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Looking at round two, NEI funders assess future



Port authority in turf war; off-river projects in dispute

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This Just In

Detroit Historical Museum sets reopening gala Nov. 17

The **Detroit Historical Museum** plans to reopen this month, after a six-month closure for updates to the building and long-time exhibits including "Streets of Old Detroit" and "America's Motor City" and the installation of exhibits never seen before.

The **Detroit Historical Society** is hosting a "Reopening Gala," with a strolling dinner, celebrity appearances and entertainment Nov. 17. Tickets are \$150, \$500 and \$1,000. Go to detroithistorical.org and click on "Detroit Historical Museum Re-opening Gala."

The museum will open to the public at no cost Nov. 23-25.

The new galleries will include artifacts and the stories of Detroit's culture in sports, entertainment, design and architecture; its role in the Underground Railroad and in shaping the outcome of World War II; its historic and contemporary innovators from Henry Ford to sunroof pioneer Heinz Prechter, and Veronika Scott, creator of the Element "S" Sleeping Bag Coat for the homeless, and the new Kid Rock Music Lab.

— Sherri Welch

Will hospital deal benefit biz?

Beaumont-HFHS merger effect unclear

BY JAY GREENE
CRAIN'S DETROIT BUSINESS

The proposed **Henry Ford Health System-Beaumont Health System** merger could lead to cost savings for the health care organizations if executives move quickly to reduce employee and service duplication, but it's unclear whether those savings would be passed along to employers and consumers.

The merger, announced last week, would create Southeast Michigan's largest system, with eight hospitals, 3,600 beds, 42,000 employees and \$6.4 billion in annual revenue.

Some experts told *Crain's* that savings from the economies of scale and efficiencies created would take pressure off the new system to use its 35 percent to 40 percent market share to negotiate

higher prices with health insurers.

Others think a Henry Ford-Beaumont system would be able to extract 1 percent to 2 percent increases from payers above what they normally would be able to do as independent organizations.

For example, last year Beaumont balked at a 5 percent price increase offer over five years in a contract with **Blue Care Network**.

Beaumont wanted a 9 percent increase but likely settled earlier this year for something in between.

All hospitals in Michigan, including Beaumont, receive annual base pay increases of 2.6 percent from **Blue Cross Blue Shield of Michigan** as part of a master service agreement.

Andy Hetzel, Blue Cross vice president of corporate communications, declined to comment on the proposed merger or impact on

See *Merger*, Page 24

The cooler the better



JEFF JOHNSTON/CDB

How employee-friendly features can improve the bottom line

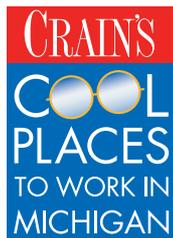
BY CHAD HALCOM
CRAIN'S DETROIT BUSINESS

Having the cool-kid rep doesn't just give a company extra cachet with millennials or a narrative for the marketing department — experts say it can pay dividends in turnover, recruitment and even in growing the customer base.

Several standout businesses in *Crain's* Cool Places to Work in Michigan 2012 awards program found that even intangible workplace assets like a weight-loss program, video game lounge or office tailgate party can help attract talent — and win customers.

"The cool label implies you are fun to work with, and people want to be a part of that kind of culture. We talk about this feature sometimes in marketing

See *Cool Places*, Page 21



HONOREES

Focus section highlights 10 Cool Places winners, lists 50, Pages 11-18

VIDEOS

Crain's asked winners for videos telling why they're a cool place to work. Check them out at craindetroit.com/cool



KEVIN FOWLER

CEO Kelly Rossman-McKinney says representing opponents of Proposal 3 has been a huge task for Truscott Rossman Group LLC in Lansing.

Ballot campaign strain

PR firms go full tilt for message

BY AMY LANE

SPECIAL TO CRAIN'S DETROIT BUSINESS

At **Truscott Rossman Group LLC**, frozen peanut M&Ms, 5-Hour Energy and Airborne immune support have been necessities of sorts the past several months.

That's because at the Lansing firm, as with several others handling public relations in Michigan's statewide ballot campaigns, it's been all hands on deck. Putting in mega-hours and jumping into action to respond to media inquiries is elevated to a whole new level during ballot proposal season.

"It's tough sledding," said CEO Kelly Rossman-McKinney, whose firm represents opponents of Proposal 3, the constitutional amend-

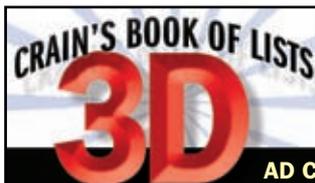
ment that would increase Michigan's renewable-energy requirements. "It's not for the faint of heart."

Provisions aside, there's been little time off and long hours for many involved in the drumbeat of dueling press releases, press conferences, social media and messaging that have encompassed many of the proposals in the runup to Tuesday's election.

The proposals as a whole had raised a record-setting \$141 million as of Oct. 26, much of it to spend on advertising, according to tallies tracked by the **Michigan Campaign Finance Network**. Compensation to PR and communications firms is just a piece of the big

See *PR firms*, Page 25

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Merger: Systems could save; could employers, consumers?

■ From Page 1

contract negotiations.

At deadline, **Priority Health**, which has an office in Farmington Hills, and **Humana**, with an office in Troy, had no comment.

"Managed care plans put enormous pressure on hospitals to drive prices down. A larger hospital entity prevents the managed care plans from driving rates too far down, but I don't see Henry Ford-Beaumont having enough leverage to drive prices up that much," said Joshua Nemzoff, president of **Nemzoff & Co. LLC**, a hospital merger and acquisitions expert in New Hope, Pa.

Nemzoff said the merger might be worth an extra 2 percent in managed care negotiations.

Henry Ford CEO Nancy Schlichting said the purpose of the merger with



Schlichting



Michalski

Beaumont is to create an integrated health system that can share best practices to improve quality, avoid unnecessary capital expenses and create a flexible organization that can cope with payment changes coming under health care reform.

"Contracting is not the center of gravity" for why the two systems decided to merge, Schlichting said. "We have a very large health care market. We are in a mode where we will be paid for value and specific outcomes of care."

Under its new Blue Cross performance-based contract, Beaumont is at financial risk for \$40 million in payments unless it meets quality and patient satisfaction targets, said Beaumont CEO Gene Michalski.

"We have to find a way to provide access and quality at a lower cost," he said.

Over the next several years, Medicare, Medicaid and commercial payments to hospitals and physicians will be tied more closely to how well hospitals improve quality and patient outcomes.

"There is no secret the rapid changes in the health care industry in Southeast Michigan — with the movement of inpatient to outpatient care, spurred by the Affordable Care Act and technology — are forming creative relationships" between hospitals and physicians, Michalski said.

Bret Jackson, president of the **Economic Alliance for Michigan**, said he hopes the newly merged system is able to reduce costs by eliminating duplicative and unnecessary services that drive up prices.

"We still have a vibrant and competitive marketplace in Southeast Michigan" with **Trinity Health**, **Oakwood Healthcare**, **St. John Providence Health System**, the **University of Michigan** and **McLaren Health Care**, Jackson said.

Much will change, but systems would keep own names

BY JAY GREENE

CRAIN'S DETROIT BUSINESS

Under the letter of intent, **Beaumont Health System** and **Henry Ford Health System** would keep their individual operating names and branding strategies.

The merged parent organization, which hasn't been named yet, would receive the assets and liabilities of the two health systems.

The medical staffs would remain independent initially, but over time would slowly become integrated into a hybrid model that would share best clinical practices, said Ananias Diokno, M.D., Beaumont's executive vice president and chief medical officer.

"Beaumont has been successful in integrating private groups and employed physicians," said Diokno.

John Popovich, M.D., Henry Ford's chief medical officer and CEO of **Henry Ford Hospital**, said **Henry Ford Medical Group's** 1,200 employed physicians and another 600 private practice physicians in the **Henry Ford Physician Network** are looking forward to working with Beaumont's more than 650 employed physicians and 2,500 private doctors.

"We all are looking for clinical efficiencies," Popovich said. "The critical part is we won't be paid on volume anymore. We will be paid based on value. This is something



Popovich

we all agree on."

The organizations also would negotiate a new governance model for their hospitals and parent board, which will be created with equal representation of both boards.

But Joshua Nemzoff, president of **Nemzoff & Co. LLC**, a New Hope, Pa.-based consulting firm, said a 50-50 board composition is a recipe for stalemate.

"If the board has to make a decision to shut down or convert a Beaumont hospital into Henry Ford, all the physicians and employees of Beaumont will get upset and run to their friends on the board to block the vote," Nemzoff said. "The history of 50-50 boards is unmitigated disaster."

Schlichting said a new governance model will be created that will help the two organizations execute necessary changes.

Executives also said they intend to maintain their existing medical school relationships. Henry Ford is closely affiliated with the **Wayne State University School of Medicine**. Beaumont is financially and clinically tied with the **Oakland University William Beaumont School of Medicine**.

The foundations of both health systems would be merged into a single entity.

Nemzoff said selecting a single CEO for the merged system will be another critical decision that will need to be made once the final merger documents are signed, which is expected in late February or early March.

Michalski, 64, and Schlichting, 57, said the decision has not been made.

"The timing of my retirement

will be a subject of discussion" during the next four months as the board and management committees meet to discuss the merger, Michalski said.

"I am not subject to (Beaumont's) mandatory retirement age" of 65, Michalski said. "I have already had that discussion with the board. They wanted me to stay longer."

After selecting a CEO, said Brian Connolly, CEO of Dearborn-based **Oakwood Healthcare**, two other tough challenges ahead will be how the new organization can add value for health care purchasers and how to integrate physicians.

"Henry Ford has had a group model for almost a century. It is the foundation of the entire system. Beaumont has, traditionally, more private practitioners," Connolly said. "They will have to align those medical staffs and the cultures of the organizations to get value."

Michalski said there are three phases to completing the merger:

■ A 120-day transaction period, which could be extended, will include committees of board members, management, physicians and employees to determine how the new system will be organized. The joint board committee will make the final decisions.

■ A transition period that could last months after the merger in which decisions will be made to consolidate such departments as finance, marketing, planning and materials management.

■ A transformation period that will take years as the diverse cultures of trustees, management, employees and physicians are

melded.

But Schlichting said reducing costs, including consolidating departments and renegotiating supply contracts will be a key short-term strategy.

Time is of the essence because Medicare payment cuts coming over the next several years under health care reform will be "substantial," she said.

Expense reduction will come from a number of areas, she said, including avoiding unnecessary duplicative services and equipment costs, Schlichting said.

"In the short run, we are not anticipating any closures of hospitals" or employee layoffs, she said.

Michalski said the health systems will save money by not competing with each other in overlapping markets.

For example, Beaumont had planned to build an outpatient medical center in Commerce Township, but now those plans are on hold.

"We can collaborate on new things with Henry Ford West Bloomfield Hospital," he said.

If the merger is consummated, a Henry Ford-Beaumont health system could include eight hospitals, 38 medical centers, 3,600 beds, 42,000 employees, nearly 1,900 employed physicians, 3,000 private practice physicians and a 643,000-member health plan.

Henry Ford also operates two other acute-care health institutions that include mental health and rehabilitation facilities.

Jay Greene: (313) 446-0325, jgreene@crain.com. Twitter: @jaybgreene

“What is driving this merger is the need to be more viable in the evolving landscape.”

Carey Kalmowitz,
The Health Law Partners

"We hope sharing services leads to better quality, lower costs and fewer procedures done," Jackson said.

For example, Jackson said Henry Ford has always wanted open heart and elective angioplasty services at **Henry Ford West Bloomfield Hospital**.

"Now they will have Beaumont right down the road with one of the highest quality heart-care services" in Michigan, Jackson said. "They don't need to spend money" on a heart program in Oakland County.

On the other hand, Beaumont has been trying to get a bone mar-

row transplant program at its flagship hospital in Royal Oak. But Henry Ford has one of three bone marrow programs in Michigan.

"This takes the pressure off both systems to avoid spending money on duplicative programs," Jackson said.

Michalski said the health systems will save \$20 million by not having to purchase a backup data warehouse for its new Epic electronic medical record system. Both Beaumont and Henry Ford are on the same Epic platform and can share data storage, he said.

But Carey Kalmowitz, chairman of the board with Southfield-based **The Health Law Partners**, said it remains to be seen how quickly a merged Beaumont and Henry Ford can reduce costs and translate those savings to lower health care prices for payers and consumers.

"What is driving this merger is the need to be more viable in the evolving landscape" of health care, Kalmowitz said. "By having a larger network of physicians, you have a mechanism in place to better position yourself for changes in whatever direction health care reimbursement takes."



Maryland



Connolly

In the near term, Kalmowitz said, the merger of Henry Ford and Beaumont will position the new organization to extract more favorable prices from payers.

"You also are in a far better position to withstand contraction reimbursement pressures than other" smaller health systems, he said.

Over the long term, Kalmowitz said a fully merged Henry Ford-Beaumont health system will be able to accept risk contracts with Medicare as accountable-care organizations and have enough size to contract with employer groups such as the **UAW Retiree Medical Benefits Trust** or **VEBA Trust**.

Patricia Maryland, CEO of Warren-based St. John Providence, said she wasn't surprised Henry Ford and Beaumont came together.

"Providing high-quality care is

priority for all," Maryland said. "I hope this merger will increase access to care."

Maryland said that Henry Ford and Beaumont "are following in our footsteps" in merging their organizations because 13-hospital **Ascension Michigan** has been consolidating its five operating units since 2008.

"We have been breaking down those silos to coordinate care," renegotiating supply contracts and consolidating, said Maryland, adding, "We have saved \$100 million in costs."

Brian Connolly, CEO of Dearborn-based Oakwood, said the Beaumont-Henry Ford combination will require Oakwood to reassess how the market could change if the merger is completed. But he said Oakwood plans to continue to focus on improving patient care and implementing its strategic plan.

"As Henry Ford and Beaumont are going through this very, very complex and complicated exercise, there will be opportunities for Oakwood to focus on our programs and growing our services," Connolly said.

Jay Greene: (313) 446-0325, jgreene@crain.com. Twitter: @jaybgreene