

# Changing Priorities in Cardiology Physician Alignment Structures: Increases in Private Equity and Other Trends

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For decades, Corazon has collaborated with physicians, hospitals, and health systems to define, update, and optimize alignment structures to enhance the operations and outcomes of cardiovascular programs across the country. Historically, these have taken on many forms — from direct employment to independent practice, to complex co-management and institute models. The ongoing expansion of cardiovascular services in the ambulatory surgery center (ASC) setting has introduced new considerations and models to these discussions, including the growing involvement of private equity firms in cardiovascular services over the last six years.

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The focus of these models is often related to various aspects of program or service operations, which may or may not have a financial component, usually in terms of funding for new or expanded offerings. Cardiology is often described as an entrepreneurial specialty because of the opportunities for varied and complex management structures. Consider the strategic risks involved in some of the opportunities presenting themselves today:

- **ASC Development:** The investment requirements for an ASC initiative are significant to secure space, equipment,

additional staff, and more. In addition, the complexity of navigating often unclear regulations (both federal and state), can create a desire for an external partner, which can include experienced regulatory management support.

- **New Technology:** Adopting a new technology or care modality can present a variety of challenges and needs. The cost to secure the new technology, training to ensure the proficiency of the whole team, and marketing the innovation to the community so patients know where they can receive care is complex.

- **Retirement/Succession Planning:** Recruitment is a costly and time-consuming process, particularly when considering an enterprise like a physician practice where reputation, longevity, and patient outcomes depend on finding the right partner(s) at the right time. Not to mention the looming shortage of cardiologists, which makes the market even more competitive to attract top-tier talent.

With these challenges, it is obvious why cardiology practices and solo practitioners

would seek outside support. In recent years, private equity groups have gained momentum as a viable source of support, while also becoming more eager to capitalize on the financial benefits of investing in one of the most profitable medical specialties. Private equity firms can offer significant financial resources and stability while also adding potential economies of scale and operating expertise (eg, management and operations beyond healthcare-specific experience).

Certainly, many of these benefits are available through other partnering options. As health systems have grown through consolidation in recent years, it has occurred for similar reasons: access to capital, stability and risk reduction, streamlining operations, and economies of scale. So, what has created the increased interest and availability of private equity options?

Unfortunately, the answer to that question is multifactorial. With conflicting reports of the impact of private equity acquisitions on quality and financial performance, some firms have limited their publicity around new acquisitions. Many factors can influence any decision related to ownership or investment in a cardiology practice. Commonly, the desire to partner with a private equity firm seems to be related to a desire for some level of autonomy or control while gaining the financial support of a larger organization. In previous trends of hospital or health system and physician alignment models, there can be a perceived or actual loss of control as the new structure is implemented. There also tends to be a sort of self-fulfilling prophecy with trends like these — as some factors like those discussed above create opportunities for private equity acquisitions, they gain notoriety and desirability simply by being a known option.

It is imperative that organizations take deliberate action to understand opportunities related to cardiovascular services. Strategic planning will allow for the evaluation of market trends, operational performance, quality, program perceptions, unmet patient needs, financial investments required, and more. A part of any cardiovascular strategic planning initiative in the current environment is incomplete without considering

three specific and interconnected topics:

- ASC strategy
- Physician alignment strategy (with options including private equity)
- Competitor activity

### ASC Strategy

At this point, any health system or hospital that does not evaluate its ability to offer cardiovascular services in the ASC setting is not remaining contemporary in strategic visioning. Cardiovascular patient care is moving rapidly to the ASC setting. Including ASC strategies requires detailed analyses related to the potential cost savings and decreased revenues based on reimbursement rates, but the volume will shift one way or another. Some leaders have pointed to decreased revenues as a reason to avoid investing in cardiovascular ASCs. However, the negative impact of cardiovascular cases out-migrating completely, without a “backfill” strategy, will be significantly worse. This means that hospitals must understand how the higher acuity cases will remain in the acute care setting and how to optimize operations, outcomes, and finances in these areas (eg, ST-elevation myocardial infarction, stroke, trauma, etc.).

### Physician Alignment Strategy

The movement of cardiovascular procedures into the ambulatory space (including ASCs) creates a need for distinct physician alignment strategies. ASCs are central to many initiatives taking place outside of the hospital today and are a keystone topic for many cardiology alignment discussions. Aside from the existing importance of alignment strategies related to quality outcomes and support for program growth, the ASC component cannot be ignored and is of vital importance for the success of the program (in all settings of care). Organizations that fail to reach some sort of agreement with their physicians will be setting up internal competition instead.

### Competitor Activity

Again, related to the ASC strategy, if a competitor moves into the ASC space first, that organization will stand to gain the greatest share of outpatient volume in a given market.

## Specialized private equity firms that focus on cardiovascular services can add significant value to the provision of care as well. These firms have specific knowledge of cardiovascular operations and are aware of the nuances required to provide high-quality care.

It is similarly important to be aware of private equity activity in the market and promote open dialogue if a physician group or practice is considering contracting with private equity. There may be opportunities for collaboration among existing organizations in that market (hospitals, other practices, health systems) to be involved in those partnerships or to develop complementary arrangements to maximize value for all parties and the patient.

### Final Remarks

It is important to note that even with some of the recent negative publicity related to private equity entering the healthcare space, Corazon recognizes that this inclusion will not undo the hard work to provide quality healthcare across the country. Private equity can be an excellent source of capital to advance access to care and enhance resources. Particularly, specialized private equity firms that focus on cardiovascular services can add significant value to the provision of care as well. These firms have specific knowledge of cardiovascular operations and are aware of the nuances required to provide high-quality care. At a macroeconomic level, the demand for cardiology services is expected to continue to rise, while there remains a looming shortage of cardiologists and other resources. Private equity firms are uniquely positioned to infuse the industry with capital to prepare for these trends and invest in the future of healthcare.

There are also opportunities related to quality oversight and outsourcing of various needs. Bringing in consultation and legal counsel related to the development of these structures is paramount, particularly with all the differences in regulations determining what services can be provided in what setting. If there are concerns about quality, whether

based on trends being noticed or simply preventing fallouts after a significant change to the structure, initiatives like accreditation of cardiovascular services can help provide peace of mind, while also facilitating valuable learning opportunities for providers.

Rather than being afraid of, intimidated by, or leery of private equity backing, it needs to be integrated into the fabric of cardiovascular strategic planning. Learn from other specialties that have previously seen an increase in private equity activity (eg, dermatology, gastroenterology, urology, ophthalmology, obstetrics and gynecology, and orthopedics). Learn from other alignment models that have worked for cardiovascular programs in the past. Understand the role of institute models, and co-management and employment, alongside private equity-backed practices and ASCs, so that all of these factors can work together to raise the bar of patient care. ■

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