Health systems that just a few years ago were unsure whether they wanted to employ physicians now find there is a long line of medical groups at their doors, looking for the shelter of employment.

The increased volume of physicians desiring hospital employment conflicts with the scarcity of human and financial resources required to complete transactions and to bring physicians successfully on board. Moreover, acquiring physician practices too rapidly increases the risk for failure due to resource operational and financial constraints: Operational because organizational resources may be spread too thin to effectuate the transactions from either a deal negotiation or implementation perspective, and financial because unanticipated circumstances (e.g., acquisition costs, implementation expenses) associated with competing transactions may put the health system in an untenable position.

These resources must therefore be strategically allocated to the highest-priority projects. To prioritize the allocation of these resources toward physician practice acquisitions, organizations should evaluate both the strategic and financial impact of each potential transaction. One tool that allows healthcare providers to rank potential opportunities by priority and better understand the advantages of each opportunity is a matrix called “FAST.”

The FAST (Financial Impact And Strategic Alignment of the Transaction) matrix creates a simplified approach to the potentially complex question, “Should we pursue this acquisition opportunity?” This framework enables healthcare organizations to examine a potential affiliation from the perspective of strategic alignment and financial impact. Both perspectives are important in deciding whether to pursue an affiliation and, if so, how aggressively to pursue it.

### Strategic Alignment

First, an organization should evaluate the strategic alignment of the physician practice with the organization’s strategic vision and direction. The hospital or health system’s strategic direction will

### AT A GLANCE

A process for evaluating physician practices by their strategic alignment with a health system’s mission separates the practices into four categories:

- **“Must-have”** – Strategically and financially beneficial
- **“Cash is king”** – Financially beneficial but not a strategic priority
- **“Dream big”** – Strategically important but currently not financially beneficial
- **“Avoid acquiring”** – neither strategically nor financially beneficial

A tool for carefully evaluating the strategic alignment and financial impact of a physician practice can be used to prioritize acquisitions and determine their value.
likely be expressed in terms of the growth or preservation of a service line or of the organization’s market share. Key questions to consider when analyzing the strategic alignment include the following.

Service offering. Would the physician group’s specialty(ies) align with the system’s service lines or provide new offerings? Would these services align with the strategic direction of the organization?

Clinical coverage. Would the group enhance the hospital’s ability to expand or improve access or coverage?

Clinical integration. Would the group assist the hospital in furthering any efforts related to coordinating care and clinical integration?

Cost containment. Would the group have a meaningful impact on the system’s ability to control the cost of care?

Payment reform. Would the acquisition improve the system’s ability to participate in new payment models (e.g., bundled payments, accountable care organizations)?

Competition. Would the acquisition impede a competitor’s growth or cause its service offering to stagnate? Do physicians in the group currently practice at or refer to other hospitals in the region?

Political impact. How would the hospital or health system’s medical staff react to the proposed transaction?

Reputation. What is the reputation of the target group? Does it complement or align with the hospital’s reputation and image?

Geography. Is the group located in a growth area or in an area that the facility currently does not serve?

Placement of the acquisition opportunity within the FAST Matrix can help an acquiring organization determine its approach to potential affiliation.

Competitive position. How many alternative groups/service providers of this specialty(ies) are there in the market? How are these providers aligned?

Timeline. What is the physician practice’s timeline for the acquisition? Does it align with the organization’s interests/capabilities/resource availability?

Alternatives. What are the alternatives to an acquisition for the physician practice or the health system?

Unique benefit. Would the physician practice offer other strategic benefits to the organization?

Financial Impact
The financial impact of the affiliation should be examined on a net present value (NPV) basis and should include the projected performance (net operating income [NOI]) of the practice post-acquisition, the capital investments that will be made in the practice, and the downstream impact (change in hospital contribution margin) of the practice. Some questions to consider when analyzing the financial impact of a physician practice acquisition include the following.
**Financial performance.** Does the target group currently generate market-competitive incomes for the physicians? How would integration impact the financial performance of the target?

**Financial improvement.** What financial improvement strategies (e.g., 340B Drug Pricing Program, provider-based billing, operational consolidation) would the hospital pursue after the acquisition? How quickly could these be implemented and at what cost? Would the target assist the hospital in reducing the cost of patient care, either inpatient or outpatient?

**Care strategies.** Could the group assist with improving population care management?

**Investment.** What capital investment would be required (including transaction costs and post-integration investments)? When would the acquisition begin generating positive cash flow?

**Downstream impact.** What impact would the target group have on the hospital’s bottom line?

**Risk.** How would the future risks associated with the potential cash flows brought about by the acquisition of the practice be evaluated? What discount rate would be used to compare cash flows? What is the risk tolerance of the organization, and how would that be integrated into the risk profile? How would the organization evaluate the entity-specific and market risks?

**Analysis period.** Would the organization rely on cash flow projections outside of the forecasted period (i.e., terminal value cash flow)?

Based on the answers to these questions, the acquisition opportunity can be plotted on the FAST Matrix.

### Using the FAST Matrix to Evaluate Acquisition Opportunities

Placement of the acquisition opportunity within one of four quadrants in the FAST Matrix can help an acquiring organization determine its approach to the potential affiliation. Ascertaining where the potential acquisition falls within the FAST Matrix involves careful evaluation of the strategic

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**THE FAST MATRIX: TAKING A CLOSER LOOK**

<table>
<thead>
<tr>
<th>Quadrant</th>
<th>Description</th>
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<tbody>
<tr>
<td>I</td>
<td>Must Have</td>
</tr>
<tr>
<td>II</td>
<td>Cash Is King</td>
</tr>
<tr>
<td>III</td>
<td>Avoid</td>
</tr>
<tr>
<td>IV</td>
<td>Dream Big</td>
</tr>
</tbody>
</table>

- **Impact on Acquirer’s Financial Position**
- **Degree of Alignment with Acquirer’s Strategies**
How the acquisition opportunity is categorized will determine the acquiring organization’s approach to negotiation efforts.

and financial characteristics of the physician practice and its value to the organization.

Quadrant I: The “must-have” physician practice.
Characteristics of this type of practice include the following:
✓ The target provides services in a market that the acquirer desires to penetrate.
✓ The target is critical to a strategically important service line offered by the acquiring hospital or system.
✓ There is a strategic alignment between the parties.
✓ There are no barriers (e.g., political, geographic, legal) to aligning the target’s practice patterns with the acquiring hospital or system.
✓ The financial performance of the target could be significantly improved through alignment.
✓ Alignment with the target would produce positive downstream benefits for the acquirer.

Quadrant II: The “cash-is-king” physician practice.
Characteristics of this practice include the following:
✓ The target practice is in a service line outside of the strategic focus of the acquirer.
✓ The target serves a geographic area that does not coincide well with the acquiring organization’s service area.
✓ Historically, the target may not have been well-aligned or engaged with the acquirer.
✓ The target is one of many groups in this specialty and area seeking employment, but its demands make it less attractive.
✓ Long-term income-enhancement opportunities exist.
✓ The target could be a key referral source for the acquirer.

Quadrant III: The “dream-big” physician practice.
Characteristics of this practice include the following:
✓ The target provides access to a strategically important service line or multiple service lines.
✓ The target is the only (or largest) group of physicians of its specialty in the service area.
✓ The target is an inefficient, poorly managed practice that will require an ongoing investment to bring the physicians to market-competitive wages.
✓ There is limited opportunity for long-term financial improvement of the target.
✓ The target is already closely aligned with the acquirer, limiting the potential for incremental downstream benefits.
✓ The economics of the potential affiliation (e.g., postintegration physician compensation) would offset incremental margins that accrue to the acquiring organization.
✓ Alignment could enable synergies with other system components or future services.

Quadrant IV: The “avoid acquiring” physician practice.
Characteristics of this practice include the following:
✓ The target is in a service line that has limited future value to the acquirer.
✓ The target provides services in areas that are already provided by other aligned physicians.
✓ The target is a “commodity”: a provider in a specialty where there are numerous other physicians who have stable, aligned relationships with the acquirer.
✓ An acquisition of the target would be politically divisive.
✓ The target is unwilling to align or integrate clinically with other employed physicians.
✓ The target insists on a special deal that would be strategically disruptive to the acquirer.
There is limited opportunity for long-term income enhancement and/or limited downstream potential.

**Potential Strategic Negotiating Options**

How the acquisition opportunity is categorized will determine the acquiring organization’s approach to negotiation efforts.

In general, the approach to *must-have* and *avoid* opportunities is self-evident, once the target has been appropriately categorized. Typically, acquiring organizations will work to expeditiously close the must-have transactions and will seek to identify alternative alignment models for targets that are classified as ones to avoid.

### Evaluating Physician Acquisition Strategies by Quadrant of Opportunity

<table>
<thead>
<tr>
<th>Quadrant</th>
<th>Acquisition Strategy</th>
</tr>
</thead>
</table>
| Quadrant I: Must-Have Practice | > Negotiate expeditiously.  
> Allocate the necessary resources to get the job done.  
> Carefully communicate the importance of the deal to the target. |
| Quadrant II: Cash Is King   | > Within fair market value (FMV), be willing to pay a premium to complete the transaction.  
> Be deliberate with negotiations, but do not rush.  
> Allow adequate time to build support with key internal constituencies and ensure alignment of core values with the target.  
> Carefully negotiate key terms related to either retention of the target or the ability to unwind the deal, depending on the issues at hand.  
> Be willing to walk away if the strategic priorities cannot be met.  
> Determine and stick to deal breakers. |
| Quadrant III: Dream Big    | > Examine the target carefully to assess financial opportunities.  
> Take the time to educate key internal constituencies (especially board members) regarding the projected near- and longer-term financial impact of the acquisition.  
> Identify, if possible, a structure that allows for alignment with the target and improves overall financial performance.  
> Consider what would happen if the acquisition were not to have a positive impact on the organization. Often, a target in this category may already be tightly aligned with the acquirer; therefore, the acquirer may have more to lose if the deal fails than it stands to gain if the deal succeeds.  
> Carefully consider the strategic and financial implications of the transaction. Take time to conduct due diligence.  
> Balance the economics of the transaction with the projected near- to mid-term financial impact of the acquisition.  
> Incorporate financial performance goals into the transaction terms and penalties, up to and including unwinding the deal, if the targets are not achieved. |
| Quadrant IV: Avoid         | > Support the target in identifying alternative models that will better meet the needs of both parties.  
> Avoid protracted negotiations or do not enter into negotiations.  
> If negotiations begin, develop and communicate deal breakers to the target up front. Stick to these deal breakers.  
> Develop a clear message for organizational leadership regarding the organization’s approach to the affiliation. |
For the remaining quadrants—cash is king and dream big—an organization’s response to opportunities that fall into these quadrants often will be driven by its own current financial and strategic position. Organizations with strong income statements and balance sheets should prioritize both of these opportunities. Doing so would be an investment in the future, enabling the organization to realize its larger strategic goals and mission and ultimately setting the organization up for stronger long-term financial performance. In contrast, organizations with poor financial performance and a weak balance sheet should give preference to the cash-is-king acquisition opportunities. Such a strategy would enable these types of organizations to improve their near-term financial performance and potentially develop a stable platform for subsequent acquisitions. Although a dream-big opportunity may be appealing to such an organization, the organization should evaluate this type of opportunity cautiously to discern the potential near-term financial ramifications.

Case Studies
The FAST Matrix can be applied informally or simply used as a guide to better understand or predict an organization’s approach to a transaction. Understanding the relative value of the acquisition to the acquiring company will help both the acquirer and the target determine their respective negotiating strategies. Following are case studies in which the FAST Matrix has been applied to explain the transaction rationale.

Large multispecialty group, quadrant II: Cash is king.
The physician practice represented two-thirds of the hospital’s active medical staff and included a sizable primary care base and numerous subspecialists. The practice had experienced declining financial performance and an inability to earn market-competitive compensation. The practice had implemented many strategies to improve financial performance, but had been successful. The hospital realized that the practice would not be able to offer market-competitive wages in a timely fashion.

The hospital rated the transaction as a quadrant II, “cash is king” opportunity. Although there was limited upside opportunity to acquiring the practice, the hospital faced considerable downside risk if the group were to unravel or affiliate with another system. Moreover, a detailed financial analysis showed that through 340B, provider-based billing, changes in commercial reimbursement rates, and various other strategies, the hospital could stabilize the group without incurring an operating loss.

Negotiations between the hospital and practice were balanced and moved forward rapidly, as both organizations were committed to a successful outcome. During this process, both sides made key concessions to see the transaction to fruition.

Single-specialty cardiology group, quadrant III: Dream big.
This cardiology group was an entrepreneurial group with a culture of growth and outreach—and a high-volume, growing practice that could support additional physicians. The practice’s principles of shared responsibility and teamwork lent itself well to a shared compensation model. Meanwhile, the potential acquirer was a large hospital that is part of a health system. The hospital offered a full range of cardiology services, and the physician group was a key component of the hospital’s cardiovascular service line strategy. Hospital and health system leaders wanted to continue the physician group’s outreach and extend it to strategically important areas.

The hospital rated the deal as a quadrant III, “dream big” opportunity. The physician group
The FAST Matrix may be especially useful when the acquisition opportunities are in the dream-big or cash-is-king quadrants.

provided the key component for development of the health system’s cardiovascular service line. It was determined to be critical to outreach in surrounding communities for cardiovascular care and would help prevent customers from being wooed by key competitors in the market. Because the group was already aligned with the hospital and health system, there was limited opportunity to gain additional volume/revenue. Potential financial synergies from employment would be paid back to the physicians as compensation.

Ultimately, it was in the hospital’s best interest to move relatively quickly to close the deal, considering the competitive marketplace. A productivity-based compensation plan with incentives related to service line management was well received by the physician group.

A Guide for Physician Acquisitions
The FAST Matrix is an effective tool that can help hospital and health system leaders evaluate a potential acquisition opportunity or prioritize competing acquisitions from a portfolio of opportunities. This tool may be especially useful when the acquisition opportunities are in the dream-big or cash-is-king quadrants, with significant strategic and financial trade-offs.

Before using the Matrix, the organization’s leaders should reach consensus regarding organizational priorities. Then, by using this strategic framework consistently, they can determine how best to allocate resources and obtain a conceptual framework to communicate these decisions to key stakeholders, including board members, acquisition targets, members of the medical staff, and community representatives.

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