



Five Not So Easy Pieces — The Business of Practice Mergers and Acquisitions

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*"All tragedies are finished by a death,
All comedies are ended by a marriage;
And future states of both are left to faith."
- Byron, Don Juan, III, 9*

Over the last several years there has been a plethora of mergers and acquisitions pertinent to medical practices. These mergers and acquisitions have become integral elements within the strategic plans of well-managed practices and businesses. By the mid 1980's, the non-health care business community had honed the practice of mergers and acquisitions to a fine art, as opposed to the prior experience of haphazard corporate buying and selling. Of note is the fact that in reference to medical practices, many practitioners and executives have functioned in an extremely erratic manner as they look to formulating their acquisitions and mergers. This has led to less than ideal performance results.

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If there is a theme I feel needs to be highlighted in reference to medical practice mergers and acquisitions, it is that there needs to be a mature and deliberate process as one undertakes the buying and selling of these unique businesses — a process that minimizes the divorces, divestitures and discord which can result in poorly planned mergers and acquisitions. A broad body of literature exists concerning the topic of mergers and acquisitions¹, but there is a less well-defined fund of data relevant to medical practices. Additionally, the assets of a professional practice, unlike a manufacturing business or a retail business, in large part, reflects the professional experience, integrity and reputation of the practitioners in that practice — a fact lost in many recent quests for clinicians to fill positions. Characteristically most due diligence processes involving acquisition of physician practices spend very little time, if any, assessing the quality of the practitioner. The hard assets of the practice (desks, chairs, computers) should pale compared to the other asset which typically walks out of the door each evening.

There are numerous issues one could discuss relevant to this topic, but I would like to confine

¹The Mergers and Acquisitions Handbook, 1987, edited by Milton L. Rock, McGraw Hill, New York, NY.

the remainder of my comments to a generalized overview of issues one should consider if acquiring or merging clinical practices. Let me list what I feel are the five essentials which you may wish to consider if you undertake this process:

1. *Determine your strategy*

The acquisition of a clinical practice or practices needs to fit with your strategic goals for the growth of your practice or business. Make sure you have a clearly articulated strategy before even thinking of a merger or acquisition. What is the fit? Will it truly enable growth? Is this merger or acquisition bringing together mutual strengths?

2. *Choose your partners carefully*

Determine that the potential partners or employees have a compatible philosophy, mission, values and strategic vision. This is a very important issue and reflects the culture of the acquirer as well as the acquiree. Acquiring or merging with a group of people who don't fit with your culture can be devastating and disruptive. In short, cultural amalgamation is so important that it should take precedence over financial considerations. There also needs to be the explanation of how the business fits with the business of the acquirer. The hospitals and insurance companies acquiring clinical practices may need to assimilate a culture different from that which they are accustomed to managing. The culture of multispecialty groups may be different than single specialty practices. These cultural differences need to be considered carefully.

3. *Use the right people*

Involve individuals from both organizations who can speak authoritatively for their respective sides. If your practice is large, a corollary of this dictum is to have a designated team that serves as a steering group for this activity. Choose and use knowledgeable advisors to assist in the process and work carefully with you.

4. *Stress confidentiality and communication — at the right time*

Nothing ruins discussions concerning a potential merger or acquisition than a fueling of the rumor mill. Set the ground rules at the onset. All discussions are to be held confidential. The leadership then needs to outline a com-

munication plan to occur at appropriate intervals to keep the members of the practice informed. This communication plan will obviously need to be tailored depending on the size of the group and the number of individuals involved on both sides.

5. *Pricing negotiation and deal structuring*

This will take time and will need to be framed in the context of valuation issues, tax status and payment modes. Two very important issues need to be clearly addressed in the structuring of a merged or acquired practice, namely, the defining of the management team and the establishment of the governance and committee structure of the new organization. Depending on the size of the groups, the merged or acquired practices may assume the structure of the management team of the acquirer. The point to be made is *do not neglect to address and be very clear as to the leadership and management of the organization going forward*. Address this before not after the deal.

The above five "not so easy pieces" are general guidelines. Remember, organizations reflect their constituencies. Medical practices come in all shapes and sizes. A practice composed of older physicians approaching retirement may find one strategy more appealing than a strategy that would be appealing to a group of practitioners in middle age. Again, these are nuances which will have bearing on successful long-term relationships.

While it is easy to get emersed in the legalities and turmoil of the discussions, it should be remembered that mergers or acquisitions in medical practices can be intensely stressful experiences. As professionals dealing with the extremes of human existence (life and death) it isn't unreasonable to use a heavy dose of your understanding of human nature in analyzing these undertakings and realize that success or failure is, in large part, a function of the individuals involved. Don't undertake the process unless it brings value for all parties concerned. Oh yes, and when the deal is finalized then implementation and successful performance become the next order of business.

*"The more things change,
the more they remain the same."*

Alphonse Karr, 1849