WHAT ARE THE PROS AND CONS OF MERGING WITH A HOSPITAL OR ANOTHER MEDICAL PRACTICE?

If you are a sole practitioner or a small medical practice, you might sometimes feel the pressure of having to do everything yourself while still striving to provide optimal patient care. There are so many administrative and insurance tasks to complete, government and insurance regulations to follow, technology updates to install, and personnel problems to manage that you often wonder why you decided to take this approach to practicing medicine in the first place.

That is when the idea of merging comes into your head. You think of all the positives associated with this possibility, and don't really dwell on the potential negatives. All you can envision is having someone else take care of all those daily responsibilities so you can get back to the job you really love – practicing medicine.

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If the thought of merging with a hospital or another medical practice did enter your mind, you are not alone either. In July 2017, Scott P. Downing and Christopher DeGrande of McGuireWoods LLP, provided a mid-year update regarding physician practice consolidation in Becker's Hospital Review. The authors reported that the first half of 2017 continued the trend of consolidation among physician practices from 2016. They found that a significant number of practices had merged with other practices or entered into an acquisition deal with another practice, hospital/health system, or private equity group. In fact, the number of physician medical group mergers and acquisitions was 48 in the first quarter of 2017, which represented a 78% jump from the last quarter of 2016. It was also noted that only nine of the acquired medical groups had more than 20 practitioners.

In the second quarter of 2018 alone, PricewaterhouseCoopers found that there were 255 healthcare merger and acquisition deals – the fifteenth consecutive quarter containing over 200 mergers. One big reason for the continuing surge in acquisitions is that medical practices, especially the smaller ones, find it increasingly difficult to remain independent. Increased reporting burdens and financial challenges add to an already heavy stress load. New HIPAA and MACRA regulations require operational changes and technology upgrades that can take away from precious patient time. Many of these practices believe that aligning with a larger practice or hospital will provide them with the financial, technical and human resources needed to thrive.

In some cases, the merger works out well for the participants, while in others it turns into a disaster. If approached without an in-depth consideration of the pros and cons, a merger can create a host of new headaches and may even lead to patient and financial losses. When carefully considered, however, a merger between equal partners who can share resources and responsibilities can stand the test of time, increase patient satisfaction, and result in increased personal revenue for the medical provider.

While there is no one single factor for determining whether a merger will be successful, there are factors that can be addressed during the planning stages that will help increase the possibility of compatibility.

POTENTIAL POSITIVE FACTORS FOR PRACTICE MERGERS

When considering the potential merger, the two most likely benefits to jump into your mind might be the ability to concentrate more on patient care and the opportunity to earn more money. While these are admirable goals, there are certainly many other potential positives associated with a practice merger:

Ability to Care for More Patients

In a private practice, the doctor might be pulled in many directions because he/she has to deal with issues ranging from building maintenance to insurance reimbursements. Some doctors don't have the necessary skills to manage all these tasks, so they end up performing them poorly or paying other people to take care of them. A merger opens the practice up to more expertise – the acquiring partner might already have a building manager, insurance expert, and human resources department. Ceding these tasks to a specialist frees up the provider to spend more time with patients. Not only does this increase the quality of care, it also opens the possibility for additional income because of the increase in patients seen.

Increased Compliance

The Centers for Medicare and Medicaid Services, or CMS, continue to push the transition toward a value-based healthcare system. They have already implemented the concept of Clinical Quality Measures, or CQMs, for various initiatives in order to improve care quality, provide medical practices with reimbursement for reporting, and increase the amount of public information available. The Promoting Interoperability (PI) Program includes a performance-based methodology which focuses around a smaller set of objectives. The Quality Payment Program rewards value and outcomes through the Merit-based Incentive Payment System (MIPS) and Advanced Alternative Payment Models (APMs). Practices which comply with these requirements realize maximum reimbursement, while those which are not in compliance do not achieve these levels. Being associated with a larger organization and pooling compliance systems increases the likelihood of being able to achieve top reimbursement levels.

Enhanced Clinical Care

Access to a wider variety of healthcare professionals and a higher level of technology solutions affords the smaller practice the ability to create care plans which have the potential of achieving a higher degree of meaningful results.

Economies of Scale

As a sole practitioner or small medical group, you do not have a lot of clout when it comes to making purchases. You have to carry the mortgage or rental payments for your office on your own, cannot negotiate volume discounts for technology and office supply purchases, find it cost-prohibitive to invest in new equipment, and may not have the financial wherewithal to attract the most experienced personnel. A larger group brings buying power to the table, and can usually achieve much lower per unit costs because it is buying higher quantities of any given item. These cost savings leave more funds available for equipment, upgrades, and compensation packages.

Access to Improved Technology

A small practice has to watch every penny in order to cover administrative, insurance, and personnel expenses while still turning a profit. Although technology has the proven capability of improving performance and increasing patient care, it often comes last on the to-do list. While some investment is being made in the change to EHR systems and patient portals in order to comply with government regulations, the practice might miss out on some of the beneficial offerings such as Revenue Cycle Management, Voice Recognition technology, Population Health insights, and automated notifications that are major time and money savers. A combined practice has the financial flexibility to be able to invest in the latest technology in order to streamline the entire patient charting and communication process.

While these are very appealing tangible factors, some equally-important intangibles include having the ability to collaborate with other professionals when making medical and business decisions, and the feeling that you are not alone against the world. Sharing risks and costs can reduce your level of stress, and might even free up additional time to pursue private pursuits outside the office.

POTENTIAL NEGATIVE FACTORS FOR PRACTICE MERGERS

Despite all the expectations and positive thinking, some mergers just don't work out. This may be due to unrealistic expectations or an inability to mesh the two entities. Some of the potential negative factors include:

Culture Clash

Even though two entities are in the medical profession, they might have very different approaches to managing patients, personnel, and administrative tasks. Arguments may arise between office staff as they try to adjust to working with each other. There may be different value systems about patient care where one might spend as much time as necessary and the other might make every minute count. Either approach works as separate companies, but clashes occur when trying to make the two fit together.

Technology Differences

There may be differences in the computer systems and software in use at either location. Additional costs may be incurred to transfer all the patient records, update all systems to the same platform, and train all users on the combined system. A practice with little emphasis on technology may have a very difficult time integrating with a more advanced partner.

Negative Effect on Patients

Many patients do not like change, and might feel uncomfortable in the new setting. Great care must be taken to communicate the changes and apprise the patients of the benefits to them in the merged setting.

If a single practitioner is migrating to a larger practice or hospital setting, there may be an intense feeling of loss of control. While it may have felt overwhelming to deal with so many aspects of practice management, the practitioner might now feel constrained by being obligated to follow someone else's rules. He/she might not agree with decisions that are made, and may end up feeling that the merger resulted in more negatives than positives. It may be difficult to reverse the merger without incurring financial and emotional implications.

COMPLETE YOUR DUE DILIGENCE

Merging your practice with another or a hospital may not be the answer for you. If you think it may be the direction your practice is headed, complete your due diligence and put everything in writing. Don't assume that your patient care philosophies, billing strategies, and office systems will meld together without some serious planning. It might be worth the time to bring personnel together from each party to discuss specifics of the merger and develop a step-by-step action plan. If technology will be changed or upgraded, introduce it as soon as possible so it does not become an additional headache at merger time.

A quality merger can result in a team that works together well, uses technology efficiently to advance practice goals, and provides a high level of quality patient care. Together they can capitalize on individual strengths – but it takes a good deal of care and consideration.