WHITE PAPER

Strategic Diligence of Physician Practice Mergers

In recent years, there has been noticeable increase in practice mergers among physician groups. Undoubtedly with the ever-evolving reform of the U.S. healthcare industry, there is a lot of uncertainty for private practice physicians. Some practices are content with no organizational changes and some have decided to be acquired by hospitals. Others have gone the route (or are pondering) of merging with another private practice (either same specialty or different specialty). The decision to buy, sell, or merge a medical practice is more complicated than ever, and determining a medical practice's worth is just one element crucial to this process. For those that are considering merging with another private practice entity, there are many things to strategize about and that's assuming there will be a windfall of benefits by consummating a merger.

Physician owners must have a clear rationale for a transaction or truly understand a deal's impact on their practice's long-term financial future. Too often, however, there's a misguided sense of why the merger should take place at all, and there's far too little time spent defining how the merger enables them to beat competitors and increase organizational value. Those that fail to take this into account contribute to the failure rate of physician group mergers.

For many physician groups, the link between strategy and a transaction is broken during due diligence. By focusing strictly on financial, legal, tax, and operations issues, the typical due diligence around a proposed merger fails to test whether the strategic vision for the deal is valid. To do so, physician groups should bolster the usual financial due diligence with strategic due diligence. They should test conceptual rationale for a deal against more detailed information available to them after signing the letter of intent. They should also see if their vision of the future operating model is actually achievable.

A strategic diligence should explicitly confirm the assets, capabilities, and relationships that make a buyer the best owner of a specific target acquisition. It should bolster the physician owners' confidence that they are truly an "advantaged buyer" of an asset. Advantaged buyers are typically better than others at applying their established skills to a target's clinical and business operations. They also employ their privileged assets or management skillset to build on things like a target's practice reputation, patient experience, or relationships with referring physicians. Naturally, they also turn to their special or unique relationships with vendors and the community to improve performance, leading to advanced synergies that go beyond what's normal.

When change comes suddenly, it can turn strengths into weaknesses and sweep away dreams of success. The aim of a merger should be to achieve mutually reinforcing advantages. Michael Porter, famous business guru from Harvard, wrote that competitive advantages stem from how "activities fit and reinforce one another. . . . creating a chain that is as strong as its strongest link." By undertaking strategic diligence, physician owners will be able to not only define their main objectives, but also gain greater control over the desired direction of the new entity after the merger is consummated. Some of the strategic diligence questions to ponder include:

• What are the strengths of each practice?

• What could our practice be doing better?

• What opportunities exist as a result of this merger?

• What threats do we face by completing this merger?

• What is the current culture of each practice?

It is critical for physician owners to be honest and thorough when assessing their advantages. Ideally, they develop a fact-based point of view on their beliefs - testing them with anyone responsible for delivering value from the deal, including physicians, physician extenders, clinical staff, and front and back office personnel. Above all, when it comes to the merger of two physician groups, culture is a key decision criteria. Culture should be evaluated and discussed prior to any financial considerations. In my experience this is of paramount importance for practice-to-practice mergers and is meticulously examined only through strategic diligence.

ABOUT ABISA

ABISA offers advisory services to help clients formulate strategic direction and advance healthcare business initiatives. As a trusted source for strategic healthcare initiatives, ABISA enables physicians to concentrate more of their time on patient care. For more information about our services, visit www.abisallc.com.

ABISA

P.O. Box 1465

Valrico, FL 33595

www.abisallc.com

info@abisallc.com