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Special Report

Mergers:

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Method or Madness



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“Be wise today; ‘tis madness to defer.” - Edward Young

As the consolidation trend sweeps over the healthcare industry, many medical groups are considering strategic mergers with other groups in their region and/or specialty. In our experience, many physicians do not want their organizations to grow into larger entities (because of the increase in complexity, loss of autonomy, etc.). However, more and more groups recognize that in today's marketplace, bigger is often better in terms of providing cost-effective care and creating negotiating clout with managed care companies.

In our experience, medical groups who merge are looking for a number of potential benefits from increased size and sophistication:

- Strengthen competitive advantage through adding coverage, specialties or subspecialties.
- Improve ability to contact with managed care.
- Generate economies of scale - but typically not for a few years.
- Improve the quality of medicine through improved peer review and quality assurance programs.
- Secure system referrals.
- Develop "critical mass" to build programs and bring ancillaries out of the hospital.



Typically merger efforts begin with friendly and general discussions about shared interests and possibilities. Unfortunately, the merger effort often bogs down because either the groups do not know what to do next, or because of the lack of an organized effort.

We have found that once "dating" is completed, the group needs to move towards "marriage" (or making the determination that the groups should not be together) in an organized and logical fashion. Successfully merged organizations typically follow one of three paths:

1. ***Merger Assessment:*** The groups agree on a set of information they will share with each other and compile this information into a comparative format. This information is then reviewed by selected members of each group to determine if the groups are close enough together on the key issues to pursue further steps. Key issues for groups typically include:

- Group Culture and Compatibility of Physicians
- Physician Compensation and Benefits
- Governance
- Physician Contract Issues
- Value of Assets Contributed
- Facilities
- Personnel
- Operational Issues

Once this step is completed, many groups move on to one of the efforts as described in 2 and 3 below.

2. ***Merger Negotiation Meetings:*** Once the groups agree that there are good reasons to merge and have a general understanding of the other group's situation, they often begin a series of meetings to discuss and negotiate "agreements in principle" on the key merger issues. To be successful, such efforts:
 - Are guided by a specific plan of what to discuss over what time frame. Wide-ranging discussions over an unlimited time frame



typically result in the groups becoming exhausted with the discussion and a failure in the merger effort.

- Involve professionals at the correct time. For most groups, attorneys and accountants should become involved only after the key "agreements in principle" are made.
3. ***Merger Retreat:*** Many groups kick-off their merger negotiation efforts with a Merger Retreat. In such a retreat, groups typically reach a decision as to whether to merge or not, and, if a merger is appropriate, discuss and reach "agreement in principle" on the key merger issues.

While we agree that there is a time for general and free-flowing discussions early in the merger effort, eventually groups must get down to "brass tacks" or the window of opportunity will close. This complex and challenging process requires careful planning, analysis and implementation if it is to be successful.

As you might expect, our knowledge in this area is based on the fact that Latham Consulting Group has provided **Merger Facilitation Services** to many medical groups. If we can provide assistance or answer any questions you might have, please contact us at 704/365-8889.