# INSIGHTS ON MERGERS AND ACQUISITIONS

by

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Consolidation is continuing to be the dominate theme in today's healthcare world. Developing the coping skills necessary to deal with these rapidly changing conditions for both employers and employees, is the key to survival. In this paper I will share my firsthand wisdom and experience having been through many mergers and acquisitions over the last two decades.

## BACKGROUND

There are numerous external environmental forces that have had a caused the driving forces in the healthcare industry. This has led to the current merger and acquisition frenzy. **Figure 1** and **Figure 2.**

**FIGURE 1**

## EXTERNAL ENVIRONMENTAL FORCES

- The need to be more competitive in both domestic and international markets.
- The aging of the population set to peak around 2010.
- "Less Government" sentiment in favor of the private sector.
- Strong economy and the end of the cold war, resulting in a more inward focus.
- Internet explosion allowing people instant access to more detailed data.

**FIGURE 2**

## HEALTHCARE DRIVING FORCES

- The continued evolution towards managed care scenarios.
- Less dependence on hospitals as the center of care.
- Fading government as payor with emphasis moving to the private sector.
- Maturation of various alternative industry segments such as home healthcare.

As result of these forces, these seven healthcare trends have emerged as key themes in the current market:

1. Cutting waste in order to do things better and cheaper.
2. Building economies of scale through the creation of regional and national horizontally and vertically integrated networks.
3. The movement towards a capitation payment system.
4. Focus on elimination of fraud and abuse.
5. Medicare and Medicaid programs assigning risk to the private companies.
6. Disease management carve-outs for chronic illnesses.
7. Preventative health and wellness programs.

In light of these healthcare trends, the consolidation among firms in the healthcare industry has been prevalent. Some of the examples of this trend include:

- The horizontal integration of Abbey and Homedco, to adding critical mass and geographic coverage.

- The vertical integration of Sun Health and Regency, to broaden the breadth of products and services being offered.

In each of these examples improving each firm's ability to compete in the current environment was and is of primary concern.

MERGER AND ACQUISITION CONSIDERATIONS

Price Prichett, a leading authority on mergers and acquisitions believes companies should move quickly with the transition, beginning as soon as the deal is announced. Prichett further advises management to watch productivity, openly communicate with its employees, and to continue to focus on its customers.

Michael Porter, a Harvard professor and expert on competitive strategy notes, former owners and managers may be in denial and can become depressed or malaise. Because new skill sets may be required in a mature market, a rotation may become necessary.

Another popular merger and acquisition concept is the principal of *best practice*. Using this approach, each merged company's policy is evaluated equally. The decision to adopt one over another is then made strictly on the basis of merit.

Sometimes in mergers and acquisitions an SBU (strategic business unit**)** as a focused profit center may result in order to maintain the former businesses own identity. This could be due to the impact of the loss of their brand identification or to satisfy egos of the former stakeholders. Thus an SBU may be a business unit within a larger corporation, or it may be a business into itself or a branch.

IS BIGGER REALLY BETTER?

This question will continue to be debated as larger corporations emerge from the seemingly endless barrage of mergers.

- The "PROS" are economies of scale, greater financial resources, reduction of duplicate costs, improved profits, and broader geographic coverage

- The "CONS" are loss of the personal touch, monopolistic price controls, lack of choices, sometimes higher expenses, and disillusioned employees.

Regardless of the conclusion, "bigness" does not mean the end of local competition. It may in fact, open up more niche opportunities for eager and creative entrepreneurs.

FIVE SURVIVAL LESSONS LEARNED

**Lesson #1 - NEVER BURN BRIDGES.**
In the face of today's merger and acquisition activity, one should never take for granted that yesterday's rival might not be tomorrow's colleague -- or even their boss.

**Lesson #2 - BE PREPARED.**
Keep your resume and list of accomplishments current. You may need this if you are let go. In addition, merged companies are prone to having employees reapply for their own positions.

**Lesson #3 - BUSINESS DEVELOPMENTS ARE GENERALLY NOT PERSONAL.**
Maintain a strategic perspective on your company's merger. This is sometimes difficult to do; however, reminding yourself of this thought will help you to keep an open mind.

**Lesson #4 - HAVE A NEST EGG.**
If possible, negotiate a retention bonus or golden parachute agreement with your employer before the merger takes place. Your goal should be to have enough money saved to cover your basic living expenses until you can find a new position in case you are fired.

**Lesson #5 - DON'T WAIT FOR THE BAD NEWS, LOOK AROUND WHEN THINGS ARE GOING WELL--ACTIVELY NETWORK.**
In the event you are fired, you will need to scramble. This pressure can lead to hasty decisions which you may regret. Networking enables you to be proactive and keep yourself aware of other options in the event your current situation suddenly deteriorates. I have kept an up-to-date list of at least 100 key contacts for the last ten years. These are top executives and decision makers I have personally met at business or the professional groups meetings.

CONCLUCSION

As a perpetual optimist, I do believe in luck. That is, being at the right place at the right time. However, I define luck as, the ability to recognize opportunity and to take advantage of it. In every merger and acquisition that I have been through, I have always maintained this optimism and avoided the myriad of negative thinking permeating throughout the organization.

Change is an inevitable part of business as it is a part of life. Maintaining balance between career, family and other interests based on personal values, I believe is the most critical success factor.

**<u>Background on Gary Goltz</u>**

Gary Goltz is President of Goltz Business Development Group. The firm provides sales support in the areas of managed care contracts, corporate account management, market positioning, strategic alliances, mergers, and acquisitions.

Mr. Goltz has firsthand experience in mergers and acquisitions which includes:

**1982** After five years with Johnson Rents, the company is acquired by Foster Medical. Johnson Rents becomes the corner stone of Foster's Home Health Care Division.

**1984** Following Foster's second stock offering, Avon Products acquires Foster. Using Avon's financial might, over the next four years, Foster acquires over 100 independent home medical equipment companies.

**1988** Medicare reimbursement changes and cuts lead Avon to sell Foster to Abbey. Gary moves to the Infusion Care Division of Foster, which Avon continues to operate.

**1989** NMC acquires Foster Infusion Care from Avon. Gary is let go after 12 years with Foster, making him the longest employee of the now defunct home medical equipment industry giant.

**1989** Comprehensive Pharmacy Home I.V. Services is founded by Gary with its focus on managed care, several years ahead of the competition.

**1993** Curaflex Health Services acquires Comprehensive Pharmacy for 7.5 times earnings. Goltz becomes a company officer and vice president. Gary is a Los Angeles Entrepreneur of the Year finalist.

**1994** Curaflex, $T^2$, Caremark, and several others form Coram Healthcare. Less than a year later Abbey/Foster acquires Homedco to form Apria Healthcare. Both companies become the leaders in the home care industry.

**1995** Gary starts **<u>Goltz Business Development Group</u>**. Coram which eventually becomes a division of CVS (as an SBU), is his first client.

Mr. Goltz has a B.A. Cum Laude in Rhetoric from the University of Pittsburgh and an MBA with Honors from Pepperdine University's President and Key Executive Program.