By Adrian E. Long, MD

Life After an Acquisition

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After months of planning, after countless people working countless hours, after solving for every conceivable problem, we thought we were prepared for the arrival of 12:01 am, February 1, 1997.

We weren't.

When the switch was flipped and 100,000 members, six centers, 300 staff and physicians, 2500 network physicians, and two new products from the Humana Group Health Plan, Inc. became part of Kaiser Permanente (KP), we were not nearly as prepared as we needed to be.

Now, a year and a half later, we can look back and say what an incredible learning experience it was for us. At the time, however, it was a singularly frustrating, costly, exhausting, partnership-fracturing, nerve-shattering time. And although we are a healthier, smarter, larger company now, not a single one of us would welcome the opportunity to relive those days. Given our learnings, however, we look forward to expanding the Permanente Practice whenever possible.

I would like to share with you what we have learned from our experience.

Justify the Acquisition

Have sound reasons for the acquisition. Because when the going gets rough—and it will—you will need to remind the physicians and staff repeatedly of the business case for the expansion.

For the KP Mid-Atlantic Region, acquiring Humana brought a number of things that we needed to remain successful. From a business perspective, foremost was increased membership. We grew from 425,000 members to 525,000 members, and our market share increased from 15% to 20%. We expanded our delivery capabilities through an increase in the number of facilities (six additional medical centers) available to deliver care, through the types of products (network and Medicare Risk products) that we could offer to employer groups, and through the new choices (community-based physicians, additional affiliated hospitals) that we could provide to our members. In the process, we eliminated a competitor, prevented an opportunity for a new competitor to enter the market, and acquired members who were already accustomed to a group-practice delivery model.

From a mission perspective, the acquisition enabled us to continue advancing our goal of improving the health of our community. We knew both that our rich medical heritage would enable us to take better care of these people and that we had acquired Humana for a reasonable purchase price, thereby using our members' health care dollars judiciously.

But as our medical centers became inundated with members, as our call center became overloaded with calls, and as we struggled to establish a foothold in our newly affiliated hospitals, our staff and physicians sometimes lost sight of why it was important for us to acquire Humana. Health Plan and Medical Group leadership were constantly questioned about our decision.

Even today, as we continue our recovery from this transition, we must remind ourselves of what the acquisition brought us.

Expect Surprises

As a for-profit, publicly traded company, Humana brought us a unique set of challenges. Because Humana existed in our market, antitrust regulations were quite specific about how far we could delve into the workings of Humana: specifically, we were limited in our ability to access data about Humana's members, providers, employees, or financial performance prior to the acquisition. Consequently, we got more—and less—than what we bargained for in the acquisition.

For instance, we acquired fewer members than we projected, especially in Medicare Risk—and the overall health of these new members was much poorer than we anticipated. In addition, we assumed the responsibility of credentialing all physicians—even though we lacked the ability to contact them before the acquisition. Consequently, credentialing became a major problem for us, which became particularly apparent during our NCQA reaccreditation process.

Consider Revenue Carefully at the Due Diligence Stage

The rate contracts between Humana and some employer groups for Humana's network-based health plan specified dramatically higher rates than those we were charging the same employers for our medical center-based health plan. The dual rates were not acceptable to employers, and most refused to pay the higher cost. In addition, the Medicare Risk sales force had been drastically reduced in the months before the acquisition, and this reduction affected membership. Because of these elements, revenue was markedly reduced, and we hadn't factored this reduction into our revenue projections. Similarly, our multiyear strategy for rate differentiation didn't hold. Had we focused on revenue more closely during the due diligence investigation, we might have faced a much more realistic financial picture and thus would have been better prepared.

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Establish a Full-Time Team to Prepare for the Transition

You cannot handle an acquisition successfully unless the process is conducted by a team of people who are completely focused on it. In addition to hiring consultants with acquisition expertise, we created a cross-functional implementation team that included key stakeholders from the Health Plan and Medical Group that had sufficient authority to make things happen. The team had sponsorship at the highest levels of the Region, and its work took precedence over any other responsibilities its members might have had.

A major failing of ours was that we did not keep the implementation team fully staffed and supported for at least six months after the deal closed. Doing so would have been particularly helpful for addressing the infrastructural demands that the new products created in such areas as claims processing, development and management of the provider network, contracting, benefits administration, and even member services. Instead, our new infrastructure nearly collapsed before we began to use a unified approach to the integration of Humana.

Assume Nothing

In acquiring a separate health care entity, assume nothing—least of all that the acquisition target will continue doing business as usual from the time the Letter of Intent is signed and the deal is closed. Our new members came in so much sicker than we ever imagined: Overnight, we doubled the number of AIDS and end-stage renal disease (ESRD) patients and tripled the number of diabetic patients. In the ensuing months, prescriptions for diabetes medication increased by more than 85%, congestive heart failure became one of the top five admitting diagnoses, and our HEDIS childhood immunization measure fell by 8%.

Had we known then what we know now, we would have set minimum standards of care to be delivered with financial penalties for not meeting performance expectations.

Expect to Provide Aggressive Care to Many of Your New Members

Even with continuous care, you should expect that patterns of morbidity and disease among new members will differ from those of your existing membership. Our system of care provides for more integrated, comprehensive management of disease and requires time to assimilate a sudden influx of new patients, particularly those with AIDS, diabetes, and ESRD.

Woo Your New Members

Acquiring a competitor in an existing market means that you are acquiring many members who have chosen not to join your plan. They have formed an opinion of you, and the burden is on you to convince them that they were wrong to reject you in the past. Help them feel welcome, particularly if—as in our situation—you acquire medical centers and hire some of their physicians and staff. Many of our new members were being seen at their old medical center, but suddenly doing so was not as familiar as it had been. These members may have had the same physician, but everything else was new—from forms to computers to location of services within the same building. In many cases, patients had a new physician and new staff to get to know.

Remember Your Existing Members

The demands your acquired members place on you will affect your existing members. Our stated goal—to make the transition seamless for our new and current members—was one we were unable to fully achieve for many months. The impact on our level of service has certainly affected our membership renewal rate this year, a consideration that we did not include when calculating the opportunity cost of the acquisition.

Remember Your Existing Delivery System

Your core delivery system needs attention and investment, too. Diverting resources and people to support the acquisition can shift your focus from your core business. Almost 80% of our newly acquired members chose to receive their care from a Permanente physician, but we had not—and should have—hired a full complement of physicians (ie, before the deal was closed) who were ready for the large influx of patients. We learned that you cannot add physicians slowly when members are being added rapidly.

This situation also affected our hospital practice, because when we acquired Humana, we assumed a contract with a major hospital. We found ourselves caring for our sickest patients in a hospital that wasn't set up to support the Permanente Practice of medicine. After the deal closed, we scrambled for many months to set up a system that was integrated with that of our other hospital partners.

Don't Expect That Your Current Systems and Processes Can Handle the New Burden

Any systems that are already at capacity or that are not functioning well will collapse (at worst) or sputter (at best) with the sudden addition of more members, new products, and new delivery systems. Therefore, you should inspect your information systems and claims systems before an acquisition takes place. Neither our information systems nor our claims systems had sufficient capability to handle the new business

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or the increased load of members and physicians adequately. We depended on inadequate information systems that could not merge with those of the product we purchased. Claims processing is a nightmare we are still trying to awaken from.

In some respects, the inelasticity of the group model makes an acquisition more difficult. We immediately experienced a 1000% increase in calls to our appointment/advice lines and to member services. Our same-day access became a misnomer.

Raid the Best Talent From the Acquisition Target

An acquisition provides an excellent opportunity to raise the skill and competency levels of your organization; don't lose out by pretending that you know everything. For us, it was essential to bring to our organization people who knew how to sell Medicare Risk and how to manage a network of providers. In addition, we needed to hire a sufficient number of experienced physicians and managers.

Create Opportunities to Orient and Acculturate Staff and Providers

We all know it exists: the KP way of doing things. Often, however, new physicians and staff are expected to learn it through osmosis. A major growth in staff and physicians requires us to expend increased efforts to reach out to them. We did quite well at completing the transition of facilities—signs went up, computers were installed, equipment was made available, people were moved—but we didn't do as well as we should have at orienting physicians and staff to a new culture. Having access to mentors, trainers, and more seasoned physician leaders would have given support on site, where it was needed.

Communicate, Communicate, Communicate!

Communicate continuously with new and old members and with new and old staff and physicians. The safest assumption is that no one has heard anything you've said before.

When the Deal is Closed, the Work is Just Beginning

Despite all the work we had done in the months leading up to the close, our most difficult challenges arose in the first five months after the deal was closed.

A Final Reaffirmation

Amid all the activities and concerns inherent in implementing an acquisition, you will find it helpful to remember this powerful reaffirmation: Permanente physicians practice great medicine.

While caring for sicker, more demanding patients, while learning how to manage care in a mixed model, while assimilating themselves into a new major hospital relationship, and while working through a fractured Health Plan partnership, the Mid-Atlantic Permanente Medical Group physicians showed every day what it means to be a Permanente physician. That reaffirmation gives me confidence that no matter what happens in the years ahead, Permanente will survive.

We can demonstrate to our members, to our communities, to the media, to legislators and regulators, and to the public that we know how to care for our patients. Ultimately, that demonstration will be the key to our success, because no matter what words you put around it—managed care, integrated care, indemnity care—health care is fundamentally what happens between patients and physicians.

Being a Permanente physician has always been about seeking ways to provide high-quality medical care to patients. Once it meant working in partnership with Kaiser Industries, evolving to a relationship with Kaiser Foundation Health Plan/Hospitals. What it means in the future is up to us to define. I know that we are ready for the challenge. ❖