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COVER STORY

Hospitalist consolidation begins

By Jay Greene / April 2, 2007

With 15 acquisitions in the past three years, IPC-The Hospitalist Co. is driving the trend of acquiring smaller practices in what appears to be the beginning of a consolidation in the fledgling hospitalist industry.

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TeamHealth, a Knoxville, Tenn.-based hospitalist and emergency department management company, last July acquired Florida Acute Care Specialists, Sunrise, Fla., a regional company formed in 1996 that serves 50 hospitals with 100 full-time hospitalists.

In February, Sound Inpatient Physicians, Tacoma, Wash., continued the merger trend by acquiring Excelsis Healthcare, Phoenix, and Inpatient Services, Denver, for an unspecified amount.

Formed in 2001, Sound Inpatient Physicians now contracts with about 23 hospitals and has more than 200 hospitalists in six states, says Rob Bessler, M.D., the company's co-founder and president. "We are not actively looking, but when the opportunity is right, we are open to the idea" of more acquisitions, he says.

Other hospitalist companies like Cogent Healthcare, Nashville, are following their main strategy of growing through contracting. Cogent, which was formed in 1997, has 30 contracts in 17 states with 120 hospitalists.

"Right now we are pretty content to grow organically by going after hospital contracts and providing hospitalists for them," says Gene Fleming, Cogent's president and chief executive officer. "We are growing 35% to 40% per year, but we are not ruling out acquisitions in the future."

Fleming adds: "I think all the players are talking to each other. It is natural when you have a new industry like hospital medicine that over time there will be consolidations, with winners and losers, and those with better business models will win over time."

While North Hollywood, Calif.-based IPC has grown its 12-year-old company by building new practices and acquiring smaller practices, future growth will consist of an equal mix of acquisitions, contracting and practice management, says Adam Singer, M.D., IPC's chairman and CEO. IPC employs some 500 hospitalists in nearly 200 hospitals in 14 states.

"We are changing the paradigm by acquiring practices and giving young entrepreneur practices an opportunity to grow," Singer says. Over the next year, IPC expects to add another 100 hospitalists by acquiring an unspecified number of practices and recruiting another 200 physicians to staff hospitals, Singer says.

"As these practices grew, they had infrastructure needs and are beginning to hit the wall," Singer says.

“Recruitment is a major problem and there is no professional management at small groups. They are demanding infrastructure, and we have it to supply, so there is a natural marriage.”

Although it has capital for additional acquisitions, Lynn Massingale, M.D., Team Health’s chairman and CEO, says the company is sticking with its hospital contracting strategy. Formed in 1979 to manage emergency departments, it now employs 400 hospitalists serving more than 80 hospitals in 16 states.

In 2005, TeamHealth was acquired by the Blackstone Group, a New York-based private equity firm. Massingale says the acquisition has enabled TeamHealth to further its growth strategy and become more efficient.

“We started 42 new contracts in 2006, including 12 new hospitalist contracts. It was the biggest year we ever had,” Massingale says.

Consolidation means hospitals will have fewer companies to choose among, but the remaining companies will have greater resources and infrastructure to service their clients, says Steve Nahm, vice president with the Camden Group in El Segundo, Calif., says.

“The majority of the hospitalist companies have been little more than practice management and physician staffing services,” says Nahm, a former hospital administrator. “With an expanded base, these companies have the potential to support the overhead to enhance their medical direction and training of hospitalists, and to be in an improved position to assist clients with advancement in all aspects of inpatient-care management.”

But Nahm says the larger hospitalist companies still control or manage only a fraction of the nation’s hospitalists’ practices.

Massingale says larger companies like TeamHealth bring expertise in billing, coding, collecting, risk management and a whole array of information systems to support hospitals’ goals of improving quality and reducing costs.

To coordinate care with community doctors, Singer says, IPC hospitalists use a hand-held digital assistant, IPC-Link, which allows the hospitalist to directly communicate with primary-care physicians, specialists and hospital case managers from the patient bedside.

One reason smaller practices put themselves up for sale is that most hospital contracts are low-margin enterprises, Massingale says.

“I don’t think anybody is making a lot of money in this industry,” he says. “People sell for all kinds of reasons. A fellow may be 64 and wants to walk away and do something different. Some just want the money. Other folks believe the industry is getting more complicated—managed-care contracting, billing and collecting, data needs—and want to align themselves with a (company with a) larger vision to make things better.”

Nationwide, there are 15,000 hospitalists, a number expected to grow to more than 30,000 by 2010, according to the Society of Hospital Medicine, a professional organization for hospitalists.

“We’re paying market value for these practices,” Singer says. Appreciating hospitalist practices is difficult, he says, because “some groups don’t make any money at all. They are joining us to get out of their debt. We help them make money.”

Jay Greene, a former Modern Healthcare reporter, is a freelance writer based in St. Paul, Minn. Reach him at jaywriter@comcast.net.