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## Healthcare Mergers and Acquisitions - Making Waves in 2020



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During the past decade, healthcare systems have been expanding their avenues to serve countries around the globe, breaking free from conventional norms. Today, these organisations are on the lookout for well-planned strategies to accelerate the growth patterns and increase cost efficiency. The key to meet these goals necessitates merger and acquisition (M&A) resolutions.

Healthcare systems have set revolutionary merger records in previous years. In 2017, these institutions were at the forefront of M&A activity with [more than 115 deals](#). This pattern continued, with burgeoning growth and various high-profile transactions. In fact, despite major economic jitters that jarred global trade, a wave of [‘mega’ healthcare mergers](#) in the US, each worth more than \$10 billion, drove M&A to its fourth-strongest year in 2019.

As the healthcare sector continues to drop its age-old paradigms, it hopes to establish prominence in value-based responsibility and management. In the face of COVID-19, these settings are increasingly open to mergers as a way to bolster their efficiencies. However, there is much more to it than what meets the eye.

### **Why Do Healthcare Mergers Matter?**

Today, reimbursement cuts, medical reforms, and depletion in terms of the payer mix have intensified challenges for healthcare providers. As a result, many faced a universal dilemma – what is the road to improve performance and operating margins while fuelling the quality of care they deliver?

By now, a whopping number of these providers have come to identify the new economics of healthcare, which has made the need to thrive more important than ever. This has occurred by merging or partnering with other providers. In this new era, health business models are metamorphosing from volume to value. Needless to say, its success is usually governed by the ability to offer advanced quality care at the lowest price.

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Today mergers are expanding at a booming rate. This is because when you look at the financial future of a healthcare organisation, you see the payment methodologies changing. You feel that merging with an organisation larger than yours might result in more care or cash available. This might be something that you would be interested in.

Both [the \\$7.6B merger](#) amid Health Management Associates and Community Health Systems, and the takeover of Vanguard Health System by Tenet Healthcare show that many providers view consolidation as an excellent way to garner long-term growth. This alliance can deliver progressive services at a lower cost to the ever-increasing patient population.

Furthermore, these transactions can generate other remarkable cost savings as well. For instance, merging healthcare systems may curb costs by combining back-office billing operations or eradicating redundant roles. Additionally, this may equip providers to reduce costs by sizing their staff through eliminating irrelevant shifts. This is also applicable to deploying technology to optimise the scheduling process of the staff.

## **Force That Drives Healthcare M&A**

According to many health systems, acquiring another organisation, or merging with it, holds the key to future success. Faced with intense pressure to cut back on costs, mergers and acquisitions can leverage the economies of scale.

Professionals in the healthcare industry have been at odds regarding the non-competitive nature of mergers. However, the proponents of healthcare M&A assert that such structural changes are imperative for survival in the dynamic industry landscape. Moreover, mergers and acquisitions make it possible for patients to obtain quality care while keeping a tab on spending.

It all comes down to the fundamental challenge of providers grappling with how to achieve more with less. As large-scale organisations cut costs, they learn to become more productive and equate with the expectations of payers.

## **Healthcare Sector Remains Top Investment Avenue**

As another year of economic activity begins to show, investment in the healthcare sector will continue to flow. Over the years, healthcare has retained higher returns on equity capital, as compared to other industries. M&A activity is significantly fruitful in provider-based sectors.

As Ryan Buckley, a stakeholder at the global M&A firm stationed in Chicago, Illinois rightly [mentions](#), "Private equity will continue to consolidate the physician practice landscape aggressively, as these physician practice management (PPM) platforms are often able to improve patient outcomes at a lower cost while promoting the proven benefits of physician-led care." He further states, "Through scale, PPMs can invest in infrastructure, technology, clinician recruitment, and greater clinical support that, in turn, improves care delivery and increases physician productivity."

## **Achieving Economies of Scale**

According to the Healthcare Financial Management Association, economies of scale are "the gains provided through the consolidation of effort or volume." Simply put, organisations can lower the fixed value of their goods by producing them in a greater quantity.

Through partnerships, healthcare systems are achieving economies of scale in diverse areas. These

include supplies, support services, information technology, purchased services, and more.

## Progressive Impact on Care-Giving

Healthcare M&As carry a massive impact on the quality of patient care. In most cases, they occur when an organisation is no longer able to function independently. Therefore, a larger healthcare company acquires it, thereby enabling it to resume its operations. Had this acquisition not taken place, many patients would have lost access to care and treatment.

Today, the healthcare merger graphs are further steepening because it is easier to face the current healthcare landscape challenges with more resources and staff. This comes from a 2016 [testimony](#) by Paul B. Ginsberg, Bookings Institute. He says, "Lifestyle choices by younger physicians lead them to pursue employment in large organisations rather than solo ownerships or partnerships in small practices."

Healthcare merger proponents advocate that this shift in the industry, from flying solo to channelling consolidated efforts, has led to a positive impact on care-giving. When two entities unite, they are highly likely to streamline protocols. Therefore, this leads to enhancements in the standards of quality care.

## Road Ahead

In the new era, healthcare leaders are faced with the relentless need to grow. Through the means of merger integration, organisations may overcome various constraints, such as limited capital and expertise.

Today, healthcare is ushering in a stream of consolidation while realising the global impacts of an affiliation. Wondering what is next for the healthcare sector? The merger pace is anticipated to further heighten post-2020. This will be influenced by two major factors.

First, technology will continue to be the key force in healthcare, thereby building more opportunities for collaboration. Physicians who currently spend [over 21%](#) of their working hours on paperwork will spend their time treating patients. You can expect to witness more merging deals, while the healthcare industries seek to leverage robotics and artificial intelligence to enhance patient care and cost reduction.

Second, you can expect a large-scale emphasis on prevention and wellness over treatment. This is because healthcare providers are looking to extend care to cover patients for a lifetime.

By creating value through a union, highlighting the rationale for partnership, integrating hospital customs, and communicating effectively, leaders may have a massive chance of achieving collectively what is unachievable alone. Ultimately it's the strong leadership, executive staff, culture, and due diligence that are essential to any successful merger.

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