

NEWS

Proposed Beaumont-Spectrum merger is like a marriage, experts say. This one might work.

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The big business of a hospital merger is not unlike a marriage, said Erik Gordon, a professor at the Ross School of Business at the University of Michigan.

It can be harmonious and without acrimony for the patients and staff of the health systems that come together. But it also can end badly, with a reduction in services, job losses, hospitals or offices closing, and higher prices because of less competition.

In the case of the proposed union between Southfield-based Beaumont Health and Grand Rapids-based Spectrum Health, it's about as good a match as anyone could have wished for, Gordon said.

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"Folks should be relieved — patients and employees," he said, noting that Spectrum comes to the negotiations with a reputation for being well run and without major financial troubles. And because there is no market overlap between the health systems, there shouldn't be much concern about hospitals closing, major job losses or antitrust issues to snarl the deal.

"This is a happy combination," Gordon said. "Beaumont could have combined with somebody that could make us all scared. ... I am not optimistic about most mergers because most of them do have overlap and the logic of the merger is, 'We can close some service lines and save money.' That's not the case here."

It was clear, he said, that Beaumont was going to merge with or acquire another hospital system at some point in the near future. This is its third attempt in as many years. There were failed negotiations with two other out-of-state health systems — Summa Health and Advocate Aurora — in 2019 and 2020.

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"Beaumont wasn't playing hard to get," Gordon said. "Beaumont was going to combine. This was like some day your kid is going to come home with a girlfriend or boyfriend, and you've just got to hope you're going to like them. We got lucky here. This isn't the boyfriend or girlfriend you just hate."

If the merger is completed and Beaumont and Spectrum go on to form an entirely new health care system as planned, it'll be the state's largest with 64,000 employees, 24 hospitals and 305 outpatient sites with a combined revenue of \$12.9 billion.

"That's a good size system nationally," Gordon said. "They will have clout with insurers. ... They catapult from being a system that's prominent locally to being certainly regionally prominent in the Midwest, for sure, if not nationally."

That will allow the new system, which temporarily is being called the BSHS System, more leverage when it comes to negotiating with insurers and in purchasing.

"If you are a larger system, it importantly gives you more clout when you talk to the payers, which in our part of the country are insurers but also includes the plans that are not insurance companies," Gordon said. "Size gives you negotiating power."

U.S. Rep Andy Levin, D-Bloomfield Township, whose district includes Beaumont's Royal Oak Hospital, said he's cautiously optimistic about the potential Beaumont-Spectrum deal.

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"As our communities and health systems continue to recover from what we hope is a once-in-a-century pandemic, I will evaluate this proposed merger with great care," Levin said in a statement. "I am committed to preventing spikes in health care costs and worse patient outcomes, as evidence indicates can happen following mergers. I will not accept inferior care for my constituents in the name of consolidation of competition or growth of revenue."

He's hopeful about this union, he said, because Spectrum "appears to have fewer labor complaints against their management. I hope the leadership of the proposed new entity takes

seriously their obligations to their workers including ensuring they are protected in the workplace and respecting their freedom to form a union and bargain collectively if they choose.”

Beaumont CEO John Fox said Thursday all pre-existing labor agreements will be honored when the health systems merge.

Tina Freese Decker, Spectrum Health's president and CEO, will lead the new health system in the same role. She said Thursday there will not be immediate job losses.

However, Gordon said, surely some jobs will be eliminated as part of the deal.

"It's obvious you don't need two CFOs. You don't need two CEOs," Gordon said. "There will be a number of high-level administrative people that you don't need two of."

Fox will leave when the two systems combine. And that, Gordon said, is a good thing.

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"Beaumont has been a place that's had some unpleasanties," he said, referring to several recent flaps that included the outsourcing of anesthesia services at three of its hospitals that raised ire among many doctors, and previous merger attempts that led doctors to circulate a vote of no confidence petition calling for the ouster of Fox and Chief Medical Officer David Wood Jr.

"I think if you see the Spectrum culture seep into Beaumont, you're going to see a happier Beaumont," Gordon said. "If you talk to doctors at Beaumont, there are a lot of them who are not happy. I don't think there are a lot of docs who will not be unhappy that they now have a new CEO.

"And if you're a patient and you have to go into a hospital, you would rather be in a hospital where the doctors and the nurses and the rest of the staff are happy than in one where they are somewhere between irritated and angry."

Still, Beaumont and Spectrum should tread carefully through these negotiations, said Alex Calderone, a financial and operational adviser and managing director of Calderone Advisory

Group, which works with both healthy and under-performing companies, including health care organizations.

"Given the fact that this is Beaumont's third bite at the M&A (merger and acquisition) apple since 2019, and because prior merger plans were met with strong opposition from arguably the system's most important stakeholders, its doctors, both Spectrum and Beaumont should proceed with extreme caution," he said.

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"Recall that the Beaumont/Aurora merger resulted in the circulation of a 'no-confidence' petition and upset many of the doctors, moving forward with this deal could potentially have some of the same consequences and if top doctors that patients know and trust leave because they are against the transaction, that could be devastating.

"People patronize health systems because of the relationships they develop with their physicians — so keeping the doctors happy is key to keeping the health system intact."

Still, Calderone said, it may just work out in the end.

"If effected properly there is a good chance that this deal could accomplish the goal of lowering costs while simultaneously enhancing the quality of patient care," said Calderone, who worked with Pontiac General Hospital when it went through its bankruptcy reorganization. "I'm simply stating the obvious — that it would behoove both administrations to ensure that their doctors are generally on board with this process proceeding — and if not to consider putting it on hold until a general consensus can be reached."