial feasibility of the partnership.

- Typically, this due diligence process can be completed in 60 to 90 days.

- The completed findings of the due diligence process should be presented to the executives and boards of directors so a final decision can be made about whether to proceed with the partnership.

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Develop The Partnership Agreement

Develop & Implement The Partnership Agreement

1. This is the final legal phase of the process.
   - Legal counsel will be required to implement the structure changes.
   - Clarity of wording and focus on details will be needed to avoid future conflicts.
2. It may also involve getting approval for the partnership from regulatory and other authorities.
   - Ongoing communication with state and local authorities, and payer and grant sources will ensure that there are not issues with final approvals.
3. Communication – both with internal board and staff, and external stakeholders is important to position value of the partnership to consumers, employees and the community.

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Implement The Partnership

1. Have an integration plan, including a communications plan, developed by the time you close the agreement.
2. Align performance expectations around the reason for the partnership and set quantifiable performance goals and track them.
3. Commit to one culture.
4. Resolve power and people issues quickly—pick the team with enthusiasm for the new vision.
5. Develop detailed implementation plans for every aspect of the business operation—with realistic expectations of the pace of each change (finance, tech, branding, website, marketing, service line definitions, HR, physical plant decisions, etc.).
6. Have a designated integration project manager to coordinate the many moving parts (this is parallel to the project manager for a new tech implementation) —and pick a select group of executive sponsors for the integration team.
7. Employ change management best practices to win “hearts and mind” of the staff on both sides—communicate a consistent vision.
8. If you plan to do more partnerships, develop a "repeatable" implementation model.

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IV. Positioning For Partnership Success

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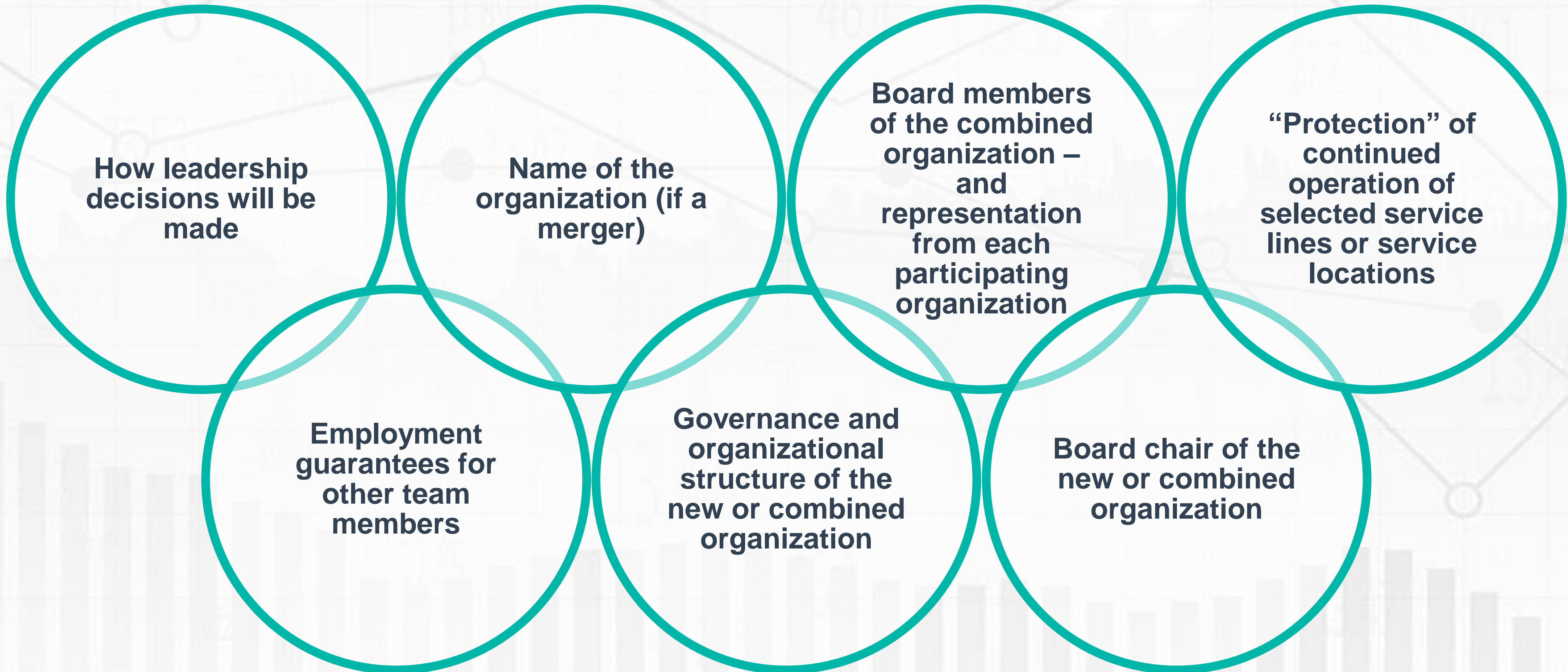
Obstacles To Partnerships



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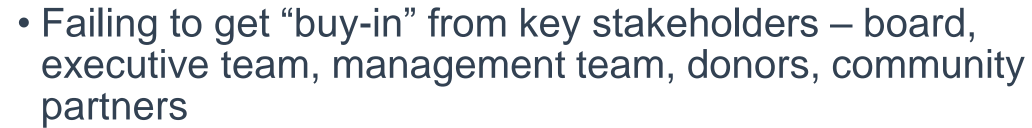
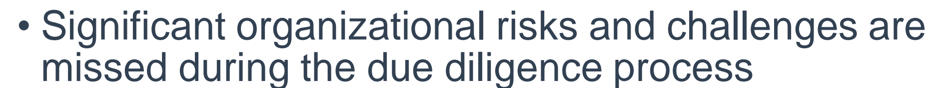
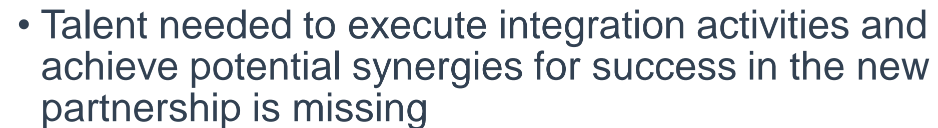
Factors That Contribute To Implementation Failure







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Partnerships To Address “Urgent” Cash Needs

1. During a weak economy, some combinations are driven more by survival than by growth.
2. A partnership can be a path to financial solvency brought on by the crisis, it preserves the mission and services to consumers and creates a sustainable profit margin.
3. Careful consideration of the best legal structure is crucial to limit potential liabilities.
4. Due diligence cannot be rushed – even if one of the organizations has urgent cash needs.
5. Projected financial balance sheet and income statements of the combined organizations with obtainable assumptions are necessary.
6. Emotional topics and potential “deal breakers” need to be identified and addressed even though there may be urgent cash needs.

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Questions To Consider When Assessing An Organization With Urgent Cash Needs

- Are the cash issues related to outdated contracts, culture, poor leadership, or lack of economic scale?
- Will the partnership have a positive impact on the organizational mission?
- Is there sufficient time for a thorough due diligence process?
- What will the balance sheet look like after the partnership?
- Does the cost structure and related unit costs support sustainability and profitability after the partnership?
- What is the best type of combination for this situation to maximize opportunity and minimize risk (i.e. merger, stock purchase to create for-profit subsidiary, asset purchase)?

The *OPEN MINDS* 10 Guiding Principles To Successful Partnerships

1. Planning comes first

- Start with a plan to create strategic advantage and don't waste resources due to lack of purpose and focus

2. Be systematic and have a process

- Lay out the process and decision criteria in advance so you aren't distracted as issues arise

3. Use experienced talent

- Most organizations need additional knowledge and expertise to make sound decisions – market intelligence, legal, finance, political ramifications

4. Be deliberate in partner selection

- Have a planned, deliberate (not necessarily slow) process for finding potential partners

5. Be sure the priorities of all parties align

- Make sure goals of all partners line up early in the process

6. Expect to give and get full disclosure

- Due diligence involves investigation and assessment and requires complete openness by all partners

7. Allow decision-making to evolve

- Strategic plans need to be flexible as realities change – be willing to do things differently and better

8. Build in time for a competitive process

- Having multiple partner choices enhances to the quality of the final partner selection decision

9. Design an implementation plan

- Ensure that there is an implementation plan that includes tactics, assigned responsibilities, and a budget

10. Prepare for stakeholder questions

- Develop a communication plan to address questions and concerns from consumers, customers, referral sources, payers, regulators

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V. Questions & Discussion

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