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The Rise of 'Super Regional Systems' and What It Means for Healthcare
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Consolidation has touched all facets of healthcare, including hospitals of all sizes, medical groups and insurers, and this trend will significantly affect the industry as a whole.

Mergers, acquisitions and other types of partnerships are critical as hospitals focus on providing coordinated, cost-effective care. There has been an increase in hospital M&A in recent years, with transactions rising 18 percent in 2015 compared to the year prior, according to an analysis by Kaufman, Hall & Associates.

Through consolidation, hospitals become more efficient and, many times, improve care quality. However, consolidation also increases leverage and causes revenue to rise. This has led to the creation of "super regional systems," says Gregory F. Hagood, senior managing director and president of SOLIC Capital. This trend is noted in almost every major market, but it is most visible in metro areas like Chicago.

The first wave of consolidation in Chicago began a few years ago and came to a head when Chicago-based Northwestern Memorial HealthCare closed its merger with Winfield, Ill.-based Cadence Health in September 2014. Under the agreement, Northwestern Memorial, a fully integrated health system, expanded to include four hospitals. After striking another deal with Dekalb, Ill.-based KishHealth last year, Northwestern Memorial HealthCare has six hospitals and a medical staff of more than 4,000.

A second wave of consolidation is on the horizon in the Windy City. In 2014, two Chicago-area health systems, Downers Grove, Ill.-based Advocate Health Care and Evanston, Ill.-based NorthShore University HealthSystem,announced plans to join forces and create a 16-hospital system, the largest in Illinois. However, that plan was put onhold in late 2015, when the Federal Trade Commission filed suit to block the deal. The commission claims the merged entity would command more than 50 percent of inpatient hospital services in the area.

If the NorthShore-Advocate merger goes through, the field of dominant players in the Chicago-area healthcare market will significantly condense. The market will be divided between the "haves," or large integrated regional systems with leading market shares, and "have-nots," or smaller systems with limited offerings compared to the "super regional" organizations, says Mr. Hagood.

Chicago isn't the only metro area where major systems are joining forces, and other markets, like Philadelphia, are "still ripe for this," says Mr. Hagood.

The trend of regional consolidation has also expanded beyond the hospital sector to medical groups in many major markets.

A number of factors, including uncertainty about the long-term economic effects of health reform and declining reimbursements for some specialties, have caused many physicians to choose hospital employment rather than the traditional private practice. The number of hospital-employed physicians has grown in recent years: 32.8

percent of physicians worked directly for a hospital, or in practices that had at least some hospital ownership in 2014, up from 29 percent in 2012, according to a study by the American Medical Association.

Instead of caving into market pressures and selling, some physician groups have grown into market leaders on the same level as their large hospital-owned competitors.

One of these leaders is Downers Grove, Ill.-based DuPage Medical Group. With more than 60 locations, DMG is the largest independent multispecialty physician group in the Chicago area. The medical group has struck interesting partnerships to help keep pace with hospital-owned entities.

For example, Blue Cross & Blue Shield of Illinois launched an initiative last August to share cost and quality data with DMG physicians for the care patients received outside the group. Last December, the medical group received a $250 million investment through a strategic partnership with Summit Partners, a Boston-based global growth equity firm. The partnership provided DMG with capital and support to grow its service lines and footprint.

In New Jersey, Summit Medical Group is the largest physician-owned multispecialty practice. The Berkley Heights-based group was founded in 1929, but most of its growth occurred over the past eight years, with the number of locations increasing from 10 in 2008 to more than 60 in 2015.

"These groups are the alternative to the physicians becoming employed by hospitals," says Mr. Hagood, and "this is happening in a number of major markets." Although hospitals view dominant independent medical groups as competitors, insurers have embraced these "super regional" physician groups as a way to slow hospital leverage.

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