Co-opetition: The Key to Maximizing the Value of Children's Healthcare

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Historically, children's hospitals have been protected from various market pressures that have more readily impacted the sustainability of their adult health system counterparts. In fact, in many markets, certain children's hospitals have been the only providers of complex tertiary and quaternary pediatric care and have been regarded as vital facilities in their communities. As a result some of them have enjoyed virtual dominance in their regions, competing with few if any health systems, and enjoying cooperation with all. This environment has also shielded children's hospitals from some of the reimbursement pressures that adult hospitals have experienced with insurers, particularly as it relates to quality and costs.

With the shift in healthcare from fee-for-service to fee-for-value, however, all this is changing. The evolution of healthcare models is placing greater pressure on all healthcare providers, including children's hospitals, to focus on the Triple Aim—providing greater value at a lower cost. This has furthered the case not only for market consolidation and regionalization of health systems but for the formation of integrated delivery networks (IDNs), as well. While IDNs have been around for decades, the case for a consolidated network has only become stronger in an environment where tighter alignment and coordination of various care components contribute to the delivery of higher-value healthcare. In this increasingly aligned market, independent children's hospitals have come under greater pressure to define their role in providing high-value pediatric care.

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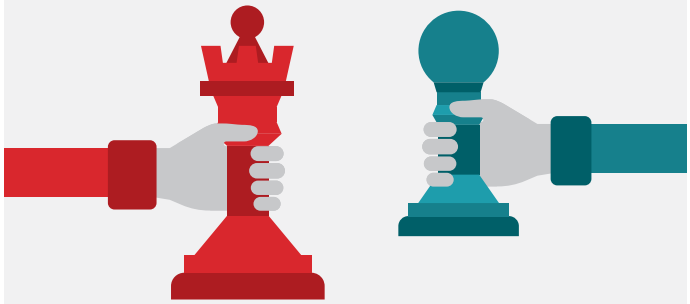
Given changes in the market and the emphasis on cost and quality, children's hospitals no longer have the luxury of acting alone. To generate greater value, they too must begin forming partnerships with other healthcare entities in their regions—selecting partners, for the first time in some cases, some of whom could be their direct competitors today. This approach is what we refer to as "co-opetition," a formal collaboration between otherwise competing organizations to maximize the collective value in the marketplace of a good or service that is of mutual interest to both parties—in this case, enhancing the value of pediatric healthcare delivery in the given market. While the concept is straightforward, its application can vary from one market to another. Depending on the degree of competition and the shift of each market to value-based care, how co-opetitive models should be applied will likely differ. There is no one-size-fits-all approach to co-opetition for children's providers, and this article discusses the spectrum of markets tertiary and quaternary children's providers find themselves in. It also explores what models can be considered under each of these scenarios.

Co-Opetition *Defined*



Competition is an essential process, a principle that is at the forefront of America's free-market economy. Today, this principle differentiates our health system from many across the world. However, as we challenge the way we think about maximizing value in our healthcare system, we must identify different models that allow us to optimize the delivery of healthcare. "Co-opetition" is a portmanteau of the two words "cooperation" and "competition." The idea of co-opetitive structures was initially popularized by game theory experts and has been in practice since the early '90s. Yet it remains a relatively nascent business concept in healthcare. Broadly speaking, co-opetition takes place when competitors in the same market capitalize on each other's core competencies to maximize their collective value in the marketplace while at the same time competing for market share of their existing products or services. Competitors, therefore, benefit each other, while simultaneously competing in a new atmosphere of shared vision and mutual interest.

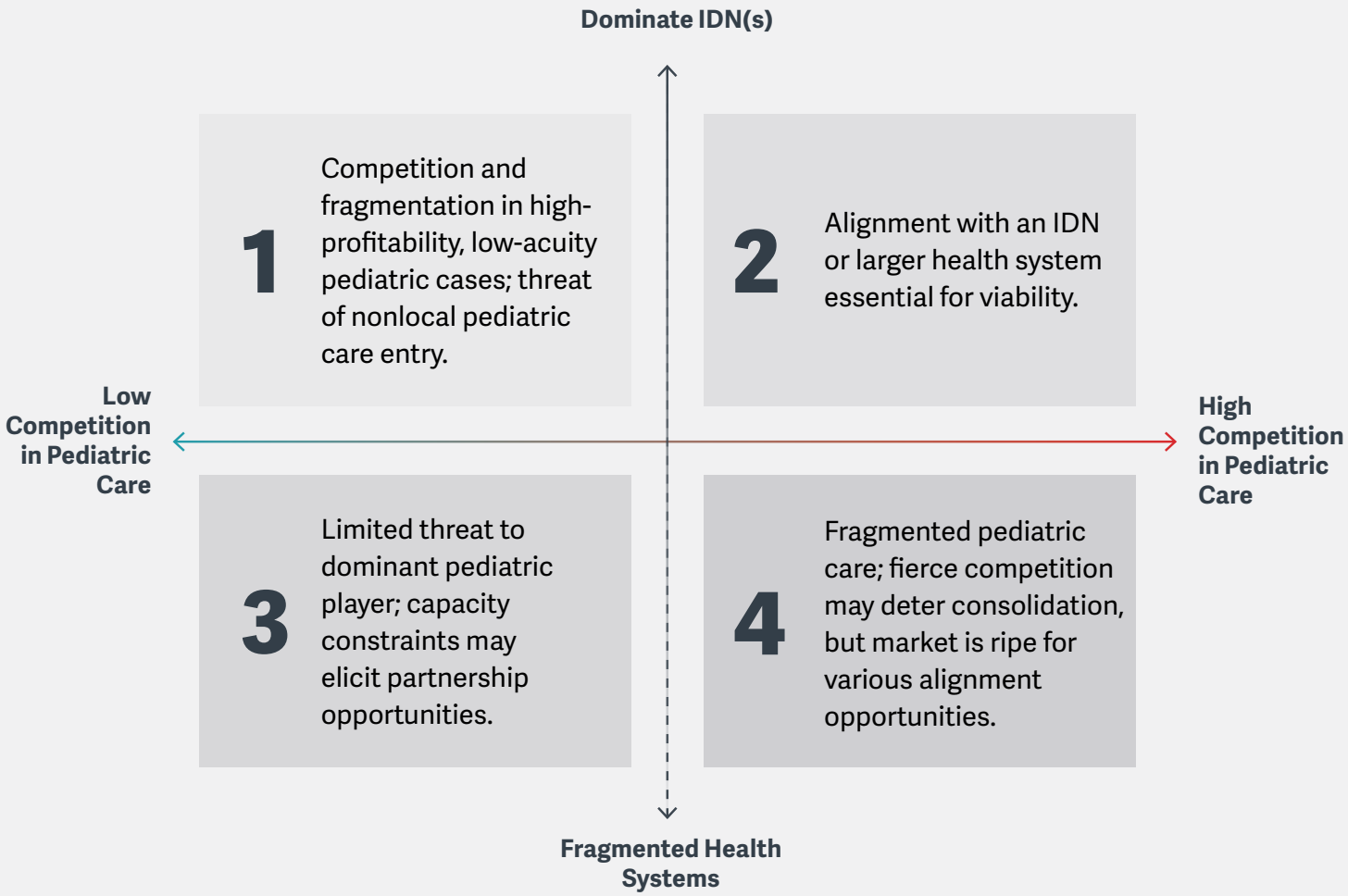
UNDERSTANDING YOUR MARKET POSITION

As a children's provider in today's environment, beginning to explore the advantages of a co-opetitive approach with select health systems in your market can be your first step toward strengthening your own position in the market. The key lies in understanding the dynamics of your market and then planning for the co-opetition model(s) that would best strengthen your position.

Below is a graphic that shows four quadrants of markets that children's hospitals can find themselves in. They can be described as follows:

1. **Low Competition in Pediatric Care With One or Two Dominant IDNs**
2. **High Competition in Pediatric Care With One or Two Dominant IDNs**
3. **Low Competition in Pediatric Care With Fragmented Health Systems and No Dominant IDN**
4. **High Competition in Pediatric Care With Fragmented Health Systems and No Dominant IDN**

Figure 1: Local Market Competitive Dynamics in Pediatric Care



1 Low Competition in Pediatric Care With One or Two Dominant IDNs

Markets where the children's hospital has virtual dominance are also changing. Larger adult health systems with mature or even nascent networks are seeing opportunities to enter the pediatric market. Given that the barriers to entry are high for the provision of high-acuity pediatric care, these systems continue to cherry-pick the high-paying, lower-acuity pediatric cases from the market. And with increased resources, an IDN, particularly one with a dominant share of the maternal market, will seize an opportunity to grow its own pediatric platform and expand its scope of pediatric services, potentially creating a secondary pediatric platform.

The limiting factor for these IDNs is often the internal competition between pediatric and adult care for investment dollars and resources, as well as minimal academic backing, which frequently diminishes the network's ability to attract, recruit, and retain the star physicians needed to build recognition and drive high-complexity care to these facilities. To enter the high-complexity pediatric care space in a more meaningful way, some of these IDNs are reaching across state boundaries to form alliances with other reputed pediatric providers, further fragmenting high-acuity pediatric care in the local service area.

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Co-opetition Opportunities:
In these markets, the dominant children's hospital must take a more offensive stance by getting ahead of the emerging competition through various co-opetitive models that may include joint opportunities for investment with the competitor IDN in key pediatric programs (such as orthopedics) or jointly investing in outpatient pediatric care to collectively build pediatric services within a growing community or market. While certain low-acuity volume may continue to be a threat, an alignment early on can limit the risk of the IDN developing a broader array of pediatric services with an outside partner. If the threat continues to strengthen, it may also be prudent for the children's hospital to look for opportunities to align with a secondary IDN or health system in the market that has a limited to nonexistent pediatric platform. The children's hospital can immediately become the IDN's preferred partner for pediatric care. However, by doing so, the children's provider does abandon its "Switzerland" status (competing with none, cooperating with all), if historically the case, and now more directly competes in the marketplace by taking on its partner IDN's competitors.

2

High Competition in Pediatric Care With One or Two Dominant IDNs

This market is typically controlled by one or two large IDNs that are fighting to develop their networks, either organically building or partnering with different healthcare facilities to round out their capabilities across the healthcare continuum. This is also a market where tertiary and quaternary children's services are being delivered by more than one pediatric provider (i.e., freestanding children's providers, children's hospitals within an academic medical center, or children's hospitals within a larger health system or IDN). In these markets, a freestanding children's hospital that has historically differentiated itself as the provider of tertiary and quaternary pediatric care in the region must now also become *the highest-value* provider in order to be included within the networks forming in the market.

In these environments, the Switzerland position that independent children's providers have historically taken becomes weak, and locking arms with one player over another becomes almost essential for future viability. Otherwise, providers will find the IDN either aligning with the competitor pediatric partner or further strengthening its own pediatric services. This can mean being locked out of essential local markets and potentially losing access to swaths of patients. It can be a particularly threatening environment for freestanding children's hospitals.

In this scenario, the children's hospital must differentiate itself by its core competency, divesting itself of clinical components that don't support the competency, with focused infrastructure investments that allow it to demonstrate value in the provision of those high-acuity services where it is better positioned.

Co-opetition Opportunities:
Proactively identify and align with one IDN and serve as its downstream partner on tertiary and quaternary pediatric care (e.g., furnish specialist coverage, provide coverage of pediatric units or embed pediatric services within the partner health system, jointly develop programs). Maximize the use of current asset space at the children's hospital for provision of tertiary and quaternary care while using capacity across the IDN's network to deliver lower-acuity pediatric care.

3 Low Competition in Pediatric Care With Fragmented Health Systems and No Dominant IDN

Most children's hospitals would argue that this is the ideal place in the quadrant, where competitive forces are minimal from both other pediatric providers and IDNs. Being the dominant player with top specialists in a growing and locked-in pediatric market is an ideal position, with opportunities for regional expansion, more investments in research, and innovative care delivery models. All of these factors allow for focused investment in enhancing pediatric services. However, the pressure to be the sole provider for comprehensive pediatric care can be a daunting one—particularly when it comes to building sufficient bed capacity to support care for an entire community or region.

Especially as patient complexity continues to increase, physical capacity constraints are becoming a bigger concern for current tertiary and quaternary children's providers, particularly within their critical care units. Advances in medicine and technology mean that care can be provided to more fragile patients, in turn increasing the complexity of care. Conditions that were once considered terminal are now being treated, and improved survival rates for previously life-threatening illnesses have led to an increase in critical care admissions across many tertiary and quaternary pediatric care facilities. The growth in admissions inevitably means a higher demand for beds, which leads to significant expense and disruption associated with new building projects. While new facility projects may be unavoidable for some providers, there are options for deferring major capital investments. Co-opetitive arrangements with other healthcare facilities may provide an alternative to physical expansion, especially in the current environment of stagnant and declining reimbursements.

Co-opetition Opportunities:
There are many variations on these arrangements, but all involve managing the care of relatively lower-acuity patients in another facility or strategically moving patients from one facility to another to free up beds. This allows the freed-up beds at the children's provider to be used in the care of more critical patients, potentially deferring capital investment and optimizing the beds that are available in the market. Shifting lower-complexity patients to an adult community hospital with a small pediatric platform is one such option. In this scenario, the children's hospital will also provide staff and clinicians to the transfer facility for care delivery and/or training of local staff. This, in turn, allows the community hospital to fill up its potentially underutilized beds, reduces that hospital's cost of delivering pediatric services locally through the support of the resources provided, while also increasing the quality and reputation of pediatric care locally.

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4 High Competition in Pediatric Care With Fragmented Health Systems and No Dominant IDN

This market is perhaps the most fiercely competitive when it comes to the delivery of pediatric care. With a mix of tertiary/quaternary children's providers, adult health systems with robust pediatric platforms, and independent physician provider networks, this is one market where there is stiff competition for both lower-acuity as well as tertiary and quaternary pediatric care. With more than one pediatric system vying for reputation in niche programs, the battle over volume becomes fierce—further fragmenting pediatric care for the community.

When patient volume is low, as it tends to be for niche, high-complexity programs, the quality of specialized services can suffer if this care is distributed among different care delivery platforms. For example, recent reports on hospitals in Florida with pediatric heart surgery programs have exposed that hospitals with lower case volumes experience higher mortality rates for complex pediatric heart surgeries compared to larger children's providers; case volume and experienced staffing to outcomes has been linked in several other studies[1]. A major contributor is the difficulty smaller platforms experience in recruiting the breadth and depth of clinical staff to support a robust program. For these reasons, states or metropolitan service areas with limited pediatric populations and more than two major pediatric platforms often struggle to build independent, high-quality programs when it comes to services such as pediatric cardiovascular, neurosurgery, and cancer care. Consolidation across pediatric platforms around these programs is the ideal scenario for patients in these markets; however, it may not be as palatable for the health systems themselves. But in the interim, smaller steps in that direction can be taken through co-opetitive models.

Co-opetition Opportunities:
The more optimal option may be the formation of co-opetitive clinical arrangements (joint venture clinical programs) between two children's providers. Under these arrangements, physicians from the more specialized pediatric facility can come in to train staff or send specialists to the smaller facility on certain days of the week or month to care for patients locally, transferring back only the highest-acuity patients. Through such alliances, smaller children's care delivery platforms can build not only their skill sets and programs but also their reputations in the community. Larger, more specialized children's providers also benefit, as these arrangements create an opportunity to provide high-quality care more cost-effectively and closer to the patient's home. And when appropriate, this model allows larger providers to pull higher-complexity patients downstream from a market they may not have otherwise accessed.

[1] The Complex Relationship between Pediatric Cardiac Surgical Case Volumes and Mortality Rates in a National Clinical Database. Welke et. al. The Journal of Thoracic and Cardiovascular Surgery. May 2009, 137.5; Variation in Outcomes for Risk-Stratified Pediatric Cardiac Surgical Operations: An Analysis of the STS Congenital Heart Surgery Database. Jacobs et. al. The Annals of Thoracic Surgery. August 2012, 94.2.

AS YOU CONSIDER YOUR CO-OPETITION MODEL

As a provider for tertiary and quaternary children's healthcare, no matter what market you find yourself in, the case for co-opetition remains strong. It is also prudent to consider how your current market may evolve over the next 5–10 years, potentially shifting your position into a different quadrant. In either case, planning for future viability is essential. Depending on the dynamics among the various players in your market, some co-opetitive arrangements may generate greater value than others and may resonate more with your competitors. No matter what form that arrangement ultimately takes, a step toward it in today's healthcare environment is essential. While the framework presented in this article addresses local market dynamics, many reputed children's providers also compete on a national scale, particularly when it comes to recruiting physicians, building expansive research platforms, and achieving programmatic excellence. It is important to note that co-opetitive models outside of the local market can also lead to meaningful gains that children's providers should explore.

When thinking through these affiliation strategies, here are the key questions to consider as your organization takes on this challenge:

- Who are the players in my network (adult and pediatric providers), and how can we collaborate with them to maximize value?
- Which relationships are complementary in nature—what gaps do these health systems have where we can add or maximize value? What are our gaps and challenges today that can potentially be resolved through a co-opetitive model?
- What co-opetitive models can we develop within our service area, statewide, regionally, and nationally?
- What is the incremental value we can create together, that we or our potential partner cannot create alone (e.g., increase in volume, increase in revenue, higher-quality outcomes)?

FINAL NOTE

The case for co-opetition in today's market remains strong. If you proactively build your affiliation playbook with other providers in your market, you can begin to optimize the value of children's healthcare being delivered to your community and continue to positively impact the quality of care that is being delivered to children across the country.

For more insights from ECG, visit www.ecgmc.com/thought-leadership.

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