Washington Healthcare News®

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In the Belly of the Beast - Hitting the Target with Mergers & Acquisitions

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This time we're focusing on a trend that, by definition, changes industries – mergers and acquisitions.

Like any new relationship, mergers and acquisitions come with great expectations and enthusiasm. They bring the prospect of increased market share, a strengthened core business, expanded product lines, enhanced technologies and, of course, reduced costs--all driven by the power of synergy.

Yet, despite all that synergistic enthusiasm, studies continue to point out that only around 20% of merger and acquisition activity achieves targeted expectations. That is not to say mergers and acquisitions fail, only that they don't meet expectations. This "missing the target" is consistently attributed to overly enthusiastic expectations, but most often it is due to underestimating the impact of the change on the people and culture.

As a healthcare executive I've experienced mergers and acquisitions from the inside, and recently worked with Slalom's Merger and Acquisition expert, Wendy Kristek, to successfully on-board an acquired healthcare entity.

My take-away from this inside and out perspective is that mergers and acquisitions are more than anything, about managing through a changing relationship. The financial changes, legal changes, cultural changes all morph into a new relationship. How that change is managed determines success.

Here's some of what I've learned from my work with Ms. Kristek.

The Relationship

Mergers and acquisitions are very different from each other. They each have their own set of objectives based on the relationship between the merged and/or acquired companies.

A merger characteristically refers to two companies joining together as peers to become one. This is usually accomplished through the exchange of shares, which lays the foundation for the peer relationship. This is often described as a merging of equals.

An acquisition typically has one company, the buyer, purchasing the assets of another, the seller. The form of payment can include cash, the securities of the buyer, or other assets that are of value to the seller. This is a buy/sell relationship, very different than a peer relationship.

Why Do It

With all of the concerns about meeting expectations, mergers and acquisitions are still the fastest ways to enter a new market, add a new product line, or increase reach to the consumers.

Mergers and acquisitions can also be motivated by the need to trans-

form a firm's corporate identity. In some cases the purchased company transforms the buyer by charting a new direction or adding significant new capability.

Activity Drivers

Mergers and acquisitions activity is cyclical. It is affected by the state of the economy, the availability of capital and where a particular buyer or seller is in its business cycle. In Slalom's experience most merger and acquisition activity is driven by a core trend in the client's industry

a. High Technology – rapid technical change

b. Telecommunications and Banking - fierce competition

c. Aerospace and Defense – federal budget reductions

d. Food and Beverage – changing consumer preferences

e. Healthcare – rising costs

Beating the Odds

To beat the 20% success odds requires a thorough due diligence to offset the synergistic enthusiasm with a dose of reality. That together with a well-planned, thoughtful transition plan to manage the cultural change greatly reduces post integration shocks.

The Changing Healthcare's Strategy

Merger and acquisition activity is not new to healthcare. The volume and velocity is more heated today, but the main difference is in the strategic assumption.

Healthcare mergers and acquisitions have always been driven by costs. Past activities attacked the costs through economies of scale. The activity was more horizontal – hospitals merging, physicians creating partnerships, pharmacy benefit managers (PBM) buying up other PBMs, etc. This type of activity continues and is especially effective in transactional entities such as PBMs.

The new emerging strategy is vertical integration - integrating hospitals, physician offices, labs, imaging, pharmacy, therapies and medical devices-- along a community's continuum of care.

The focus is on overall costs. It is driven by the assumption that effective management of best practices across a community's care continuum will enhance the community's health and reduce overall costs.

This is also the assumption that drives the Accountable Care Organizations (ACOs) strategy.

Connecting entities financially is something mergers and acquisitions do well. Unfortunately, they don't have a good track record for connecting the people within these entities.

Healthcare, more than any other industry, is literally about people touching people. The success of healthcare merger and acquisition activity depends on how those people touching people are treated through the change. As a recent client told me, merger and acquisition activity is where organizations demonstrate their character.

The strategy for organizing mergers and acquisitions along a community's continuum of care makes sense. To be blunt, patients have long expected their healthcare community to work together and are often surprised by its fragmentation. This new strategy presents the industry with an opportunity to meet patient's expectations for seamless care. A well planned and implemented change management program will determine if it beats the odds.

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