WHITE PAPER

Five Reasons Behind Practice Mergers

As we work with physician groups throughout the country, we are often asked, "What is secret recipe for successful practice mergers?" To be honest, like most things in life, there is none. A well-etched strategy, astute management team, and an eye for details is what encapsulates the essence of successful merger. While strategy is important for most mergers, cultural compatibility is the soul.

Many physician group mergers happen every year. Some of them gather media attention, while some just happen in a hush-hush way. But that's not what is important. What actually matters is how many of these stand the test of time and how many remain a memory at best. Before finding out more on this, let us first try to comprehend as to why mergers happen in the first place. Why do two independent entities come together to forge a new relation when they can make way on their own? Mergers can be risky if approached haphazardly and one miscalculation can cascade into huge financial losses.

While physician group mergers can have a profound impact on the business, too often practices view the merger itself as the strategic end game. Primarily value creation or value enhancement is the goal of any merger. These are business combinations and the reasons are based on economic elements. Let's take a quick look at some of the reasons behind physician group mergers.

Increased Capacity
One of the most common driving forces of a merger is to increase capacity through combined forces. Usually physician groups target such a move to leverage expensive practice operations. However, capacity might not just pertain to practice operations; it may emanate from procuring a unique technology platform instead of the practice having to finance the technology.

Achieving Competitive Edge
Let's face it. Competition is cutthroat. Without adequate strategies in its pool, physician groups will not survive this wave of healthcare transformation. Many physician groups take the merger route to expand their footprints in a new market where the partnering physician group already has a strong presence. In other situations, attractive brand portfolio lures physician groups into mergers.

Surviving Tough Times
Tweaking the adage, let's say, "Tough times don't last, tough physician groups do." The healthcare industry is going through a phase of uncertainty and combined strength is always better in tough times. When survival becomes a challenge, combining is the best option.

Diversification
Sensible physician groups do not just believe in keeping all eggs in one basket. Diversification is the key. By combining their providers and services, they may gain a competitive edge over others. Diversification is simply adding products (providers, services, and technology) in the portfolio which is not part of current practice operations.

Cost Cutting
Economies of scale is the soul of most businesses. When two physician groups are in the same specialty, it makes perfect sense for them to combine locations or reduce operating costs by integrating and streamlining support functions. This becomes a large opportunity to lower costs. The math is simple here. When the total cost of patient care is lowered with increasing volume, total profits are maximized.

Mergers represent a challenging and risky strategic decision. The decision to merge should be fully challenged before physician groups decide to go ahead, particularly given the average performance of the returns and risks associated with the potential outcomes. Even with thoughtful planning and preparation, best practices and focus, success is not guaranteed. However, applying the best practices should enhance the chances of success and help avoid catastrophic pitfalls.

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