

Make Versus Buy ... Versus Partner?

The financial process associated with acquiring new goods or services has become so routine that it is taken for granted. However, profound changes in the medical marketplace suggest that a third possibility—partnering—needs to be brought into the equation.

Performing make versus buy analyses is a common task for healthcare financial managers. Once a proposed project has passed the ROI test and survived the budget process, healthcare leaders decide whether to take a do-it-yourself approach or purchase/lease a finished, “no assembly required” product. For example, a health system can have a customized information system made by its own information services staff, or it can buy a commercial off-the-shelf system from a third-party vendor.

New Realities, New Approaches

However, make versus buy analysis fails to reflect many new realities in the provision of healthcare services. First, relentless advancements in technology and increasing demands for safety compel providers to acquire resources that they cannot always afford on their own. Second, a new understanding of market failures shows that none of the four major stakeholders in health care—providers, purchasers, payers, or consumers—can accomplish necessary reforms by themselves. Health care in the United States will continue to be ineffective and inefficient until all four parties work together to eliminate the waste that is created by their historically dysfunctional interactions.

For example, even if a health system made the operational changes necessary to produce only top-quality services as inexpensively as possible, resources would still be wasted if reimbursement paid for volume of inputs (procedures) rather than the quality of outputs (measurable improvements in health). Likewise, patients will continue to waste medical dollars as long as being sick costs them less than staying healthy.

Partnerships Can Benefit All

These and many other examples of economic disincentives lead to an obvious conclusion:

Much-needed improvements in our healthcare system will not be achieved until the stakeholders decide to become partners in pursuit of win-win solutions that benefit all parties. Even if providers and payers were to become more efficient in their internal operations, the overall healthcare system would continue to fall short of its potential if the various parties continue competing with a win-lose mentality. Strategic partnerships need to be nurtured at all the interfaces in the medical marketplace (e.g., provider-purchaser, payer-consumer).

Some innovative partnerships already exist. A few health plans are working directly with patients with chronic diseases to ensure that pharmaceutical regimens are appropriate. Some employers are bringing providers to the workplace to make care convenient for employees. A few purchasers and payers have agreed to long-term contracts that give health plans an opportunity to reap the benefits of investments in prevention.

However, win-win collaborations are the still exception and not the rule. Leaders of all stakeholder groups need to undertake strategic, system-wide analysis of their individual approaches to allocating healthcare dollars. To make this change, they will need to move beyond the traditional make versus buy analysis that implicitly excludes acquiring resources in partnership with an outside

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Once make versus buy versus partner becomes health care’s future-focused approach to investing in new technology and services, stakeholders can move beyond the competitive orientation of the past to more appropriate concerns with economies of scale (including reductions in cost through elimination of excess capacity) and improvements in quality, both of which are achievable when resources and programs are shared.

Adding the partnership option to financial analysis could produce some progressive outcomes, such as some or all the health systems and medical groups in a market jointly purchasing a single platform for electronic medical records, or an employer (purchaser) and its third-party payer investing in telemedicine technologies to manage beneficiaries with chronic conditions in their homes and work sites. Collaborative clinical programs could also be expected to develop as single organizations consider alternatives to owning all related resources.

Groups of medical specialists, vendors of supplies and equipment, and even competing health systems in the same market might all find synergy in working together on a program that can be offered better through a partnership—especially when the alternative involves competing programs that are too small to operate efficiently. Finally, partnerships can be an ideal vehicle for rural providers to ensure local access to a full-service health network, with services provided at the closest location where volume supports top quality.

Visionaries Are Needed

Of course, antitrust and fair trade laws are designed to prevent collaborations that raise prices, lower quality, limit consumer choices, or produce other adverse economic outcomes. However, visionary executives and experienced attorneys in other industries have worked with government regulators to produce acceptable partnerships. The healthcare industry must follow suit. ☞

Jeffrey C. Bauer, PhD, medical economist and health futurist, is a Chicago-based partner in management consulting for ACS Healthcare Solutions (jeff.bauer@acs-hcs.com).