Merger Life

Practice-to-Practice Deals Deliver Big Benefits in Anesthesiology

WHITEPAPER

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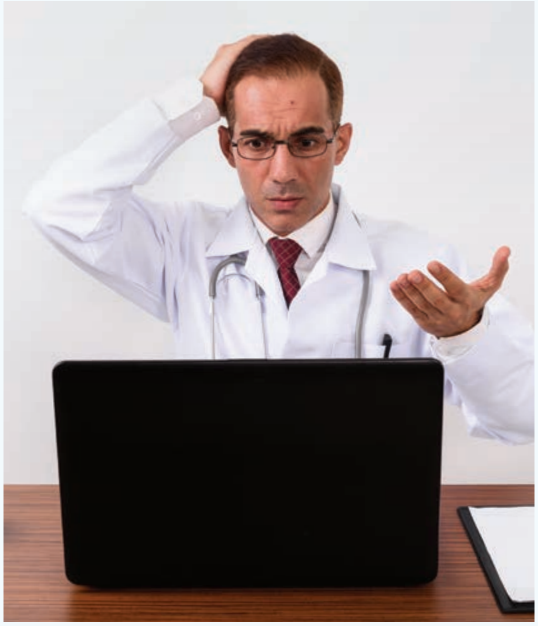
National practice management companies interests in acquiring independent anesthesiology practices has cooled off lately...but mergers between independent anesthesia groups continue to gain favor as another viable option to consider. In fact, newly merged entities are seeking to expand geographic reach and improve coordination with allied health systems and reduce costs.

Today's practice-to-practice deals increasingly are being structured as strategic mergers that allow the combined organizations to retain a relatively high degree of autonomy. The approach can save time and money when compared to traditional asset transfers and also help preserve an exit strategy if the alignment doesn't work out. In fact, Inc.com recently cited that "culture clash" is the one thing that can kill any merger or acquisition in any industry, and anesthesiology is no exception, especially as it relates to work-life balance, vacation time, and other elements where groups may be misaligned.

Groups should identify tangible, long-term benefits that suggest a merger is a good fit.

Regardless of the type of merger pursued, groups need to have a sound strategic rationale for seeking a union and should also be sure that the organizations are culturally compatible before pulling the trigger.

For instance, if the idea is to get big just for the sake of being big, then that's not the right reason to do a merger. Groups should identify tangible, long-term benefits that suggest it is a good fit, such as expanded geographic or health system coverage, increased sub-specialty expertise, 24/7/365 service, and shared clinical best practices, as examples. If the reasons are not there, it is probably not going to work.



Rethinking Anesthesiology Merger Strategies

Anesthesiology acquisitions that followed implementation of the Patient Protection and Affordable Care Act have diminished considerably over the last several years, in part due to a realization that anesthesiologist productivity tends to fall off, sometimes dramatically, once the physicians become employed. Many hospitals may not really understand what they were getting into. Before, they were paying significant premiums for independent practices, but when productivity declined, they had to hire additional staff to do what the independent groups had previously done alone.

Having had a good deal of success rolling up radiologists and emergency physicians into big, national single specialty provider organizations with many having built-in operational expertise, private equity has decided that anesthesiology also provides similar opportunities, showing much growth in acquisition activity over the years.

Practice-to-practice mergers continue to thrive amidst all of this, however. With the right partners, and with a well-designed merger, the benefits can be significant:

- Improved geographic coverage to better serve a hospital or health system
- Enhanced negotiating leverage
- Reduced malpractice risks
- Increased capacity with subspecialty coverage
- Decreased materials and information technology costs
- Shared clinical best practices
- Shared management expense

In turn, the anesthesiology group has the ability to report across the entire health system, versus giving one silo that shows hospital coverage with views for one single practice.

Unified Front

Organizations are embracing the strategic merger concept while eschewing traditional asset transfer deals. The goal is to reduce the cost and complexity of a transaction while preserving the benefits of independence, which allows each individual practice of the merged entity to still “eat what they kill” and be financially rewarded for their hard work.

Sometimes referred to as a “merger lite,” the strategic merger allows practices to collectively contract and bill under a new, single tax ID number. At the same time, collections are tracked back to the specific group that provided the service and reported under that organization’s original tax ID. **This approach enables the merged organization to function as a single entity in many respects, particularly in the areas of negotiations and cost-sharing.**

Because strategically merged groups can present a united front to hospitals, health systems, and payers, procedural and operational touch points are reduced, contracting is streamlined and quality reporting and care continuity can be made more consistent. Equally important, the potential for conflicts surrounding lifestyle and workload differences between newly combined practices is reduced when groups remain solely responsible for their own productivity and income.

A full merger gives the anesthesiology practice the most control, but it is also the most time-consuming and expensive to complete and it can be pretty difficult to unwind if any of the parties want out. **One of the best things about a strategic merger is that groups can leave if they want because they’ve not given up their own taxpayer ID.**

Big Picture Views

Making sure a proposed merger supports a larger strategic vision is an essential first step in deciding whether to move forward. An expanded footprint to better serve hospital and health system facilities is among the most frequent reasons that groups combine. Groups should consequently spend time understanding their hospital relationship and work to identify the ways in which a deal could benefit the hospital. They should also try to make sure that no hidden issues surround a would-be partner’s hospital contract. Is it perpetual in nature, or does it come up from grabs all the time? Asking those questions may prevent groups from inheriting someone else’s problems.

Assuming the post-merger potential for benefits like cost reduction and expanded specialist capacity exists, the next step is to assess whether the organizations are culturally like-minded. **One of the toughest issues with mergers is when deals bring together physicians with sharply differing views on lifestyle and workload expectations.** Many anesthesiologists work relentlessly and pride themselves on working long hours and taking a lot of call, while others are more focused on a work-life balance that allows for shorter days and more time off.

While there is no right or wrong answer, it is important to be clear about what everyone's expectations are going in. Strategic mergers can help mitigate lifestyle-work challenges, since physicians continue to be responsible for their own income and productivity.

Beyond working to ensure a good cultural fit, attention should be paid to how the organization will be managed and by whom. Too often, practices assume that the processes and personnel that worked for a small practice will be just as effective for a larger organization. In fact, the challenges can be very different and the management workload may be exponentially greater. It is important, therefore, to **think hard about the practice management expertise the new entity will need** and clearly identify the most capable leadership before executing the merger.

One of the biggest challenges with a traditional merger is putting an appropriate value on the acquired practice. Formulas that take into account asset value, cash flow, A/R and other variables can produce an equitable number, but it is still important to enlist the services of a neutral, outside consultant. Culture also plays a part in these as well, with a secondary concern regarding how all the partners will be paid when taking into consideration that the individual practices may have varying vacation levels. If one practice has 10 weeks off and another has 14 weeks off, for example, the merger might fail or never happen due to cultural differences in work-life balance.

Hypothetically speaking...

Done correctly, anesthesiology mergers can have a dramatic and positive impact on operations. As one hypothetical example, let's say eight previously independent anesthesiology groups band together to better serve a single regional health system in a major metropolitan area. The deal, which is structured as a strategic merger, could generate multiple improvements for the groups, including six-to-seven figures on malpractice insurance alone. **With a deal of this size, groups can negotiate managed care agreements that are among the best in the industry, and move ahead rapidly with clinical integration, evidence-based medicine and aggregate quality reporting.**

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