



WHITE PAPER

Strategy Checklist for Medical Practice Acquisitions

With the everchanging healthcare landscape and the increasing competitiveness among physician practices and hospitals, many physicians are looking at acquiring other practices and bringing them into the fold. Unfortunately, we have often seen physicians who would like to jump to valuations or due diligence of a medical practice without having first established their own strategy as it relates to potential acquisitions.

If your practice doesn't already have a strategic growth plan, make one.

Growing for growth's sake really doesn't make sense for you or for the potential target. Instead, think about practices that might be interesting to acquire, geographies that might be important, capacity that might enhance operations, or perhaps even technology that could be transformational.

You want to consider what you need before looking at opportunities, because after the acquisition the integration follows, and that can be an extremely difficult process if there was no strategy beforehand. The discipline of articulating a strategy will guide you in finding and assessing acquisition targets.

Getting started

What is your vision for where you want your practice to go? In developing your acquisition strategy, you should consider your goals (What is it that you want to do?) as well as your experience (What have you already demonstrated the capability to succeed at?). It is imperative that these two areas are fully thought out and written down before proceeding.

As a physician owner, you need to know what strategic outcomes you ultimately want from engaging in acquisitions and consider the implication to both you, as the buyer, as well as the practices that may want to sell. Developing an acquisition strategy requires knowing what makes your practice successful now and what a potential acquisition can add to make your business even better in the future. This strategy will help you clearly define the value proposition for both buyer and seller, as well as the value drivers that should guide acquisition decisions. In this instance, the value drivers are essentially capabilities that add worth to the practice.

Practices are continually bought and sold as a result of an opportunity being made available or because of a strategic plan. As the buyer, you are acquiring an established practice that's hopefully making money and has patients and employees already in place. You also know that if you buy a good practice, you have the opportunity to make it a better one. From time to time, things come your way that are more opportunistic. Ask yourself, is the downside risk significantly less than the realistic upside opportunity? Are the seller's goals aligned with what you want to do? Look at the fit. Will integration require a fundamental change in either practice? Unfortunately, the answers are rarely black and white thus the importance of having an underlying acquisition strategy.

Defining the practice you want to buy

When your desires and experience intersect with a good acquisition strategy, you have the foundation for your plan. It is now time to look at opportunities, by first defining the parameters of the practice you want to buy. What are the characteristics of the medical practice that you propose to buy? Items such as practice size, location, price range, and patient catchment area are just some of the key areas to initially think about.

What is your plan to grow the new combined business? You should include both top and bottom line growth in your discussion. Are you looking for a troubled practice where you can create value or a practice that's already on a fast growth trajectory? Do you foresee additional acquisitions? If so, what are the attributes of the prospective add-on medical practices. What will the new combined business look like as your plan moves forward?

Targeting a practice

Once this exercise is complete, you will be in a position to start targeting the right practice. There are two ways of targeting a medical practice: find one already listed for sale, or approach a physician owner of a practice not for sale, and make an offer. Some key questions you want to keep in the forefront of your mind are:

- How does the target make you, the buyer, better?
- How do you make the target better? Most often you're buying the producer (the physician) so alignment with his or her personal goals is absolutely critical.
- What are the risks that could impact the future success of the business? What is your plan to deal with them?

The process of buying a medical practice can be narrowed down to one very simple question: Is the practice you're buying actually the *business* that you think you're buying? Some purchases are more straightforward than others. If you have a thorough understanding of the practice you are buying, then the process will be smoother. It is extremely important to remember that when you encounter an opportunity that does not align perfectly with your original strategy, return to the key questions that defined it. Local market dynamics may change your own practice and thus there may be a need to alter your acquisition strategy. There is nothing wrong with that. In fact, I am a firm believer that strategy should be fluid and ever-evolving. Just make sure that as your acquisition strategy changes over time, the practices you acquire still make your business better

and more valuable.

Final thoughts

Essentially your strategy will become the roadmap for your acquisition initiatives and will serve you well at every stage. Thoughtful development of an acquisition strategy should tell you as much about the medical practices you should not pursue as those you should. You can use your refined strategy to help locate medical practices, seek investors and lenders, assess the value of practices, and structure deals. Most importantly, as you get caught up in the heat of the chase, it will help you to assess whether the deal that you're working on is really going to be right for you.

The challenge is to stay true to your strategic direction, not allowing yourself to be distracted by acquisitions that don't keep you on the intended path. Physician owners often make mistakes here. All the work you do to meet and evaluate practices, only to walk away, is not wasted. It's part of staying true to the thesis and testing and achieving your long-term vision for your business.

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.



P.O. Box 1465

Valrico, FL 33595

www.abisallc.com

info@abisallc.com