

# WEISS



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## If “The Smartest People in the Room” File Bankruptcy, What’s That Mean For You? Lessons and Opportunities.

The year is turning into a rout for private equity investment, especially in healthcare. But maybe it will be a banner year for you.

In March, S&P Global Market Intelligence reported that private equity portfolio companies were on track in 2023 to see the highest annual number of bankruptcies since 2020.

Then, on May 15, 2023, KKR-owned Envision Healthcare and its hundreds of affiliated entities, including Amsurg, filed for Chapter 11 Bankruptcy, likely wiping out the PE behemoth’s entire \$5 billion investment.

But no one should be surprised.

As the economist Joseph Schumpeter wrote in *Capitalism, Socialism and Democracy*, first published in 1942, capitalism “is by nature a form or method of economic change and not only never is but never can be stationary. And this evolutionary character ... incessantly revolutionizes the economic structure from within, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism.”

Creative destruction is driven by many factors. Schumpeter certainly focused on the impact of inventions as well as entrepreneurial innovation via new means of production, new products, and new forms of organization. Think automobiles over horse-drawn carriages, refrigerators over ice boxes, and well, ambulatory surgery centers over hospitals.

But it’s driven by other factors as well. The S&P Global Market Intelligence report mentioned rising interest rates and attendant economic uncertainty as the factors leading to PE bankruptcies.

Although it’s certainly true that interest rates have risen astronomically over the last year, to blame interest rates themselves is like blaming a leaky roof on rain. *The actual factor is the failure to manage for the possibility of interest rate increases and for continuing pressure on collections from third party payors.*

Which leads to lessons and opportunities for you:

1. As evidenced, creative destruction *is* destruction. Things do break. But you’re in a far better position to understand, and manage, your business than the so-called “smartest people in the room” who’ve gone into PE. Besides, they’re not really managing businesses; they’re managing money, which it turns out, is far from a “sure thing”. One thing is for certain, it will hurt more for you to lose your money than it hurts for a PE firm to lose someone else’s. Don’t make the same mistake.

2. If you're selling your practice or an element of it (for example, doing an MSO-type sale) think twice about whether you want to "partner" with PE. Sure, the multiple might be higher than that offered by a non-funded long-term industry investor, but that's only if you're not aware that there are two prices in any such deal: the price you're paid, *and the price you pay* by doing a deal with someone who evaluates you just like the car washes or mobile home parks they are also rolling up. Every one of the failed PE deal physician groups thought that they were getting "access to capital to fund our growth" and, of course, "access to best practices". Remember, as in a confidence game, when you don't know who the "mark" is, it's you.

3. As also evidenced, although creative destruction is destruction, it's far more than that; it's also *opportunity*. Just like every house sold through foreclosure is a deal for the buyer, the bits and pieces that are set free when PE ventures implode are deals for buyers. And, if you're not a buyer, the fact that a competing medical group or facility has imploded or is about to implode is an opportunity to expand your business and to recruit additional personnel.



### Wisdom. Applied. 174: Outside Work Leads to Claims of Inside Collections

It's not uncommon for some physicians to be engaged in multiple ventures. For example, an ophthalmologist may be a partner in a group with a practice location in City X as well as a shareholder in a group providing weekend ophthalmology coverage in Suburb Y.

## All Things Personal

I certainly won't deny that CVS *wants* to be one of the retail giants reinvented as a healthcare giant taking market share away from both physician groups and hospitals.

Modern Healthcare reports that CVS and the other large chains think that they can stress "a more customer-centric focus".

Maybe they can, but when you last went into a CVS store, did you notice *any* customer-centric focus? *I mean any at all?*

On my last visit to a CVS store, merchandise on stocking carts blocked the aisles with no store employees in sight. On other aisles, the half-empty shelves looked like a looted 7-Eleven in Chicago.

A disheveled CVS sends a signal similar to a filthy restaurant restroom: The metaphorical "kitchen", i.e., the CVS exam room, or clinical lab or, God forbid, cath lab, is just as dirty.

Are they really the competition?

(What signal is your office and your staff sending?)

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### Books and Publications



We all hear, and most of us say, that the pace of change in healthcare is quickening. That means that the pace of required decision-making is increasing, too. Unless, that is, you want to take the “default” route. That’s the one in which you let someone else make the decisions that impact you; you’re just along for the ride. Of course, playing a bit part in scripting your own future isn’t the smart route to stardom. But despite your own best intentions, perhaps it’s your medical group’s governance structure that’s holding you back. In fact, it’s very likely that the problem is systemic. The Medical Group Governance Matrix introduces a simple four-quadrant diagnostic tool to help you find out. It then shows you how to use that tool to build your better, more profitable future. Get your free copy [here](#).

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- 2. Be a guest on "Wisdom. Applied. Podcast."** Although most of my podcasts involve me addressing an important point for your success, I'm always looking for guests who'd like to be interviewed about their personal and professional achievements and the lessons learned. [Email me](#) if you're interested in participating.
- 3. Book me to speak to your group or organization.** I've spoken at dozens of medical group, healthcare organization, university-sponsored, and private events on many topics such as The Impending Death of Hospitals, the strategic use of OIG Advisory Opinions, medical group governance, and succeeding at negotiations. For more information about a custom presentation for you, [drop us a line](#).
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