

TRENDS WATCH

Physician Practice Acquisitions

WHICH PHYSICIAN
PRACTICES HOSPITALS
ARE ACQUIRING & WHY

Introduction

With practice acquisitions on the rise, Jackson Healthcare sought to find out who and what were driving these trends. A survey of physicians completed by Jackson in the fall of 2013 found physicians, frustrated by the changing healthcare landscape and unsure of the impact of healthcare reform, were seeking to exit private practice by offering their practices to prospective buyers.

Hospitals were not only considered by physicians to be the ideal buyers for their practices, but also the most likely. Fifty-two percent of the physicians surveyed by Jackson who sold their practices in 2013 sold to hospitals.

There are two sides to every story, so Jackson Healthcare sought to get the hospital perspective to see why so many were willing to take physicians up on their offers to sell. Jackson surveyed 123 hospital executives who had either completed acquisitions in 2013 or had acquisitions planned for 2014.

The survey found offers from physicians looking to sell started coming at a time when hospitals were looking to build their primary care networks, develop admissions and referral strategies, and solidify their positions in competitive markets. For many, the unsolicited offers were a way to address these goals, and the opportunities were too good to pass up.

The number of hospitals planning to acquire practices in 2014 as the result of physician offers fell to 48 percent, down from 70 percent in 2012. This could reflect hospitals being more strategic in their acquisition activities.



Hospitals appear to have started small. More than half of the hospitals that completed acquisitions in 2013 gained five or fewer physicians in those deals. A trend to watch will be whether the opportunistic purchases of small practices was a chance for hospitals to test the acquisition waters before launching a full-blown buying spree. Or, they could be buying small practices they plan to expand later.

In 2012, 57 percent of hospitals said they planned to acquire physician practices in 2013 as part of a physician recruitment strategy. They felt an established practice would be more attractive to potential employment candidates. But by the end of 2013, only 44 percent said physician recruitment drove their decisions to make acquisitions. Forty-one percent of hospitals planning acquisitions in 2014 cite physician recruitment as a reason.

“The traditional economic models for hospitals and physician practices are at odds with each other.”

– A Hospital Executive

As hospitals continue their acquisition activities, they are finding they have a lot to learn. Many hospital executives admit that running a medical practice is a much different business than running a hospital, and they must learn how to do both.

“The traditional economic models for hospitals and physician practices are at odds with each other,” said one executive. The challenge has been “finding the middle ground so that both can be successful.”

Taking advantage of an opportunity

Hospitals selected for this survey had to either have completed an acquisition in 2013 (51 percent of respondents) or were planning one for 2014 (59 percent of respondents).

As physicians look to leave private practice and become employed, they are offering their practices to hospitals for purchase. Seeing opportunities to build their primary care networks, shore up their referral strategies and increase their competitive advantages, hospitals are taking physicians up on their offers to sell.



In 2012, 70 percent of hospitals surveyed admitted their acquisition plans for the following year were opportunistic. Sixty percent of the acquisitions completed in 2013 were initiated by the sellers.



Six percent of the purchasing hospitals had no objectives going into the acquisitions; they were simply taking advantage of opportunities. But the others saw the acquisitions as a chance to fulfill existing objectives.

Those objectives included:



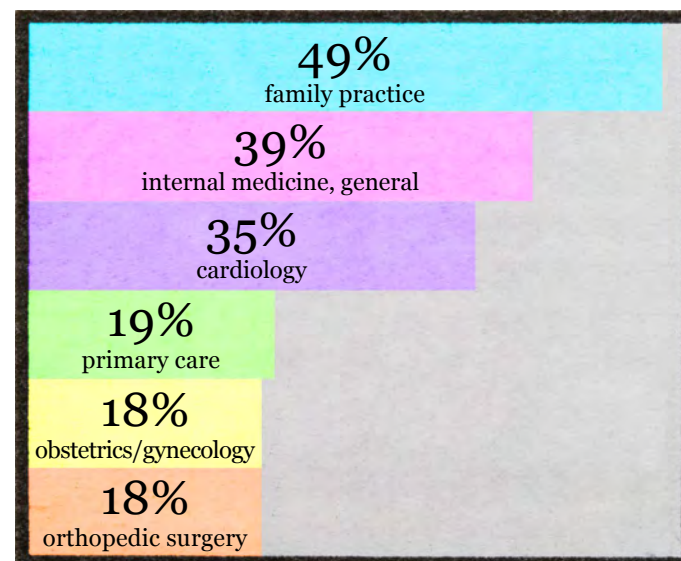
Which practices are being acquired?

As hospitals attempt to build and maintain referral networks, it's no surprise primary care specialties represented the most acquisitions at 70 percent. Hospitals are also trying to build and maintain competitive advantage by addressing a prevalent chronic condition: heart disease.

Forty-six percent of hospital respondents said heart disease was among the top three chronic diseases in their areas, and 29 percent said cardiac failure. The number of cardiology practices acquired jumped from 18 percent in 2012 to 35 percent in 2013.

Interest in women's health practices seems to be waning as the number of gynecology/obstetrics practices acquired fell from 24 percent in 2012 to 18 percent in 2013. But acquisitions of orthopedic surgeons grew from six percent in 2012 to 18 percent in 2013. General surgery practice acquisitions grew from 12 percent to 16 percent; and gastroenterology practice acquisitions grew from six percent to 13 percent.

Individual Specialties Acquired by Hospitals in 2013



What's next?

Offers from practices looking to sell are expected to continue during the 2014, but at a slower pace.

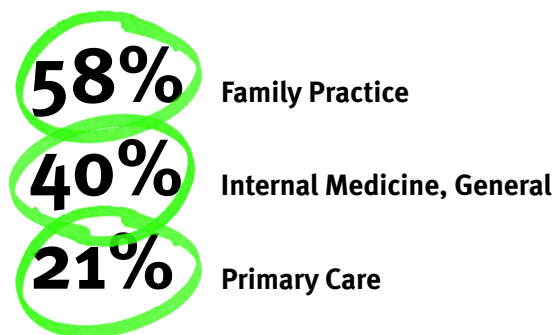
Fifty-nine percent of hospital survey respondents say they have plans to acquire new physician practices; 48 percent of them say their main reason will be to take advantage of opportunities presented by practices seeking to sell. This is down from 70 percent who said the same in 2012.

Other drivers for acquisitions in 2014, similar to those in 2013: Building a competitive advantage (51 percent) and maintaining a competitive advantage (51 percent). Fifty-one percent said they plan to acquire practices 2014 as part of an admissions and referral strategy. Those planning for acquisitions as a means of improving patient safety fell from 28 percent in 2012 to 14 percent in 2013.

Hospital Acquisition Motives in 2014

-  **Build a competitive advantage**
-  **Maintain a competitive advantage**
-  **As part of an admissions and referral strategy**
-  **Opportunity: physicians are approaching the hospital, seeking to sell their practices**
-  **As part of a physician recruitment strategy: an established group is attractive to quality candidates**
-  **Accountable Care Organization formation**
-  **Improve patient safety**

The focus on primary care is also expected to continue 2014 with 78 percent of hospitals saying they plan to acquire practices that fall in a primary care category. Individual specialties include:



Interest in general surgery is expected to remain consistent in 2014 at 16 percent. But interest in cardiology practices experienced a slight decline from 19 percent in 2012 to 14 percent.

Some specialties attracting no attention from hospitals include anesthesiology, ophthalmology, maternal and fetal medicine, and nephrology. There was also no expressed interest in acquiring infectious disease practices, down from eight percent in 2012.

The number of hospitals that said they planned to acquire practices as part of their plans to gear up for the formation of Accountable Care Organizations remained unchanged from 2012 to 2013 at 30 percent.

Acquisitions come with challenges

Hospitals may be driven by opportunities they consider too good to pass up, but those opportunities do come with challenges.

As 59 percent of those surveyed plan for acquisitions in 2014, many will be doing so with knowledge they gained through previous acquisitions.

Respondents were asked to identify the main challenges of their 2013 acquisitions. The two most commonly-cited dealt with electronic medical record integration and the alignment of practice and hospital goals and cultures.

One executive summed up the challenges this way:

“Moving them all onto our already-established EMR, gaining their trust and introducing them to the ‘employed’ mindset.”

As acquisitions continue in 2014, some physicians will learn the employed mindset means a loss of control over who is hired and let go in the practice. Some hospitals surveyed said practices went into the acquisitions with a desire to keep their support staff, but downsizing became inevitable.



Survey Demographics

Geographic Area (n=123)

Rural	39%
Suburban	38%
Urban	23%

Bed Size (n=123)

25 or fewer	38%
26 – 150	26%
150 – 300	29%
300+	7%

Title of Respondent (n=123)

CMO	29%
Other	17%
COO	15%
CEO	14%
VP/Director/Mgr. Phys. Recruitment	12%
VP/Director/Mgr. Human Resources	6%
Administrator	5%
CFO	2%

Region (n=123)

Southeast	29%
Midwest	28%
Mid-Atlantic	14%
Southwest	11%
Mountain	9%
Pacific	6%
New England	3%

Methodology

This survey was conducted online from September 13 through November 8, 2013. Invitations for the survey were emailed to 4,173 hospital executives, human resources professionals and physician recruiters. Participants included those who have been placed by Jackson Healthcare staffing companies and those who have not.

Of the 213 hospital representatives who began the survey, 123 qualified for and completed the survey (2.9% response rate). To qualify for the survey, participants' hospitals had to either have completed an acquisition in 2013 or be planning an acquisition in 2014. Respondents were self-selected. The error range for this survey is +/- 9.0% at the 95% confidence level.

About the Author



Pamela Lewis Dolan is a Chicago-based journalist with more than 15 years of experience writing for print publications, websites and trade associations. For almost a decade she has covered the business of healthcare and health information technology issues for both consumers and medical professionals.



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