Congratulations, You Bought a Medical Practice. Now What?

You just spent millions of dollars to purchase a medical practice that *should* improve your business. Now what?

Interest Growing in Ambulatory Acquisitions

Recent study by Towers Watson quote 15% to 20% year-over-year increases in merger and acquisition activity from 2011 to 2012 and from 2012 to 2013 respectively.

If it seems that local hospitals are acquiring physician practices and other ambulatory services more frequently, you are probably correct. An increasing number of hospitals across the country have been acquiring practices in recent years. Recent studies quote 15% to 20% year-over-year increases in merger and acquisition activity from 2011 to 2012 and from 2012 to 2013 respectively.*

This trend is a result of tremendous uncertainty across the industry, the incredible dynamics created by the Patient Protection and Affordable Care Act (PPACA), ICD-10 coding requirements, and extraordinary reimbursement pressures. These factors have driven Integrated Delivery Networks (IDNs), hospital systems and physician practices alike to explore such transactions in an effort to remain financially viable while delivering better care for patients.

There are many good reasons to pursue these transactions regardless of which interest you consider. For IDNs and hospital systems, ambulatory acquisitions can secure specialty services, provide a more robust continuum of care for patients, help them meet meaningful use guidelines, and, of course, drive more revenue and profit. Most IDNs and hospital systems understand that patients desire the accessibility of healthcare services provided in the ambulatory environment, and they can see the reimbursement pressures building to deliver care in these less expensive locations.

For physicians and others who own ambulatory practices, reimbursement has continually fallen in recent years and there are more and more regulatory restrictions affecting what services they can provide to offset reimbursement cuts. The requirement to move to ICD-10 coding standards creates both numerous billing complications and significant capital demands. The cost to update systems to meet ICD-10 requirements could easily exceed $2.5 million for larger practices, and the Centers for Medicare and Medicaid Services (CMS) has recommended that practices increase cash reserves or secure credit lines to help them bridge financial gaps anticipated due to slow reimbursement as commercial payers struggle to make the switch as well.* This creates tremendous financial strain on ambulatory practices.

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Maximizing Your ROI

Clearly there are a host of great reasons to complete transactions. However, once you get a deal done, how do you ensure that you actually achieve your objectives? Your system just spent millions – if not tens of millions – of dollars to purchase a practice that should dramatically improve your business: what is your plan to simultaneously deliver an acceptable return on invested capital and improve patient care?

The question of how to maximize the results of acquisitions is extremely important given the financial considerations involved. Various articles published by McKinsey & Company, Booz & Company, KPMG and Becker's Hospital Review indicate that 50% to 75% of all transactions completed in the United States fail to meet the projected or desired financial results.

All too often healthcare systems make the mistake of limiting integration to placing employees on payroll and installing a billing system. While these items are certainly important, they will not drive a return.

Why does this happen? There are many reasons ranging from poor due diligence to unreasonable expectations, but one of the most oft cited causes is a lack of proper integration.

All too often healthcare systems make the mistake of limiting integration to placing employees on payroll and installing a billing system. While these items are certainly important, they will not drive a return. To properly integrate entities and maximize both return and patient care, a vast number of challenges must be considered and addressed.

As it is with any complex task, the first step in integration planning is to break the undertaking down into manageable components. There are many ways to organize integration planning and activities, but a good plan should include strategy, facilities and equipment, IT systems and network design, process and workflows, human resources and culture, and compliance. Additionally, not only is it important to address these components, it is equally critical to coordinate efforts to ensure comprehensive and cohesive results.

Developing a Strategy

Strategy, including facilities and equipment, is the first consideration because it drives all other decisions. Strategy is typically identified before a transaction closes, although it often evolves over time. Having an understanding of the reasons for completing a transaction allows an entity to identify clear objectives, which then guide the creation of an integration plan.

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- Why was the transaction completed? What are the long-term objectives for the acquired practice?
- What are the facility and equipment requirements? What assets were included in the transaction? What short and long-term upgrades are necessary? How will the site(s) be serviced?
- What are the billing and payer strategies? Will new payer contracts be required? How will facilities be credentialed? Are there new procedures or capabilities that will need to be added?
- How can this practice add to the rest of the network? What mechanisms and processes can be put in place to help generate cross referrals? How can the practice be more efficient?

Assessing IT Assets

IT systems should be assessed in conjunction with processes and workflows to ensure optimal efficiencies. It is also important for IDNs and hospital systems to understand that outpatient ambulatory practices have different needs than hospitals, and consequently often require different or supplemental IT systems. Some reasons for variance include unique scheduling needs, specialty focus, different operating metrics and network infrastructure limitations.

IT systems integration considerations include:

- What are the current IT systems and how does the staff utilize them? What is the database structure? Are there any assumed contractual obligations to vendors? How are systems currently serviced?
- Is the staff utilizing manual processes to work around system inefficiencies or shortfalls? How will system needs change now that the practice is part of a larger network?
- How can systems be improved to better support the practice, create efficiencies and improve the patient experience?
- Do the existing systems have the capability to report on the metrics needed to properly manage the practice going forward?
- Are the systems compliant with ICD-10, meaningful use and other requirements?
- How will the network configuration need to be changed to support the new systems configuration?

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As noted above, it is critical that IT systems work in conjunction with operational processes and workflows to maximize efficiencies. This is a step that is often overlooked and it is the primary reason that so many ambulatory practices end up with manual and/or redundant processes.

Processes and Workflow

It is also important for acquiring entities to identify best practices in terms of processes and workflows. Best practices can come from existing entities, acquired entities or even outside sources, but the key is identifying processes that maximize efficiencies and provide the best possible patient care. Additionally, it is more common than most realize for IDNs and hospitals to purchase software solutions that have strong functionality, but don't fit optimal processes utilized by the staff. This results in inefficiencies and thus higher costs and lower return on invested capital.

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Process and workflow considerations include:

- What are the existing processes and workflows utilized by staff at the acquired practice and elsewhere in the network?
- Where do various stakeholders recognize value through processes? And, conversely, where do stakeholders not recognize value through processes?
- What variances in process and workflow exist between different entities?
- What are the best practices and why?
- How can best practices be applied across the network? And, are there reasons that best practices would not apply to certain entities?

Human Resources and Culture

Despite the critical nature of human resources and culture, this component is often overlooked during planning. Certain aspects, such as compensation models, benefits and job descriptions, can be somewhat obvious, but culture is a critical component that can be difficult to identify, measure and assess.

Culture is important because it a primary driver in employee and physician satisfaction. If culture is not properly addressed, it can lead to critical turnover that negatively impacts both the return on investment and patient satisfaction. Human resources and culture considerations include:

- Identify all current staff including employment status, job titles and defined responsibilities.
- What staffing redundancies exist within the newly combined entity?

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- What responsibilities can be automated or made more efficient through the systems and processes analyses?

- What is the current culture and how does it compare and contrast with the acquiring entity?
- What mechanisms need to be put in place to ensure compliance with policies and procedures going forward?

Consolidation in the healthcare industry is virtually inevitable given the current reimbursement, regulatory and revenue environment.

Completing the Integration

The final consideration in integration planning is the available time and skill sets of those who will be responsible for implementation. Proper integration is a very time intensive project and requires a unique set of skills and experience. It is important to assess capabilities and either hire or retain people who can deliver a comprehensive implementation that maximizes all aspects of the integration.

Consolidation in the healthcare industry is virtually inevitable given the current reimbursement, regulatory and revenue environment. Many – if not most – markets in the United States are already seeing increased consolidation at historic rates. In this tumultuous atmosphere, many IDNs and hospitals will succeed, while many others will fail. The factors that ultimately determine success and failure will often come down to integration and which systems do it best. Where will you fall?

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Richard R. Divers is Chief Executive Officer of Ambulatory Integration Concepts, which helps clients maximize the financial and operational results of ambulatory transactions. The company's team has overseen the integration of more than $2 billion in acquired assets and has the unique skill set to successfully integrate ambulatory practices into larger health systems. Using its patent-pending process, Ambulatory Integration Concepts manages all aspects of integration activities, helping healthcare organizations achieve optimal results. Not only does this yield substantial financial benefits to the acquiring organization, but it also results in more effective care for patients.

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