

ARTICLE

Children's Hospitals and IDNs: Partnering with Purpose for the Age of COVID-19

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Executive Summary

With the economic challenges created and exacerbated by the pandemic, many comprehensive integrated delivery networks (IDNs) must rebuild their balance sheets and are actively reassessing their service line portfolio as one means for doing so. A potential outcome will be an openness to reconsidering how to most efficiently and effectively secure access to services such as pediatrics, where the economics of independently maintaining a viable program may be unsustainable. This creates a window of opportunity for children's hospitals to expand their role and/or to formally partner with IDNs in pediatrics.

While children's hospitals and IDNs have long partnered on pediatrics services in many markets, there is a renewed opportunity to proactively accelerate and extend existing relationships or, in some cases, create new ones. New approaches to partnerships offer a compelling value proposition that is a win-win for both children's hospitals and IDN partners (and their affiliated physicians), where children's hospitals can be the "best-in-class" pediatric program embedded in a portfolio of health system partnerships.

To deliver both immediate and long-term value to all constituents in this unprecedented time, organizations can apply learnings from traditional arrangements while pivoting to take advantage of newer digital capabilities and alternative partnership structures and economic arrangements that create an almost "ready-built" offering for IDNs.

Time is of the essence—children's hospitals should be proactive in actively engaging potential partners that represent a strong fit for the organization.

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Partnering with Purpose to Combat the Pandemic's Impacts

The pandemic has led to a substantial erosion in health system financial strength. While experiences vary as it relates to the pandemic, all health systems are considering how to be prepared for potential future surges while also focusing on near-term efforts to rebuild their financial strength. This creates 3 issues with specific implications for children's hospitals, including:

Flexibility in capacity will be key. Being able to flex capacity up or down in a more efficient matter will be critical for the foreseeable future. COVID-19 demand surges will need to be met with strategies to free up capacity rapidly. One of the main ways IDNs could accomplish this is by repurposing pediatric units for adult patients. Some organizations, such as Children's Hospital Colorado and Texas Children's Hospital, developed coordinated plans with health systems across the region to quickly transfer pediatric patients or accept adult patients, creating capacity at IDNs.

Many health systems need to evaluate what level of pediatric service is sustainable economically and the ideal approach to providing these services (on their own or in partnership). Frequently representing less than 10% of a health system's revenue, pediatrics will come under increasing scrutiny as it often financially performs below other clinical services. That said, pediatrics holds a special place from a mission perspective and is an important link to maternity services and primary care networks. Given this, some IDNs will want to avoid eliminating the service completely.

Partnerships will be part of the recovery recipe from the pandemic for all types of healthcare providers. Over the past 10 years, many health systems have built large portfolios of partnerships designed to support their strategic and financial aspirations. As a result, IDNs are more comfortable and accepting of single-focused partnerships, particularly in areas they consider to be non-core. In the current environment, IDNs may find that a focused partnership with a pediatric provider can enable them to more effectively serve pediatric needs without bearing the full strategic and economic responsibility on their own.

Next Generation IDN–Children's Hospital Partnership Models

Most children's hospitals have a long history of partnering with IDNs to elevate care for children by bringing comprehensive and sophisticated pediatric care to a broader region. While collaboration models have varied across the country, these partnerships have typically focused on supplying pediatric subspecialty expertise and leveraging the children's hospital brand to drive growth in the number of pediatric lives served by the health system. Going forward, children's hospitals must take greater initiative to prospectively define the menu of options they seek to pursue in discussions with potential partners. The range of partnership models

and options must take into consideration both the clinical needs of the IDN as well as the children's hospital's ability to drive scale and high-quality care efficiently. Key elements of these “pre-built” models/options include:

Next-Generation Partnership Models



LEADING WITH TECHNOLOGY

The rapid adoption and easing of regulatory restrictions for virtual health has changed the definition of relative geography and has enabled much broader reach for specialty services and capabilities provided by children's hospitals. Given this, children's hospitals will need to design their partnership offerings with technology as a foundational and leading element. This can include direct-to-patient virtual care and utilization of hospital-to-hospital digital operating capabilities. Children's hospitals will need to invest in building infrastructure that allows for remote patient monitoring and caregiver guidance in real time. There are emerging examples of these capabilities being built by multi-hospital systems and even select children's hospitals; however, to be truly transformative, these must be the foundation, rather than merely a potential benefit, of children's hospital partnership offerings.

Clinical and operational efficiency at the forefront

Technology is enabling new opportunities to improve efficiency but is only one component of designing a partnership model that enhances quality and minimizes cost. The entire operating model of pediatrics in an IDN will need to evolve to be more economically sustainable for both parties. Much of the future value creation should be based on driving operational efficiency across a broader set of pediatric-focused assets and services. Several elements to incorporate include:

- **Greater use of advanced practice providers—on-site and remotely.**
- **Use of more cost-effective physician structures—alternatives to historically expensive faculty physician cost models. This could include use of non-faculty, or “faculty-lite” physician models.**
- **Organizing the care model to deliver care in the most appropriate setting—leveraging a broader array of community to quaternary assets to deliver more cost-efficient care.**

Clinically integrated with women's and infant programs, local pediatric providers, and community services

Building partnership models that acknowledge the value of connectivity to women's and infant services, as well as the important role of local physicians (pediatricians and specialists) and other community resources (e.g., social services, school health programs) in serving children will achieve multiple objectives. These include ensuring coordination from birth into primary and specialty care, reducing duplication of scarce pediatric resources and recognizing the value that local physicians bring to the market. As part of any partnership design, clinical integration structures and activities that immediately engage local providers and resources in the plan for improving children's care in a market will be an important mechanism for buy-in and to enhance care coordination.

Economically viable and sustainable

One of the biggest challenges with many existing pediatric–IDN partnerships is working through an economic model that is sufficiently rewarding to both parties. The historic economic model of a shared return on incremental operating margins requires consistent volume growth to be accretive to both parties.

The current pandemic environment presents two major challenges to the “incremental margin share” model. First, this model operationally relies on shared oversight and management of the pediatric enterprise and can be time-consuming in an era when leadership attention must be focused on the most pressing endeavors. Second, health systems will be under increased pressure to rapidly maximize the economic return of their asset base. As a result, many health systems will be focused on generating immediate value from their pediatric programs, rather than waiting for a longer-term, higher-risk partnership strategy that relies on incremental growth as the primary driver of value. Potential health system partners may prefer an approach that monetizes their pediatric programs through consistent, predictable future cash flows. These models will need more definitive structures, such as leases or outright ownership transfers, of pediatric assets or services. One implication to consider will be how these models transfer risk to children's hospitals to deliver a high standard of care efficiently. If designed prospectively with this reality in mind, it will be a manageable risk to accept.

The current crisis is exacerbating and accelerating longer-term trends that require children's hospitals to grapple with how to build the scale necessary to manage the demand and financial challenges ahead. Children's hospitals should reassess future market demand and internal growth requirements, prospectively develop a menu of viable health system partnership options, understand the potential health system partners and develop criteria to prioritize outreach—all while ensuring the partnerships can meet the strategic and financial goals of the organization while also providing value for the IDN partner. There are benefits for those children's hospitals that can continue to build scale and, simultaneously, support their IDN counterparts facing operational and financial turmoil.

Our services

STRATEGIC TRANSFORMATION

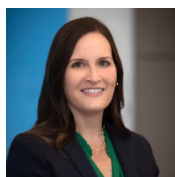
PERFORMANCE TRANSFORMATION

DIGITAL & TECHNOLOGY TRANSFORMATION

CHARTIS CENTERS FOR AI & STRATEGIC INTELLIGENCE

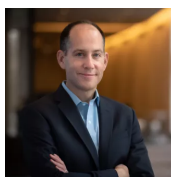
PAYER TRANSFORMATION

STRATEGIC COMMUNICATIONS & CHANGE MANAGEMENT



Melissa Anderson

Senior Partner



Brian Thygesen

Senior Partner