

PHYSICIAN PRACTICE MERGERS ON THE RISE AGAIN?!

by [Michael Casanova](#)

One may wonder if anything really changed since the 90's (if ever). To this author's mind, much of the forces that led to consolidation in the first place really still exist today and in fact have intensified due to growing awareness among the general population. I guess that with the graying of America, economic wisdom is beginning to bear fruit. Much of what many of us already knew for decades is finally reaching the consciousness level of John Q. Public.



Solos and duos face extinction?

The pooling of resources amongst practices is attractive (if not a necessity) for many physicians to afford the accouterments that consumers expect from a modern medical practice. If one considers the sheer cost (not only in terms of money but also time and disruption to the practice), compliance with new technologies such as the Electronic Health Record (E.H.R.) requirement is far beyond the capabilities of most solo or two physician practices. Keep in mind the E.H.R. requirement is being stimulated with both a carrot and a stick approach. Further intensifying the complexity of the rapid changes is the introduction of ICD10 increasing the intricacies of the system. This is a gigantic shift equivalent to the telephone at the turn of the century. It began as a luxury item and is today a necessity and cost of doing business. Practices will simply not be able to function and get paid without an effective ("operable") E.H.R.

There are several advantages to merging in general. One of the greatest benefits derived from a merger of medical practices is an increase in negotiating leverage. Size, increased capacity and increased geographic reach all constitute leverage with payors, hospitals and suppliers. Further, size definitely has its advantages given the labor intensity of health care. As medical practices increase in size, specialty depth, and in multi-site locations, their market power and competitive advantages becomes quite evident.

Another advantage to a physician practice mergers is the potential ability to provide for barriers to increased new competitive entry. Also, a successful merger should increase efficiencies. For example, physicians should be better able to move into larger groups and share call coverage. Thus, there is potential for improving their quality of life. With increased synergies a larger group is better able to respond to competitive pressures and effectively address the risk-pain-reward scenario in new creative ways that are game changers. Meanwhile the combined entity should be better able to utilize physician extenders by maximizing their capacities, etc. Theoretically, larger practices should be able to find and be more readily identified for new opportunities for joint ventures, affiliations and partnerships across the MSA. As payors try to meet increased consumer demand for broader provider choices, larger clinics will be early targets for enrollment and will generally be able to negotiate more favorable payor contractual terms.

By contrast, there are many, many examples of improperly planned mergers and sadly, break-ups with costly legal bills and shattered lives that litter the MSA landscape. Most of these pitfalls and eventual break-ups are the result of inadequate due diligence, and mostly the inevitable people issues that come along the way. As a friend once told me a "a successful marriage promises many more returns and is many times over less expensive than an extremely successful and efficient divorce".

Notwithstanding the horror stories, the waves of change are just too great to go it alone in a small boat. Anyone ever caught in a squall at sea knows that size does matter in turbulent times. I firmly believe there will continue to be an increase toward group practice consolidation with mergers of small and larger

practices on a regular basis. It is very evident that physicians who want to survive and be successful in health care in upcoming years must prepare their organization by making structural and cultural changes that prepare them for this eventuality. Physicians will need to adapt, manage and even lead the transition in health care. I believe that many groups will meet these new challenges by committing to the required due diligence and then successfully implementing medical practice mergers to secure their future in the market place.

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