

Competition for Doctors Leads to Health System Consolidation

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Recently, SOLIC Capital Advisors announced the execution of a merger between Illinois-based Mercy Health System and Rockford Health System. The merger, according to SOLIC's managing director Matt Caine, will enable both systems to better address today's "harsh fiscal climate and intense competition" for healthcare resources.

In other words, the intense competition for doctors is creating an environment where hospitals and health systems are compelled to pool their resources if they want to stay competitive. Has that created a buyer's market, of sorts, for physicians? The times, indeed, are changing.

"It's a change in preference by new physicians," explains Greg Hagood, senior managing director and president of SOLIC Capital, LLC. "Their willingness to work 60-hour weeks is less. And in secondary or rural markets, you have a generation of physicians in their 50s, 60s, and 70s who are retiring. The only way to get [physicians] to come is to overpay them."

The changing demographic

Hagood comes from a family of physicians. His brother and father are physicians, and his sister-in-law is a surgeon who enjoys being able to take a day off each week. Even the best surgeons, he explains, are not going to work 60- or 70-hour weeks like they did a decade ago.

"If you go back 15 years, everybody came out of medical school and the idea was you go into private practice and you build your practice with your independence and so forth, and maybe you start your own clinic and your own diagnostic imaging center," Hagood says. "But if you talk to people coming out of medical school today, given the complexity of the healthcare environment and reimbursement changes, most people want to be employed."

Perhaps the biggest issue, he says, is that fewer doctors coming out of medical school are willing to move to secondary locations. Medical school graduates used to look forward to returning to their home town where they were dubbed the community's new orthopedic surgeon.

"You were the king of the community," Hagood says. "That trend stopped about 10 years ago."

Comfort in numbers

Hagood explains that physicians today want to be part of larger groups. They enjoy the associated benefits like professional development and collegial interaction. They also don't want to manage all the billing, paperwork, and documentation support required by healthcare insurers. They don't want to deal with the red tape of reimbursement.

"They say, 'I'm happy to practice, but I want my guaranteed compensation,'" Hagood explains.

A decade ago, Hagood says, hospitals had "a sweet deal." They may have had to give physicians some minor subsidies to recruit them, but they didn't have to employ them. They weren't responsible for them when their productivity fell. They just knew they had to have a physician-friendly operating room or imaging center, but they could leverage the doctors. Today, they have to own them and manage them.

"And that's where having a network of hospitals versus an independent hospital really becomes an advantage," Hagood says. "The demand for physicians in secondary markets is driving the consolidation, and it's also creating an opportunity for existing physicians who are interested in serving those markets."

Grass not always greener?

However, Hagood cautions, physicians by nature do not like to be second-guessed; do not like their work habits questioned. But that's exactly what happens when they enter these larger hospital or health systems. They get ranked.

"There are 10 orthopedists and they look at you on a weekly, monthly, quarterly basis," he explains. "They look at your clinical quality statistics. They look at your productivity. When you're an independent practitioner, if you don't want to work Thursdays, you don't have to work Thursdays. If your productivity fell the last quarter, you may not buy a new car next year. But that's *your* choice, as opposed to someone telling you that you're behind budget for the year, so they want to see what your action plan is for the next quarter."

Hagood has a physician friend who's actually buying his practice back from a large healthcare system. He simply got tired of working in that fashion. But he's also in the minority compared to the overall trend.

"Anecdotally, it's not that there are fewer doctors coming out of residency or medical school than there was 10 years ago," Hagood says. "There's probably a few more. And not to be sexist, but half of the physicians coming out are probably female and looking to start families. I think you're going to continue to see the percentage of employed physicians rise."

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