

Resurgence of Physician Practice Mergers: An Interview with Randy Bauman

Why do you feel the trend in physician practice will be more mergers?

I've seen interest in mergers make a huge resurgence recently. **Modern Health Care** magazine did an article not long ago talking about that resurgence. I've always felt the business necessity for it was still strong. I write about it and I speak about it, but I feel that physicians have collectively stuck their head in the sand. For example, some of my single-practice clients try to negotiate with the payers in their market, and the payers laugh at them.

In one editorial submission to a popular physician magazine, I noted how physicians are now "*privileged to be allowed into the networks of the payers.*" If I had written that 20 years ago, you'd have said I was crazy. All it used to take for success was a medical license and DEA number. Now a practice must be "credentialed," which means the payer gets to determine whether they will put you on their panel. It doesn't have anything to do with your qualifications or quality, it has to do with how many doctors they need. It is supply and demand.

So what should a group do?

One strategy is to form a larger group. A merger of even five or six doctors can create a significantly bigger force in most markets. It prevents the payers from playing one physician off against another. I have a client in Idaho whose big payers have proposed a 50% reduction in some of their physician fees over the next three years. There are two groups practicing in my client's specialty in this market, and neither is stupid enough to agree to that payer proposal. But, the payer knows that if one does agree, the other will have to. So it becomes a divide-and-conquer strategy. The payer just needs to find the price point at which one group will cave, and they win.

Have you helped a lot of groups merge?

Yes, we have facilitated many multi-specialty and single-specialty mergers of varying sizes. Our company was founded in 1991 to merge physician practices, a solid trend in those days.

What was the largest group you put together?

Well, it depends on how you define "large." In terms of the number of practices merged, it was 27 separate practice entities of varying sizes with a total, in that case, of around 50 doctors. In terms of number of physicians, one group was over 60 doctors, but they came from only 20 individual practices. There have been several others in this size range.

Did the groups survive?

Absolutely. In fact, I'm doing a retreat for one of those groups in early 2005. They were formed in October of 1995, so they are almost 10 years old. I had an email recently from one of the doctors. He wrote: "The formation of this group has been a home run for all of us, both personally and professionally. It solved all of our problems from recruiting to revenue enhancement to managed care contracting." We played only a small role in their success, but one that was important. We worked with them to come up with a shared vision, provided tools for what was possible, and helped them plan exactly how it could be done. We got them started on the right path -- in that case, we stayed involved in an advisory role for a year or so. I've always tell clients during the merger process that we can get you together, we can work you through the issues, we can facilitate the merger, we can give you the vision and plan -- but you have to execute it.

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Any other merger stories to share?

Some of the groups we've worked with had tried to merge multiple times before we got involved. The fact that we were able to bring them together when others couldn't gives me a great deal of satisfaction and, yes, we do take some credit for it.

In one Pennsylvania project, there were about 10 practices involving 40 doctors that we worked with in the late 1990s. Most members of that group had tried to merge three previous times. They were very skeptical when we got involved. It took me four trips up there to answer their questions and get them to agree to at least look at how this might work. The reason they had failed in the past was that they didn't have a consultant experienced in understanding what the issues really were and in being able to work through those issues.

Doctors tend to be very independent and, as such, gravitate toward the least amount of integration of their practices that they can. Over the years, many groups have tried to find ways to gain some of the benefits of a larger size while maintaining autonomy. They particularly like the IPA (Independent Physician Association) model which, for the most part, simply doesn't work.

Do you manage or invest in groups?

Absolutely not. That was a business model popularized by some publicly traded practice-management companies, and I lost a couple partners to those companies. But Daryl, Leif and I never bought into that philosophy, because we couldn't see what they brought to the physicians except for some upfront capital in exchange for a share of the earnings into perpetuity. The crash of practice management companies back in 1998 and 1999 put a chill on *all* physician mergers.

You don't believe in the IPA model?

As an example, groups we were merging in Pennsylvania already had an IPA. It was a constant struggle to keep the doctors focused on the merger. They had factions who were really committed to the IPA, and they also had an IPA management company from out West that continually tried to get in the middle of the merger process. The management company had a fixation on global risk contracting—the idea that 50 doctors could control some ridiculous number like \$50,000,000 in revenue through essentially becoming an insurance company. That IPA went broke a few years later. Our fully merged group has been very successful. They have developed their own ancillary services and have grown significantly.

What do the physician practices gain by merging?

Well, it really depends on the market. In Pennsylvania, reimbursement was going down, and what they thought they could get was increased reimbursement. They had some moderate success with that, but you really have to look at it from the standpoint of stemming the tide. They didn't get their payment rates to go up to the levels of 10 years ago, but they did stop them from going down to as low as they are in other parts of the country. The other thing they got was the ability to provide ancillary services, and they were a big enough force to convince the payers to contract with them.

Do you get involved with smaller groups?

Smaller groups are actually a major part of our business and our experience. We tend not to talk about them as much, because larger groups are merged successfully so rarely that they have a sort of "wow" factor to them.

I got a call a few weeks ago from a small, single-specialty group in south Florida that we merged eight years ago. They were referring us to a group of non-competing specialists who want to emulate their success. Even though they aren't big, they have had success in improving payment rates. Plus, they feel like they are getting a better level of management service and support.

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What about economies of scale?

I tell physicians that if somebody is advising them to merge for economies of scale, they are either lying or don't know what they are doing. The prize usually isn't cutting overhead; it is enhancing revenue. Typically the model is to merge practices into a single entity, yet the physicians don't consolidate their offices. So they don't save in the ways they might think they'll save.

There are areas where you can save money: sharing a management information system, electronic medical records, or an administrator at a level that each group couldn't afford individually. Those are economies of scale, but I think most physicians think of economies of scale as overall cost reductions. Overall, total costs generally go up. But the benefits from those cost increases come from improved billing and collection performance, coding, better management of personnel, human resources, HIPPA compliance, MIS – all of those things.

Have you ever recommended groups not merge?

Absolutely. If we're not honest and objective, we lose credibility and, in effect, set the stage for failure. Group practice isn't for everyone. I've seen many mergers cobbled together at all costs with no vision. Often there are hidden agendas and misplaced motives. You have to get those things on the table.

What's your advice to doctors considering a merger?

Mergers aren't easy. There are many pitfalls and some do fail. A big part of our business is fixing ill-considered mergers. If you are going to do a merger, you have to know why you're doing it, you have to do it with the right players and, ideally, with the right support.