

# ModernHealthcare.com

## The strong, the integrated

### Annual ranking of the nation's integrated health networks shows the critical roles played by

By Joe Carlson

Posted: January 26, 2009 - 5:59 am EDT

Diverting surgery and diagnostic cases from inpatient settings to outpatient ambulatory centers is cheaper for patients and hospitals alike, which is why Sutter Health executives have put such a focus on it in their effort to expand accessibility while containing costs.

The result: Ambulatory centers became the fastest-growing segment in Sutter's 22-hospital integrated system, and company research found it was the most rapidly expanding unit in all of Northern California, says Patrick Fry, Sutter's president and chief executive officer.

The success also helped propel the Sacramento-based system into the No. 5 spot in an annual list of the most efficient integrated healthcare networks in the nation, the 2009 SDI IHN 100.

While the other systems in the top five spots on the list are making at least their third consecutive appearance there, Sutter was ranked 69th last year and 58th the year before. Analysts with SDI—the company that now compiles the list, which was formerly known as the Verispan IHN 100—say financial performance and the closely related ratio of outpatient-to-inpatient procedures are some of the top factors this year in determining where systems ranked in the 12th annual list.

Sutter is one of the 10 largest systems in the nation in terms of total revenue, based on Modern Healthcare's most recent Hospital Systems Survey, posting net patient revenue of \$6.2 billion for fiscal 2007 (June 16, 2008, p. 40). Subhash Seelam, SDI's associate product director, says Sutter was one of the few systems in the latest IHN ranking that posted improved profit margins.

Fry also attributed part of Sutter's meteoric rise in the rankings to its efforts to centralize electronic health records.

"We've done a lot to make sure that people who come in contact with the system have the same experience across the entire system," Fry says. The CEO cited the example of a Sacramento patient who moved to Santa Cruz, Calif., but was able to avoid a needless hospitalization after her new physician was able to quickly look up her records and determine the cause of her condition, treating her on an outpatient basis.

All those factors, as well as a lower average length of stay for inpatient care, boosted Sutter's score on the list by nearly a full 13 points, which led to the jump in SDI's ranking.

Seelam says that it was easier for systems to enter the rankings this year, and to rise fast, as overall scores showed a marked decrease compared with last year's list. The top and bottom scores on the ranking each hit five-year lows, he says.

He attributed the depression in the scores to declines in profitability, which was one of the top criteria governing placement on the list. Conversely, the systems that showed marked gains did so because they found ways to increase margins under a difficult operating environment in 2007 and 2008.

"Financial stability has been a challenging area for most IHNs, but this year it's been a little more so than in previous years," Seelam says. "Moving forward, this is going to be a little worse than it is now."

To test the theory, Seelam says he developed a subset of 23 of the largest integrated networks to study. The combined annual income of those organizations was about half of what it was in the period before.

He attributed the causes to well-documented trends, such as the prevalence of high-deductible insurance plans and increases in nonpaying patients, which have led systems to accumulate and write off more bad debt.

**Robert Gift, a director with the Chadds Ford, Pa., firm IMA Consulting, says integrated systems are more likely to emerge healthy from the ongoing recession than are stand-alone hospitals, which continue to face major challenges, particularly the cost of technology purchases as access to affordable capital remains difficult to obtain.**

**"The stand-alones have it worst. The fragmented systems will face their own challenges. The highly aligned networks have the greatest chances of prevailing over the term of this recession," Gift says. "Those that will prosper are those that manage costs."**

# ModernHealthcare.com

## *The strong, the integrated continued*

Seelam predicts that integrated systems would become an even more dominant presence in healthcare delivery following the credit crunch and the recession, because the integrated systems can maximize efficiencies such as shared services.

"I definitely see that this business is going to be healthy," Seelam says. "I think IHNs are going to come more into the limelight than they have in the last four or five years."

**Regarding IHN performance, Giff says the sector has not seen any earth-shaking new initiatives in recent years. Rather, progress has tended to build on past efforts, particularly in information technology.**

**"The folks on the list tend to be those that have, in earlier years, focused on more of the IT integration, the strategic alignment. Those are the things that the overarching system needs," says Giff, who is not affiliated with SDI and was not involved with compiling the list. "We haven't seen any real breakthroughs; it's more incremental."**

Sharp HealthCare is another integrated system that posted strong improvement on this year's ranking, climbing to 13th from 51st place last year. The drop in 2008 appears to be an anomaly, as Sharp placed 18th in 2007 and 22nd in 2006. The seven-hospital system based in San Diego is in the midst of an eight-year self-improvement initiative that included construction of a \$42 million outpatient pavilion and a fully interconnected EHR system.

"The things that we're doing are allowing us to continue to attract market growth," says Michael Murphy, Sharp's president and CEO. "We have been very careful about watching our expenses." Murphy says that in 2007 revenue increased 3%, while expenses rose 2.2%, leaving the kind of margin that will always equal profits.

Sharp was an early adopter of EHRs, a decision that is paying dividends for the system. All laboratory results are accessible when patients make repeat ER visits, and physicians can consult on patient care from home by remotely viewing images and patient records. "It is consistent with our really long-term strategy in being a leader in information technology," Murphy says. "It gives our caregivers the ability to deliver the most effective care."

However, being early to adopt the latest healthcare IT wasn't the only way to advance on the list. Ten-hospital North Shore-Long Island Jewish Health System, based in Great Neck, N.Y., rose to No. 20 in 2009 after spending years in the bottom half of the list. In 2008 the system was ranked 56th.

Senior Vice President of Strategic Planning Jeffrey Kraut ascribed much of his system's success to the initiation of a comprehensive e-records system that will be complete in two to three years.

"We're more of a tortoise. I'd love to say we're a fast follower in information technology. We're a very deliberate follower in information technology," Kraut says. "We've always been an example of a highly clinically integrated health system, and we're finally starting to get some of our electronic records caught up."

And like Sharp and Sutter, North Shore-LIJ invested in outpatient care by acquiring a former defense factory across the street from 840-bed Long Island Jewish Medical Center, New Hyde Park, N.Y., and converting it into the system's Center for Advanced Medicine, which Kraut described as a "high-end medical village" for ambulatory and diagnostic care.

The New York system also received high marks for its array of physician subspecialties, which Kraut says has been growing as mid- or late-career doctors flee the vagaries of independent practice and migrate back to the hospital and ambulatory centers.

"I wouldn't say these are people in their 30s or early 40s," Kraut says. "They're looking for some stability."

And having willing participants has made it easier to build the kind of outpatient centers that are so heavily favored under the financial metrics of the SDI IHN 100.

"If an IHN is doing better than past years, their outpatient surgery center did contribute to that trend," Seelam says. "The more outpatient surgeries, the better the cost burden for the system is."