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This Just In

New restaurant options coming to Metro Airport

A range of national and local restaurant chains plan 25 new dining options for the McNamara Terminal at **Detroit Metropolitan Airport**.

The **Wayne County Airport Authority** approved concession agreements for the new food and beverage sellers that will open in the terminal over the next year and a half.

Local restaurants with concession agreements include **Andiamo**, **Bigalora Wood Fired Cucina**, **Plum Market**, **Zingerman's Deli**, **Corridor Sausage Co.**, **Grobbe's Gourmet Deli** and **Papa Joe's Gourmet Market**. Restaurants based out of state include **P.F. Chang's**, **Chick-fil-A**, **LongHorn Steakhouse**, **Bruegger's Bagels**, **Potbelly Sandwich Works**, **Pinkberry** and **Espressamente Illy**.

The new restaurants will add about 22,000 square feet to the terminal's food and beverage space.

— Nathan Skid

Hospitals merger: Rx for capital

Beaumont-Oakwood-Botsford alliance would bolster assets

BY JAY GREENE
CRAIN'S DETROIT BUSINESS

The proposed merger of **Beaumont Health System**, **Oakwood Health-care Inc.** and **Botsford Health Care** could give the new \$3.8 billion health corporation more affordable access to capital that none of the systems could achieve on their own, said several health care experts in interviews with *Crain's* last week.

Last week, CEOs of the three health systems — Beaumont's Gene

Michalski, Oakwood's Brian Connolly and Botsford's Paul LaCasse, D.O. — confirmed they signed a letter of intent Thursday to begin 90 days of discussions to combine their organizations into a new \$3.8 billion health care system.

Crain's had reported Thursday that a potential merger or alliance was imminent, citing sources close to the deal. At the time, the hospital systems declined to comment.

"It makes sense from an access-to-capital standpoint, because the larger the institution, the greater



McTevia

the cash flow and the greater ability to service debt," said Jim McTevia, managing member of **McTevia & Associates** in Bingham Farms.

"Hospitals have to have access to capital because there is so much uncertainty in the future with an aging population and de-

clining reimbursement" from Medicare and private payers, said McTevia, a longtime health care consultant in Southeast Michigan.

If a Beaumont-Oakwood-Botsford deal materializes, the new system would control eight hospitals, 3,015 beds and about 30 percent of Southeast Michigan's inpatient days. The new company would employ 25,500 workers, and the systems have more than 5,000 physicians on its hospital medical staffs.

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GM ignition recall may haunt Delphi

Supplier's fate in liability case could be matter of timing

BY DUSTIN WALSH
CRAIN'S DETROIT BUSINESS

A faulty part in as many as 1.6 million vehicles could ignite legal and financial calamity for **Delphi Automotive plc** if it is held responsible for the actions of its bankrupt predecessor.

The Troy-based supplier of the defective ignition switch at the center of a massive recall, investigation and public shaming of **General Motors Co.** could face mounting scrutiny over the hot-button issue.

However, the unanswered questions in the inquiry has left legal experts unsure of Delphi's plight.

Delphi, as well as GM, is protected under Chapter 11 bankruptcy code

from certain product liability obligations that occurred before they emerged from bankruptcy, but it still may not be able to avoid penalties, experts say.

Delphi declined to comment on the issue for this article.

The issue comes down to whether the product liability discharge for bankrupt **Delphi Corp.** is upheld in the face of civil suits and potential fraud under a criminal investigation.

"This is relatively unprecedented and will make for a great law school class," said Mark Aiello, partner at **Foley & Lardner LLP** in Detroit. "Forget about the complexity of a component that has failed; now you have the complex-

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A photo of a Chevrolet Cobalt taken by an engineering firm hired by the lawyer for the family of a woman who died in a 2010 crash.



NATHAN SKID/CDB

South by Southwest: 12 days of tech music, film — and brand building.

SOUTHWEST EXPOSURE

Texas festival is as much for brands as bands

BY NATHAN SKID
CRAIN'S DETROIT BUSINESS

The crush of people, brands and bands at the **South by Southwest Festival** in Austin, Texas, creates brand exposure, and this year Detroit companies, musicians, attorneys and advertising agencies were there to capitalize on the opportunity.

Mark Rieth, owner of Detroit-based **Atwater Brewing Co.**, sent 2,100 cases of Dirty Blonde Ale to the nine-day conference and festival. The beer was given away for free at more than 22 events over 12 days as a way to plant Atwater's flag in its new market.

The reason? Atwater is building a \$15 million, 80,000-square-foot brewing facility in Austin with the capacity

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Merging of the Minds (see our ad on pg 2)

Warner
Norcross & Judd^{LLP}



SXSW: Brands and bands

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to brew 100,000 barrels a year. The facility is scheduled to open during the first quarter of 2015.

Rieth said Atwater beers are now stocked in more than 300 stores across Texas, including **Whole Foods** and **H-E-B**, which Rieth calls the **Meijer** of Texas.

"I think it will move us from being able to sell 5,000 barrels in Austin to 40,000 in our first year there," Rieth said. "It's that big of a deal. It puts you on the map and makes you a viable brand. It catapults you to a whole different level."

Rieth said the company spent about \$20,000 on products and travel for SXSW, but that the exposure was worth it.

"The ripple effect is now bars and cool places are ordering Atwater beer," he said. "I met with the CEO of **Stubb's BBQ** to talk about collaborating with us in the future. I want to bring that spirit of collaboration back to Detroit."

Atwater was the beer sponsor for the closing SXSW event at **Stubb's BBQ**, a multiuse space that is part concert venue, part barbecue restaurant. **Stubb's** is known to house some of the biggest music acts during the festival. This year, Lady Gaga performed for a crowd of about 2,000.

"Words don't explain the amount of exposure we got from a branding standpoint," Rieth said. "We are bringing Detroit to Texas through our beer, and the Detroit story resonates with people."

McClure's sends Bloody Mary mix

Joe McClure, co-owner of Detroit-based **McClure's Pickles**, said he was asked by San Francisco-based Internet lodging site **Airbnb** to provide a palette, 60 cases, of its Bloody Mary mix to serve during SXSW for free.

McClure said it cost about \$2,000 to produce that much of the mix, which, at \$8 a jar, retails for about \$6,000.

"I have never been (to South by Southwest), so I don't know exactly what goes on, but people say it's a great branding opportunity," McClure said. "We didn't sell anything there, so we weren't making any money, but we want to expose people to our Bloody Marys."

McClure said he hasn't landed new clients from the Airbnb deal, but the benefit of giving away products during SXSW is that people who have never heard of McClure's will be exposed to it and might become customers down the road.

"I think we would do this again," he said. "The thing is, you have to be selective. I won't do this for just anyone who asks. It has to make sense."

McClure said it was the first time the company has done a free promotion on that large of a scale.

"We'll find out if it worked," McClure said.

Musicians spend to network

Michael Yessian, president of Farmington Hills-based **Yessian Music**, said the company spent \$25,000 on a party for 450 people during the technology-focused part of SXSW. The festival also has sections devoted to music and film; each section has parties, events, panel discussions and exhibits.

It was the second time the com-

pany has entertained at SXSW.

"It is the most strategic time for us to throw a party because it's one of those rare times when people come together from all over the world," Yessian said. "For us, it's about getting the word out there about us as a company to potential clients."

Was the cost worth the exposure?

"Was it worth it? Yes," he said. "We will definitely do it again next year."

Yessian composes original music scores for TV, film and advertisements. It worked on the sound track to this year's Bob Dylan Super Bowl ad.

Detroit hip hop artist James Jones III, who goes by the name **Boldy James**, made the trip to Austin with a small crew for a 30-minute performance. But that performance was opening for rap legend Nas and people started lining up to get into the venue many hours before the show, snaking down the street in opposite directions.

James declined to say how much he spent at SXSW.

"We blew the bankroll out to get out there, but we made some money back off of merchandise, but the real benefit was meeting executives," James said. "It takes money to make money."

Exposure worth expense

Howard Hertz, co-founding partner of Bloomfield Hills-based **Hertz Schram PC**, spent about \$3,000, excluding food and drink, to send his up-and-coming entertainment attorney Joe Bellanca to Austin for SXSW.

Hertz said that while he does not consider that a lot to spend, the networking alone is worth the expense.

"We don't get the opportunity like lawyers in L.A. or New York to network and build relationships with record labels and publishers," Hertz said. "That's the most valuable thing in my line of business both for getting new clients and helping existing ones widen their network."

Leslie Hornung, senior vice president of marketing, communications and public relations for the **Michigan Economic Development Corp.**, said the MEDC spent about \$200,000 from its business attraction campaign to have a booth on the conference floor during the technology-focused days at SXSW.

Hornung said more than 1,000 young professionals visited the MEDC exhibit, many of whom were interested in learning about working in Detroit.

"Detroit has a certain cachet as a cool place to be and a place where young people want to live. We wanted to talk about that," she said. "There are thousands of young people at that conference and we wanted to tell them that we have the things that they are looking for."

Hornung said the money spent was a small cost for access to a targeted demographic.

"Think about it; we spend millions in advertising," she said. "But getting one-on-one time with such a specific group of people is more valuable than someone seeing an ad somewhere."

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Hospitals: Seeking strength in unity

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Royal Oak-based **Beaumont** reported \$108.6 million in net income on \$1.92 billion in revenue in 2012, followed by Dearborn-based **Oakwood** with \$39.6 million in net income on \$1.2 billion revenue. **Botsford Hospital**, a 305-bed osteopathic hospital in Farmington Hills, earned net income of \$4.1 million on \$564 million in annual revenue in 2012.

Beaumont and **Botsford** are rated A1 and stable by **Moody's Investment Services**. **Oakwood** has an A2 stable rating from **Moody's**.

In a telephone news conference last Friday, the system CEOs insisted that the creation of the new health system should be considered an affiliation, not a merger, because the three legacy organizations will become members of a new nonprofit company.

"We will have a parent and three children," said Michalski, who will become the interim CEO of the new, as of yet unnamed, health system.

"All the health systems will have tax IDs from Medicare and Medicaid. They have separate provider contracts, and they all credential doctors differently," he said.

Michalski, Connolly and LaCasse will serve on the newly formed CEO Council, which is designed to oversee the transition and implementation of the new system, according to the statement. Michalski will chair the council.

Connolly and LaCasse will remain as president and CEO of their respective organizations during the transition. Connolly will also serve as transition executive on behalf of the CEO Council.

John Lewis, **Oakwood's** chairman, will serve as the new system's initial chairman.

Connolly said the combination is an affiliation because there will be no surviving entity. "We are coming together in a new health system. It is not a merger," he said.

But the systems' press release described the combination as a "new, \$3.8 billion health system that would combine assets, liabilities and operations under unified executive and board leadership."

"It sounds like a merger to me," said McTevia. "What other option do these local hospitals have than to be strong and large enough to be able to compete with" larger health systems and reduce costs?"

"It will only be a matter of time when (Southeast Michigan) will have a couple of large hospital conglomerates," McTevia said. "There is only so much money to go around in a hospital system now that the federal government has made it so difficult with Obamacare."

Joshua Nemzoff, president of **Nemzoff and Associates** in New Hope, Pa., said the **Beaumont-Oakwood-Botsford** alliance will be better able to compete against two other large systems in metropolitan Detroit — **Detroit Medical Center** and **Henry Ford Health System**.

"The reasons to do something like this is to get some economies of scale, to reduce expenses, thereby becoming more profitable and gain access to capital," said Nemzoff, who advises nonprofit hospitals on mergers and acquisitions.

MERGER BY THE NUMBERS

Beaumont, Oakwood and Botsford would become Southeast Michigan's largest health care system.

	Market share	
	Revenue	Inpatient days
Beaumont Health System	17.8%	18.9%
Oakwood Healthcare Inc.	9.7%	11.1%
Botsford Hospital	NA	NA
Total for new unnamed system	27.5%	30%
Henry Ford Health System	22.8%	18.3%
St. John Providence Health System	16.1%	17.6%
Detroit Medical Center (Tenet)	15.9%	15.8%

Top health care systems ranked by total revenue

	2012 revenue
Henry Ford	\$2.46 billion
Beaumont	\$1.92 billion
St. John	\$1.74 billion
DMC	\$1.72 billion
St. Joseph Mercy Health System (Excludes St. Joseph Mercy Hospital, Port Huron)	\$1.6 billion
Oakwood	\$1.2 billion
Botsford	\$564 million

Source: Michigan Health Market Review 2013, Allan Baumgarten, Minneapolis, and hospital systems

"Something that doesn't get often mentioned is the (improved) negotiating leverage for managed care" with private payers, Nemzoff said.

Daniel Loepp, CEO of **Blue Cross Blue Shield of Michigan**, said he wasn't surprised by the proposed merger or affiliation, given the cost pressures on hospitals under health care reform.

"Blue Cross has tremendous respect and strong relationships with these three community-based hospital systems, and we are working with all three on our new, value-based approach to hospital reimbursement," Loepp said in a statement.

Nancy Schlichting, **Henry Ford's** CEO, said hospital mergers aren't easy to accomplish.

"I wish them well. It is a challenging time in this industry, but scale does matter," said Schlichting, who was involved in an ill-fated merger attempt with **Beaumont** last year. "It will be a significant challenge to bring three organizations together."

Schlichting said **Henry Ford** continues to look for opportunities for merger partners. However, the Detroit-based system has been spending more time improv-

ing its internal operations and expanding its 30-center ambulatory care network.

Nemzoff said combining three hospital organizations into a single entity is more difficult than when two organizations merge.

"What happens a lot in non-profit mergers is they say they are affiliating, but it is in name only," Nemzoff said. "Nobody is fired, and they don't eliminate any services. The only way to really reduce costs is through labor — that is called firing people. They want to make everybody happy. Then why merge?"

Michalski said the three systems will begin discussing ways to reduce costs. He cited cutting costs in information technology, supply purchases and efficiencies and by using best clinical practices.

But Connolly said none of the eight hospitals that will be part of the new system will close.

"We will do an inventory on the facilities we have," noting the plant age and locations, said Michalski. "We will have a team review that to see what opportunity exists" to reduce costs.

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IS YOUR PLACE A COOL PLACE TO WORK? TIME TO NOMINATE

Crain's biennial **Cool Places to Work in Michigan** awards returns this year, and once again **Crain's** is working with **Best Companies Group** of Harrisburg, Pa.

The competition has two parts: one questionnaire for employers, another for employees. The combined, weighted results will determine who qualifies for **Cool Places** designation.

Best Companies supplies all participating companies — regardless of whether they win the **Cool Places** recognition — with a **Best Companies Group** employee feedback report based on employee responses to the 72-question survey. The report can help company executives identify strengths and weaknesses in their company culture and practices.

To be considered for **Cool Places to Work in Michigan**, companies must register at www.coolplacestoworkmi.com by **April 18**. Other important dates, samples of the surveys and other information are on the website.

Businesses and nonprofits can apply. Applicants must have a minimum of 15 employees working in Michigan and have been in business at least one year, among other criteria.

Companies pay a fee based on company size to **Best Companies** to cover survey costs. The cost ranges from \$610 to \$895 for online surveying, and \$765 to \$1,660 for paper surveying.

