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Spotlight on Healthcare – A Special Industry Report (Fifth of a Series)

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One of the most interesting features of the new healthcare landscape is the evolving relationship between patients and doctors. As we detailed in our first instalment of this special *Lead Left* series, retail giants are teaming with healthcare behemoths to capture patients wherever they go. That fits well with the 24/7, wanting everything all the time, mentality of the 21st century US consumer.

Doctors, on the other hand, increasingly want to focus on treating patients. As one of our healthcare M&A friends also recently told us, fewer physicians want to be entrepreneurs. Young medical graduates tend to be more idealistic, more focused on patient care and treatment, and less interested in the business side of their practices.

This trend favors private equity firms. The goal of many sponsor-backed roll-ups of physician practice organizations is to create larger, more corporate-style practices. There the docs can be employees, not managers, and not worry about the back office.

Indeed, as more women enter the medical profession, flexibility is key. Roughly half of all medical students are women. This will eventually rebalance their share of practicing physicians (currently about 35%). Women are concerned about lifestyle, flexible hours, and benefits – something the growth of PPOs can address.

Healthcare is a people business. The healthcare staffing sector, which has been around for decades, is seeing renewed interest from PE funds. Yet over the years this sector has had its challenges.

“The demographic trends suggest continued growth in demand for healthcare services but the provider base has not kept pace,” says Peter Magas, a managing director at healthcare-focused Beecken Petty O’Keefe & Company. “Along with expectations that the pace of doctor and nurse retirements will increase faster than new entrants, you have high demand for providers in alternative settings. This requires hospitals to seek temporary staffing solutions in order to meet required staffing ratios, fluctuations in volumes or staff shortages.”

Given the high cost of people, don’t staffing companies end up being more sensitive to business cycles? “We’re very cognizant of that risk ,” Mr. Magas said. “but if you offer great client service, control fixed costs and use prudent leverage, you can successfully manage, if not thrive, through different economic cycles.

Still, as David Baker of Capstone Headwaters reminds us, since human capital is such a large component of healthcare delivery, technology is key to expense control.

“It used to be the system paid higher costs for better outcomes,” he told us in an upcoming *Lead Left* interview with his partner, Rod Rivera. “That’s changed. Now, lower costs always need to be part of the package. Technology provides opportunity to conduct analytics to lower costs, such as, population health analysis, pharmacogenomics, or even mobile health devices.”