

# A Successful Practice Acquisition Begins with Due Diligence

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It's tempting to short-change the due diligence process when acquiring a physician practice. In the heat of a deal, hospital leaders are understandably most interested in determining fair market value (FMV) so they can make the buy decision and set the purchase price. The due diligence process can turn up insights about a physician practice that go way beyond fair market value.



By analyzing various types of data and information about a practice and interviewing practice leaders, we can turn up intelligence that can be used to set the stage for the long-term success of the acquired practice. Specific findings from due diligence can guide physician compensation design, inform integration and onboarding, and identify explicit performance improvement goals for the practice's sustainable success.

## **UNCOVERING A GOLD MINE OF DATA**

Conducting due diligence requires a deep dive into a physician practice's financial, operational, and clinical practices. Just answering the FMV question does not necessarily address those questions. Even when the due diligence is focused primarily on FMV, a review and analysis of a variety of data and reports from a practice enables consideration of such a big picture issue as:

- How well is the practice managing day-to-day finances based on profit and loss statements?
- What is the payer mix, and are there compatibility or transition concerns under new contracts?
- What procedures or services have the highest volumes or revenues? Where is there potential for growth and how might the hospital and other system physicians support that growth?
- What is the practice's staffing model? For instance, are the practice physicians effectively managing nurse practitioners and other advanced practice providers?
- How does staff productivity compare to benchmarks, and why?

True due diligence also digs deeper to identify potential opportunities for improvement in the medical group's operational, financial, and clinical practices. For instance, by looking closely at billing data, we might discover a large number of denials due to inappropriate billing practices. Or we might learn that patients with back pain who are seen by the practice receive many more X-rays and MRIs compared to benchmarks.

Typically, we'll also follow up the quantitative portion of due diligence with a qualitative analysis that includes asking key practice leaders and physicians questions about the findings we turned up during data analysis. This can provide further detail on potential opportunities for improvement.

## **USING THE DATA THOUGHTFULLY**

Too many buyers end up only using the bounty of insights uncovered during due diligence for FMV determinations, and then the valuable data sit unused on a hard drive or lost in a file folder. A better approach is to use these insights to guide the rest of the acquisition and inform onboarding efforts after the acquisition.

For instance, the productivity analyses together with a review of coding practices during due diligence can be used to set productivity targets when designing compensation. And information uncovered about, for example, inappropriate billing practices or the overuse of imaging tests can be used when identifying meaningful performance improvement goals for the practice.

Physician practice acquisition is a long game. When not approached thoughtfully and deliberately, there is a high likelihood of financial loss. The secret to playing a long game well is to think strategically at key junctures about how to best get to the desired end. Due diligence provides important intelligence to guide the journey. ●

*This is the first in a three-part blog series on the nuts and bolts of physician practice acquisition. Parts 2 and 3 will dive deeper into how hospitals can use due diligence insights to inform physician compensation design, onboarding, integration, and performance improvement.*

**[Blog Part 2: Tips for Successfully Handling Physician Compensation During Practice Acquisition](#)**

**[Blog Part 3: Checklist: Discussing Onboarding Issues Before Closing a Physician Practice Acquisition](#)**

