Medical Group Management Update
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What a strategic partner is looking for in you

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The merging, affiliating and partnering of medical groups, hospitals and physician practice management companies (PPMCs) is continuing at a rapid pace. Medical groups considering entering into these arrangements should understand what potential strategic partners are looking for in them. This knowledge will help groups realistically evaluate themselves, and decide what changes, if any, will make them more attractive in the marketplace.

Groups first need to understand the goals of their potential partner and then compare them to those of the group. While the parties' goals need not be identical, they certainly must be compatible. For example, a potential hospital partner (whether for-profit or not-for-profit) generally is motivated by the desire to fill beds, gain access to managed care contracts, increase market share and have a stable, long-term relationship with its physician partners. PPMCs, while not looking to fill hospital beds, want a satisfactory return on their investment and to increase their market value.

These goals may or may not be compatible with "typical" medical group goals of access to capital and contracts, more clout in the managed care marketplace, strengthened management infrastructure and physician income protection.

In light of these goals, what are hospitals and PPMCs looking for in a potential medical group partner?

'Desirable' group

Generally, potential partners are looking for well-managed, financially sound practices that need a partner to expand their position in the medical marketplace. The more desirable groups will have high-quality, board-certified physicians who are well respected in the community and able to attract others to the alliance. A large, primary care physician base often is considered an advantage. Medical groups that have these desirable characteristics will be in a stronger bargaining position and more likely to be treated as equals in crucial negotiations.

Enthusiasm for the venture

Strategic partners would rather work with practices that have a positive attitude toward partnering, not those that are suspicious or even antagonistic toward the concept. The proposed partnership must be a goal broadly shared within the group. The presence of strong physician leadership usually is viewed very positively. If factions within the group have strong sentiments against the proposed partner, it could easily doom the venture, the group or both.

Financial commitment

While hospitals and PPMCs generally are not looking to medical groups for capital, they often want physicians to make a more-than-nominal financial commitment to demonstrate the group's financial viability and seriousness of purpose.

This does not necessarily mean cash out-of-pocket. It could include contributing practice assets or assuming debt to be incurred for the needs of the new venture. This commitment also may be necessary to satisfy inurement concerns of tax exempt hospitals, as well as Medicare fraud and abuse and physician self-referral requirements.

Long-term commitment

Prospective corporate suitors will be interested in a long-term, stable relationship with their medical group partners. Accordingly, they will be concerned if it appears that a significant number of physicians are looking to "cash out" and retire or become salaried "9-to-5ers." To ensure that commitment, hospitals and PPMCs often will demand long-term management contracts (30 years is not uncommon) and restrictive covenants.

Control

Hospitals and PPMCs will expect practices to give up. or at least share, control over areas such as practice management, managed care contracting and any significant financial obligations. They usually are willing (or required by law) to have physicians retain control over medical practice and clinical issues. In negotiations among prospective partners, control issues often are the most contentious.

Managed care lives

Frequently, partners often are looking for practices that have existing managed care contracts and lives. Practices with large numbers of Medicare beneficiaries who can be converted into lucrative senior plan contracts often are sought after as well.

'Reasonable' expectations

Potential partners are increasingly concerned about not overpaying for medical practices, undercharging for comprehensive management services and guaranteeing physician salaries which may lead to lower productivity. As a result, they may shy away from practices which they perceive to have "unrealistic" financial expectations.

As a justification for reducing such financial commitments, hospitals and PPMCs sometimes will hold out to groups the carrot of an equity stake that could be "worth millions" when the new partners' venture "goes public." Groups, however, should be careful not to overvalue a promised equity stake, the value of which may never materialize.

Medical groups that understand the goals and expectations of their potential strategic partners will be in a much better position to determine whether their own goals are compatible, take the steps necessary to be attractive to a suitable partner and negotiate effectively.

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