

C

consulting

Hospital Acquisition of Physician Practices

BY STEPHEN J. DRESNICK, M.D., FACEP

In the 1990s, hospitals and the physician practice management companies bought up physician practices at a fast and furious pace. No matter the size or scope of practice, there was always a bidding war. Prices often got bid up to an amount that simply made no sense. Even this failed to dissuade the companies flush with cash from yet another offering of stock to the public. Hospitals could barely restrain themselves even though they had yet to develop a core strategy around these assets.

Physician Practice Management companies thought that they could deliver value to physicians through "better management," though this rarely materialized. Many thought that they could sub-capitate their way to success, ignoring the additional 10-15% of administrative costs that they were adding to the system.

Physicians not only didn't want to be managed, they were unwilling to take a penny less in income even though they received stock and or cash amounting to millions of dollars at the time of the sale of their practice. Many would close on the transaction and then immediately begin looking for another position that paid them the same that they had been receiving rather than take a reduction in pay.

Above is a picture of a DeLorean car which became an icon in "Back to the Future." In a way, we are now seeing a Return to the Future in that the latest trend is the consolidation of physician practices and most notably the acquisition of practices by hospitals. "Great Scott!" you say. While the very same hospitals which sold practices back to the doctors only 10 years ago are now buying the practices back today, they will tell you that things are "different" this time around. This new trend is best characterized as a "market strategy" as some hospitals are reluctantly hiring physicians again out of



DeLorean

necessity and others pursue it as an offensive tactic to gain market advantage.

Locally we have seen the University of Miami buy Cedars of Lebanon for \$285 million. The University, despite its long standing relationship with Jackson Memorial Hospital, started employing physicians. For these and other physicians, they feel that this arrangement offers them an advantage by offering them teaching staff designation and malpractice practice insurance.

In turn, Jackson has started hiring its own physicians, offering benefits the University might be unable to provide. Even Baptist Health System is getting into the act by buying physician practices and most recently by buying 51% of the Miami Endoscopy Center, thus further solidifying its hold on outpatient activity in the south end of Dade County.

What is in it for the physician? Because such an arrangement eliminates daily business oversight, it gives physicians more freedom to better balance professional and personal time. Because of anti-kick back regulations, hospitals have been reluctant to jointly market Centers of Excellence. Direct employment improves physician recruiting and retention as it is a surefire, short-term measure to pre-empt market vagaries and inadequate third-party reimbursement.

Rather than hire the physicians directly, some hospitals have supported area physicians by facilitating the creation of large group practices. Integrating physicians into large group practices tied to a hospital



Dr. Stephen J. Dresnick

can create structural advantages that can yield improved negotiations of fee schedules and agreements with health plans; reduced operating expenses, particularly high-cost volatile items such as professional liability insurance. Hospitals already have the infrastructure in order to provide skilled human resources and technology to improve productivity and quality of patient care and the capital in order to upgrade and integrate information systems.

To lessen the financial drain on the hospital, hospital compensation plans for physicians today are more likely to be based on physician productivity. Nevertheless, without other adjustments in the hospital direct employment model, hospitals generally may continue to subsidize net losses from owned physician practices because of the competition for inpatients as well as the more lucrative ambulatory diagnostic and therapeutic procedures.

Dr. Stephen J. Dresnick is the founder and Managing Partner of Dresnick Healthcare Advisors, formed to assist Healthcare facilities, Physician Practices and Medical Service Companies to address their needs. He can be reached at (786) 268-0995.