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Are hospital M&As helping or hurting healthcare's digital health push?

Article

The news: The **American Hospital Association (AHA)** wrote a letter to the **Department of Health and Human Services, Department of Justice (DOJ),** and the **Federal Trade**

Commission (FTC), arguing that hospital mergers don't negatively affect quality of care or pricing and can actually result in cost savings and improve care quality.

For context, the AHA represents around 5,000 hospitals and health systems in the US.

The bigger picture: Healthcare M&As have been ramping up, especially as organizations look to build out their digital health capabilities—but it's raising anti-competitive alarms.

Over the last year, there have been more and more mega-mergers in healthcare: e.g., **Optum's $13 billion** acquisition of healthcare analytics co **Change Healthcare** and **Teladoc's $18.5 billion** acquisition of digital therapeutics company **Livongo**.

- This has sparked a ton of scrutiny from provider networks and government officials worried about how consolidation will impact competition in healthcare: For example, Optum's Change Healthcare deal was under investigation by the DOJ because it could diffuse competition for health IT services, considering Change Healthcare processes 1 in 3 of all healthcare claims in the US.
- And the Biden administration recently signed an executive order in July targeting anti-competition across industries, including hospital mergers.

The problem: Hospital consolidation isn't just a concern of anti-competition—industry consolidation can also put a greater financial burden on patients.

Hospital execs think consolidation improves efficiency, access to care, quality of care, and opportunities for innovation.

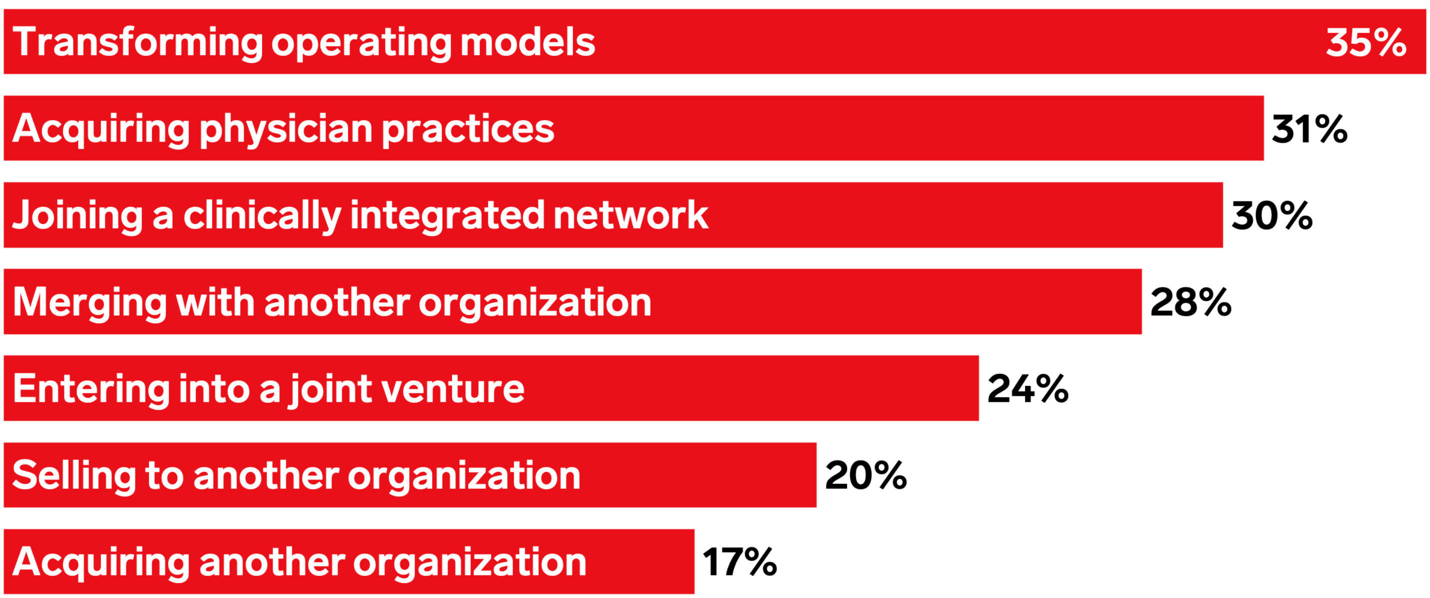
- 28% of healthcare CFOs plan to pursue healthcare mergers, and **18%** plan to pursue acquisitions to scale and capitalize on innovations.
- Combining provider networks can help cushion individually dwindling operating margins and present greater opportunities to invest in innovative digital health solutions.
- **Around two-third (65.8%) of healthcare executives** say increasing telemedicine and tech capabilities are top priorities at their organization, per HFMA's March 2021 Outlook Survey—and many are already doing so via M&A deals.

But consumers end up with the short end of the stick as provider entities become bigger, all-encompassing entities: they can end up with higher costs. Consolidation gives hospitals more power to increase the prices of their healthcare services and procedures: e.g.,they can ask insurance cos to pay more for services since they control a greater chunk of the healthcare consumer market. And that eventually results in higher copays and premiums for patients.

The bottom line: If hospitals invest in digital health tech that's proven to help drive their costs lower, it'd be in their best interest to keep pricing affordable for consumers—especially for primary/urgent care departments competing against direct-to-consumer healthcare startups with transparent pricing, like **Ro** and **Hims & Hers**.

Healthcare CFOs Plan to Increase Partnerships and M&A Activity

Q: Which of the following are you planning to pursue in 2021?



Source: BDO, "The 2021 BDO Healthcare CFO Outlook Survey", January 2021
Methodology: Data is from the January 2021 BDO report titled "The 2021 BDO Healthcare CFO Outlook Survey" conducted by Rabin Research Company. 100 US CFOs from for-profit and non-profit hospitals, physician offices, long-term and post-acute care, home health, and outpatient and ambulatory service provider organizations were surveyed in September 2020.

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