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Affiliation is the answer to consolidation, now more than ever

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We're only halfway through the current calendar year, and already radiology practice in the U.S. has been jolted by not one but two major transactions.

In January, Sheridan, the multispecialty physician-services division of AmSurg Corp, purchased Radisphere Radiology for an undisclosed amount. In May, Mednax Inc., the $2 billion health-services company mostly focused on neonatal, pediatric and anesthesia services, snapped up Virtual Radiologic (vRad) for $500 million.

What do these mega deals mean for independent radiology practices hoping to maintain their autonomy and control their own destiny? Nothing less than the clearest call yet to collaborate with other like-minded practices—or be deemed too small and insufficiently business-savvy to meet the needs of their hospitals that are, at this point, deep into their own consolidation efforts.

Make no mistake. These two acquisitions of major radiology practices by multispecialty powerhouses are not likely to be the last of their type and scope. If you are part of a radiology practice that has resisted paying heed to the wave of consolidation, you must now very seriously reckon with the fact that your primary competitive threat is no longer the radiology group across town. It is the emergency medicine or anesthesia department across the hall—which is now owned by, or on the wish list of, a multispecialty company that has a focused acquisition plan. And the plan includes adding radiology services to the menu. No matter how excellent your services are, economics involving the other hospital-based practices could be the trump card that eliminates your contract with the hospital.

Attractive alternatives

Don't begrudge the big national players their competitive moxie. Respect them for identifying and responding to the tectonic shifts shaking up the market. Their mission, like yours, is embracing value-based purchasing by maintaining quality of care for patients while surviving reimbursement cuts by containing costs. If they can build business by inter-specialty cross-selling and customer sharing, all the better.

The bottom line is that, today, lean-operating hospitals and integrated delivery networks (IDNs) are demanding and getting their radiology partners to consistently supply four key deliverables:

- Broad subspecialty access,
- Unfailingly efficient turnaround times,
- Quality borne out by data, analytics and benchmarking
- A working relationship based on true teamwork—also known as tight alignment on mission and values.

Hospitals and IDNs increasingly believe that individual radiology practices are not going to be able to marshal the combination of clinical capacity with business leadership that it takes to meet their needs. The times are too unpredictable, the money too tight. The two big deals of the first half of 2015 point to the market banking on the staying power of this conviction within the C-suites of hospitals and IDNs.

The good news is there are proven ways for independent radiology practices to compete in this arena without sacrificing autonomy.

Better business through affiliation

At Integrated Radiology Partners (IRP), we have experience with many independent practices recognize the demand and respond by collaborating with like-minded practices. A more entrenched footprint in their local market, superior analytics based on expanded data sets and the ability to mine unstructured data and greater economies of scale in purchasing are just three immediate benefits. There are various models to successfully enter into such affiliations, including joint ventures and other group-to-group options, and all it takes to start down this road is openness to change and a willingness to be proactive in the business arena.

Of course, forming and sustaining these emerging collaborative models also requires access to a sophisticated operations-management and technology platform. For this component, nearly all independent radiology practices will need at least some measure of third-party assistance. Were this not the case, IRP would not have seen an initial trickle of interest turn into a steady stream of inquiries over the past two years.

For the most part, physicians in independent groups have not structured their practices such that they can bring an enterprise solution set to a whole hospital system, not just a singular hospital therein. Oftentimes the clinical skills and turnaround times are topnotch, but there's a pronounced lack of business expertise —particularly in the critical areas of process management, consistent execution and leadership. Because of this, the practices aren't able to put together sustainable infrastructure that inspires confidence across the hospital C-suite. That's the challenge that IRP helps practices solve.

Different addresses, same purpose

In years past, a group facing this reality had few good options.

Its members might agree to bring in an equity-backed business partner to handle relationship-building, financial oversight and other activities needed to provide an enterprise solution. Or the group might vote to make itself available for acquisition by the hospital, ensuring long-term employment but sacrificing many of the experiential elements that made the field of radiology attractive in the first place. A third way was to out-and-out merge with one or more other groups, whether within radiology or across specialties, in order to command market share via a larger footprint and pooled resources.

The affiliation models that IRP has been fine-tuning over the past two years present excellent alternatives to such drastic and costly survival measures.

Our approach lets groups work independently yet on a collaborative and affiliated basis. The hospital system wins by getting the service levels and partnership advantages that it needs to satisfy its changing markets of patients and populations. The groups win by being able to deliver a whole that is greater than the sum of its parts. And they do so without letting go of their self-governance or their self-determination, much less their independent spirit.

'Radiology, you really need to do something'

Over the past three to five years, the U.S. healthcare system has been through wave after wave of change. I don't expect the next three to five years to be any less volatile. For radiology, the shifts are now coming at breakneck speed—a pace that seems all the faster given the staid and stable milieu in which radiology operated for decades.

The hospitals and IDNs know that they need to change, and they've been trying to push their contracted medical partners along the road of structural and organizational reconfigurations forced by reduced reimbursements, capitated payments, big-data insights and too many other financial, regulatory and consumer-driven pressures to itemize.

With the exception of a few bold and visionary front-runners, radiology groups have not kept up.

So it is that now the hospitals are saying, "Radiology, you really need to do something." They are either buying practices, compelling them to merge or urging them, directly or indirectly, to be acquired by multispecialty commercial practices that understand what's needed to provide a winning game plan back to the hospital.

Mednax paid a lot of money for vRad. I would speculate Sheridan paid a lot for Radisphere. It will be interesting to watch where those assertive chess moves lead. It will be fascinating to see what other deals develop to send new shock waves throughout the practice of radiology.

Meanwhile, from IRP's unique vantage point, it will be rewarding to continue helping independent practices affiliate with like-minded independent groups—including former and even current competitors—to increase the independents' market might serving their respective hospitals, IDNs, referrers, patients and populations.