

---

PHYSICIAN PRACTICE ACQUISITIONS

# Six Steps to a Successful Partnership



**ECG** MANAGEMENT  
CONSULTANTS

A Siemens Healthineers Company



Health systems should review their physician practice acquisition playbook to ensure best practices are being followed in order to reduce execution risk, minimize transaction costs, and establish successful, long-term partnerships with providers.

**R**esearch suggests that many physicians are no longer interested in serving as both owner and provider within a physician practice setting, as evidenced by the more than 100,000 physicians who have shifted to employment since January 2019.<sup>1</sup> Payer challenges, increased overhead costs, and burnout caused by the COVID-19 pandemic have made it difficult for physician owners to continue to run a profitable practice without the support of a strategic capital partner. As a result, independent physician groups are becoming more open to considering employment models with health systems and other corporate entities.

For health systems contemplating the acquisition of primary care or specialty groups, it is important to establish a framework that can be used to evaluate and effectuate transactions in a timely and compliant manner. While physician practice transactions can often be complex and nuanced, following these six steps can promote a positive outcome.

## 1. ENSURE A CULTURAL FIT

Cultural alignment between the physician group and health system is crucial for a successful partnership. Early in the negotiation process, seek answers to the following questions:

- » Is the group aligned with the health system's strategic vision regarding care for the communities it serves?
- » Are the providers committed to achieving the organization's specific objectives?
- » How will the support staff react to the transaction?
- » Will employee retention be an issue after closing?
- » Are the physician owners excited about the prospect of being employed by the organization?
- » How much autonomy will the physician owners have under an employment model?

Ensuring the physician practice and the organization are culturally aligned at the outset of transaction discussions can help mitigate last-minute deal breakers or other conflicts.

## 2. DEVELOP A THOUGHTFUL STRATEGY

While each acquisition opportunity will have its own unique merits and risks, health systems need a thoughtful strategic rationale for pursuing an acquisition. In order to evaluate and rationalize the opportunity, consider the following:

- » How does this particular investment help your organization execute on its goals and further its mission?

Ensuring cultural alignment at the outset of transaction discussions can help mitigate last-minute conflicts.

- » Is the primary purpose of the acquisition to ensure continuity of care in a particular specialty, or is the goal to expand service offerings? If it's the latter, how does this align with your broader enterprise strategies?
- » Is there an opportunity to enhance alignment with the practice leader and fill a management void by offering a leadership position within the organization?

## 3. UNDERSTAND THE TOTAL INVESTMENT

The total investment often depends on the particular alignment structure between a health system and an independent physician practice. Under an employment model with an associated acquisition of clinical assets, the total investment comprises multiple components:



- » Up-front payment to acquire the practice and associated assets
- » Ongoing compensation for the practice providers
- » Initial investment of required working capital
- » Transaction costs such as IT integration, onboarding, and training

Be sure to understand all costs associated with a potential acquisition to ensure the transaction supports your organization's financial goals and is an appropriate use of capital.

It is also important to understand that there is an inverse relationship between the compensation offered to the providers and the enterprise value of the practice. As the total compensation package increases, the enterprise value of the practice decreases as more operating profit is allocated to provider wages. When analyzing how various levels of compensation will impact the enterprise value of the practice, consider any sign-on bonuses and the need to structure a clawback provision in the purchase agreement to mitigate the impact of a physician leaving the practice earlier than expected. Failing to consider how post-transaction compensation impacts the up-front buyout of the practice can lead to significant financial and regulatory issues.

#### 4. PERFORM DUE DILIGENCE

In conjunction with establishing the proposed purchase price and compensation package, conduct preliminary and confirmatory due diligence to identify potential financial, operational, and legal risks associated with the investment. Ensure a process is in place to adequately review the practice's financial information, including billing, collection, and coding data, as well as contractual obligations such as lease arrangements and

The due diligence process can be lengthy and tedious, but when done properly, it can identify issues that will need to be addressed prior to closing the deal.

business agreements with third parties (e.g., other health systems, hospitals). Also be aware of the practice's referral relationships, existing workforce and operational assets, pending lawsuits or past settlements, and competitive landscape.

One aspect of an acquisition that can lead to post-transaction conflict relates to how the practice's internal performance metrics are calculated relative to the health system's methodology. For instance, if your health system is proposing a compensation model based on total WRVUs performed by the physicians, ensure that you fully understand the potential changes in how production metrics will



be calculated under an employment model. Failing to do so can result in dissatisfaction among the physician leaders, if actual compensation paid does not meet their expectations established during the due diligence and negotiation phases.

The due diligence process can be lengthy and tedious, but when done properly, it can identify issues that will need to be addressed prior to closing the deal, and ultimately help you achieve your strategic goals for the acquisition.

## 5. MAINTAIN REGULATORY COMPLIANCE

When contemplating physician practice acquisitions, be mindful of the regulatory environment in order to avoid potential civil or criminal penalties. Involve legal counsel in the

transaction process to ensure that all forms of payment comply with Stark law and the Anti-Kickback Statute. Additionally, establish a compensation committee and a well-defined process to ensure compensation is paid at fair market value (FMV). By ensuring the total amount paid for the practice and the compensation package offered to providers is consistent with FMV, your organization can defend against excess benefit and inurement challenges. We recommend engaging a third-party valuation specialist to provide an objective and independent FMV opinion for each component of the transaction.

## 6. ESTABLISH AN INTEGRATION PLAN

Transaction execution is often the primary focus for health systems considering the acquisition of a physician practice. However, an efficient and effective post-close integration plan is also critical to ensure the practice's financial and operational processes are fully functioning, in order to avoid disruptions after the transaction. The integration plan should be developed well in advance of transaction close and should be updated throughout the transaction process as the deal evolves. The plan should clearly define individual roles, specific tasks, timelines, and costs associated with the integration effort. Common items that should be addressed include:

- » Transfer of employees, payroll, and benefits to the health system.
- » Integration of accounting and financial reporting.
- » Contract assignment, including payer contracts and facility or equipment leases.
- » IT integration, including EHR.
- » Onboarding and compliance training.
- » Establishing and monitoring performance and quality metrics.

If your health system is purchasing a specialty group, you should also develop a process for integrating it into service line planning and strategy discussions following acquisition. Ensuring that the newly acquired group is involved in ongoing operational and strategic discussions is one of the most effective ways of establishing alignment between the group and your health system.

Having an established integration process in place can reduce inefficiencies and costs associated with the integration of the practice.

Having an established integration process in place can reduce inefficiencies and costs associated with the integration of the practice.

### THE BOTTOM LINE

Developing and adhering to a thorough and thoughtful playbook for physician practice acquisitions is critical for health systems to execute on their strategic initiatives. While physician acquisitions can often be challenging and complex, health systems can successfully manage the process with the right experience and plan in place.

---

## ABOUT ECG

With knowledge and expertise built over the course of nearly 50 years, ECG is a national consulting firm that is leading healthcare forward. ECG offers a broad range of strategic, financial, operational, and technology-related consulting services to providers, building multidisciplinary teams to meet each client's unique needs—from discrete operational issues to enterprise-wide strategic and financial challenges. ECG is an industry leader, offering specialized expertise to hospitals, health systems, medical groups, academic medical centers, children's hospitals, ambulatory surgery centers, and healthcare payers. Part of Siemens Healthineers' global Enterprise Services practice, ECG's subject matter experts deliver smart counsel and pragmatic solutions.

For more insights from ECG, visit [www.ecgmc.com/thought-leadership](http://www.ecgmc.com/thought-leadership).

## the Authors

---



**BRIAN BARNTHOUSE**

Principal

[bpbarntouse@ecgmc.com](mailto:bpbarntouse@ecgmc.com)



A Siemens Healthineers Company

COPYRIGHT © 2022 ECG MANAGEMENT CONSULTANTS. ALL RIGHTS RESERVED.