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Practice consolidation – it's picking up speed

By John H. (Hank) Duffy

Independent physician offices have been consolidating into specialty and multi-specialty groups for years, mostly for three reasons:

- Larger groups do better financially in negotiating with payers
- It is easier to make large investments into equipment and systems
- The professionally managed groups tend to have greater physician income

These are all valid reasons and the tremendous success of dozens of organizations makes the case for physician consolidation. These groups prove by experience that in many markets, physicians who align as a group will be more stable, do better financially, and will be in greater control of their destiny than the physicians who are split between 1 to 10 physician offices. However, moving to a group is not always easy. It requires flexibility when it comes to autonomy and collaboration, but the merits appear to outweigh the costs.

We now find ourselves in a situation in which the health care market is experiencing another series of changes that will impact the incentives for physicians to consolidate. While the jury is still out on the influence of health care reform, there are several transitions that already have traction in the market:

- Electronic medical records are being implemented faster than some predicted, and as their functional capabilities begin to truly be leveraged, they will create a competitive advantage for those physicians who can electronically collaborate.
- Value-based reimbursement is increasing and the prospect of bundled reimbursement is just around the corner. Physicians who can demonstrate clinical value (with data) will continue to do better, and physicians who are not starting to position themselves to participate in bundled arrangements, could get cut out.
- Accountable care organizations are emerging. The focus of these organizations is on continuity-of-care and the management of clinical quality and cost. By definition, they require physicians to participate. Those ACOs that have well-organized participating physician groups (for example, with EMRs and medical home accreditation) will do better with the Medicare population and also have the prospect of doing better with the self-administered employer plan, and perhaps the payers.

With this background, we are seeing a dramatic movement of physicians to either become employed by hospitals or join groups. Hospitals are seeking to employ physicians or to "glue" them to the hospital through Stark Safe Harbor EMR initiatives as a means to assure a PCP base. Additionally, there is increased movement in the growth and creation of independent groups. The hospital movement is accelerating faster than group creation largely because many hospitals have more capital; however, today they are not necessarily good managers of physicians. As the consolidation trend continues, groups are increasingly going to reduce the capital requirement by emphasizing consolidation of existing practices, application of strong management principles and leveraging of infrastructure.

If physicians are going to go for the consolidation play, there needs to be an understanding of local needs, a commitment to get to scale, and a roadmap of the steps to get there. The old rule that "all health care is local," still prevails and physicians considering joining a group or participating in a consolidation need to assess the specifics of their local market. Size matters, and participating in a weak group can be more problematic than joining a hospital. In thinking this through, the target needs to be developing or creating a group that gets ahead of the hockey puck in terms of what it is going to take to succeed in the future. My belief is that the essential elements will include:

- Physicians who want to be a part of a group and understand that medicine is becoming a team sport.
- An infrastructure that includes a robust revenue cycle management capability, an electronic medical record that is truly used as a physician tool, creative contract development (payer and hospital), medical management that focuses on demonstratable clinical quality and clinical cost management, and the ability to manage chronic diseases and high-cost patients.
- A disciplined governance process which involves physicians but recognizes that an "eleven to one vote is not a tie."
- Recognition that successful physician organizations are physician-led but driven by professional management.

The consolidations with the best results are where there are physician leaders who have the commitment to make it happen. The consolidations are going to continue and are likely to be accelerated by health care reform.

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