Seeking certainty in radiology: Mergers, acquisitions and alternatives

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Jun 19, 2015


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Imagine if you could *image* the future. You'd see the exact path your radiology group must take to protect, and expand, its business. You'd be safe, secure and satisfied.

In reality, there's a tremendous cloud of uncertainty resulting from the rapidity of change in radiology and in medicine in general. Hospitals seek to employ or otherwise "align" physicians. They seek to control specialty referrals through employment models, accountable care organizations and other hospital-centric networks.

For radiologists, there's mounting competitive pressure from large regional and national groups.

Many believe that they will find shelter through a sale to a hospital, large regional or national group or to a private-equity backed venture. Yet others are forging new routes, alone or in alliance with other practitioners, and creating their own futures.

What route is best for you?

Being acquired

For many radiologists, the solution to uncertainty is a sale of the practice. Those in favor of this alternative often prefer it because it puts cash in their pockets upfront, alleviating the risk that they won't receive it in the future.

There are many variables involved in a sale, starting with the issue of whether the buyer is a hospital, a regional or national group or a private-equity group. Each type of buyer, and then specific buyers within those categories, brings different structural, valuation and operational views to the transaction. Even then, some buyers, hospitals for instance, may or may not be interested in a radiology practice—as opposed to an imaging center—acquisition, and may be bound by additional compliance restrictions that result in far lower valuations.

In any practice sale deal, it's a near certainty that compensation will decrease post sale because, in essence, income in excess of the amount required to recruit and retain has been sold to the buyer.

For those physicians nearing retirement, the ability to obtain a cash payment, especially when it likely receives capital gains treatment, is a strong factor in favor of a sale. For physicians who will practice for years at what may be markedly lower compensation, a sale may not be attractive at all. The impact on non-owners, especially those the group wants to retain, can be disastrous.

words, of unemployment.

Alternatives

Just because the acquisition market is hot doesn't mean that you should be interested in a sale. It's not likely that you'll pull enough cash out of a sale to head off and buy a villa on Lake Como or even a nice second home in Aspen.

And, for the many who seek to control their own future, no sale can deliver that ability.

There are multiple alternatives to a sale. Let's explore some of them:

Step up your game. Immediately begin taking steps to cement your relationship with the facilities at which your group currently provides services and intensify your efforts on securing additional services contracts and outside opportunities. Explore new opportunities for your own facilities, especially to hedge against a longer term future that might not be hospital oriented.

Tighten up your group's internal operations. Get your governance structure in order to enable your group to make quick decisions. Review your compensation plan to make certain that it creates the proper incentives. And begin to "bank" capital to enable the group to expand on multiple fronts.

Create a profit stream from your internal business function. If your group has an internal business operation with a dedicated practice manager, consider expanding that function into a separate business entity that provides managed services organization (MSO)-type services to other groups as well as to your own.

For example, you can sell your manager's, and your group's leaders', business expertise, you can repackage billing services, and you can operate a locum's service with your own group's physicians or with third parties.

Importantly, your MSO structure can be a vehicle to create initial relationships that might later be expanded to make the client a merger or acquisition target.

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