A Primer on Consolidation in the Radiology Industry With Private Equity

The radiology industry continues to undergo a consolidation process, putting more power in the hands of private equity firms. According to a 2018 presentation to the American College of Radiology, private practice radiology groups were organized as radiologist-owned partnerships. However, recent years reveal a strong increase in the incidence of mergers and acquisitions on a national level. This may presents an opportunity but there are also many concerns for the more than 36,000 practicing radiologists in the U.S. Understanding consolidation will be key to choosing to maintain independent practices or to partake in consolidation.

Why Are Private Practices Joining Private Equity Firms?

The transition to value-based care through both Medicare payment and the use of accountable care organizations led to the need to reorganize existing radiology practices. Consumer expectations grew faster than anticipated. Meanwhile, the outsourcing of hospital-based specialties continues, creating challenges in managing finances on a local level, notes Michael Mahoney via Radiology Today.

These reasons allude to the value-gained from national buying power and abilities. Companies, such as MEDNAX, have the resources to invest in new equipment and augment local services.

How Many Radiologists Have Consolidated Business Organization?

In a recent study of the Medicare Physician Compare database, reports Radiology Business, researchers found significant changes in the average number of radiologists practicing within a group.

Radiologists practicing in groups of one or two members declined from 3.2% to 2.1% between 2014 and 2019. In the same period, the rate of those practicing in groups of three to nine members fell 3.5%. Those in groups of fewer than 24 members fell 4.1%. The trend continues through groups of those practicing with 50 to 99 members, which fell 1.8%. However, those practicing in groups of 100 to 499 members rose an astonishing 6.1%. Those with more than 500 members rose 5.8%.

Such changes reflect an exodus from small practicing groups to larger groups, especially those of more than 100 members. Most importantly, the number of single-specialty radiology practices dropped 21.2%. Thus, those operating such practices have the greatest propensity to join private equity firms.

A Case Study of Consolidation Reveals History Repeats Itself.

Consolidation of the radiology industry is not new. Throughout the 1990s and early 2000s, consolidation continued under major companies, including Radiologix. Yet, Radiologix lacked immunity to consolidation itself. By 2006, Primedex acquired Radiologix, reports RadNet. The merger sought to alleviate the concerns of shareholders without sacrificing quality and capacity. Private radiologist practices that had been consolidated still relied on Radiologix for service and resources. Unfortunately, Radiologix suffered from the problem of growing too fast, limited resources.

Now, Radiologix has seen a new problem arise; multiple lawsuits allege a failure of Radiologix to fulfill its contractual terms. In fact, litigation continues as judges determine whether participating practices or overarching companies bear the burden of responsibility to one another, as shown by justia.

The state of consolidation in the industry today closely mirrors that of the past. As more practices join partnerships with consolidation companies, they take ownership of the risks. At the same time, they hope for more efficiency, productivity and technology that will fall from the hands of nationwide companies. Consolidation remains a gamble, great for some and worrisome for others. Thus, practitioners must consider the risks and benefits before making a decision.

What Is the Risk Versus Benefit?

Consolidation continues and the benefits continue to be minimal. The push toward consolidation does not appear to have created direct improvements in quality, access to care or cost savings. However, the jury is still out on whether such improvements will come to fruition as the Affordable Care Act evolves in coming months.

Another long-term risk exists. Consolidation may have a trust-like effect on the industry, reducing the impact of competition among providers. It could force single-specialty practices to lower prices below the break-even point, risking bankruptcy. At the same time, the lack of competition may lead to excessive pricing in areas with fewer single-specialty practices. Such a monopoly may cull patient experiences and satisfaction much more than other parts of the health industry.

For example, the copays for radiology services typically exceed those of other health care categories. Thus, patients will see even higher payments when copays are assessed as a percentage of the total charge for service.

Although the outlook seems grim, according to Forbes magazine, consolidation today *promises* to open the door to providing cheaper services via outsourcing. Advancing areas in technology and machine learning, require steep capital for both research and implementation, and private equity firms promise to invest to make these improvements.

These benefits reveal an immediate, short-term boost to the ability of a practice to operate and meet profit margins but what about the future of these practices?

What Does It All Really Mean?

The radiology industry appears on track to continue consolidation with private equity firms. Unfortunately, there is not enough data to support the claims of consolidators and how it will affect practice performance and costs in the long-term. As this remains uncharted territory, single-specialty radiologists must carefully consider the short-term benefits against the long-term risks. It is *not* possible that consolidation will solve most challenges that practices face and the risks remain. The only thing that is an absolute certainty today that those radiologists lose control over operations. It all falls under the control of the private equity firm.

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