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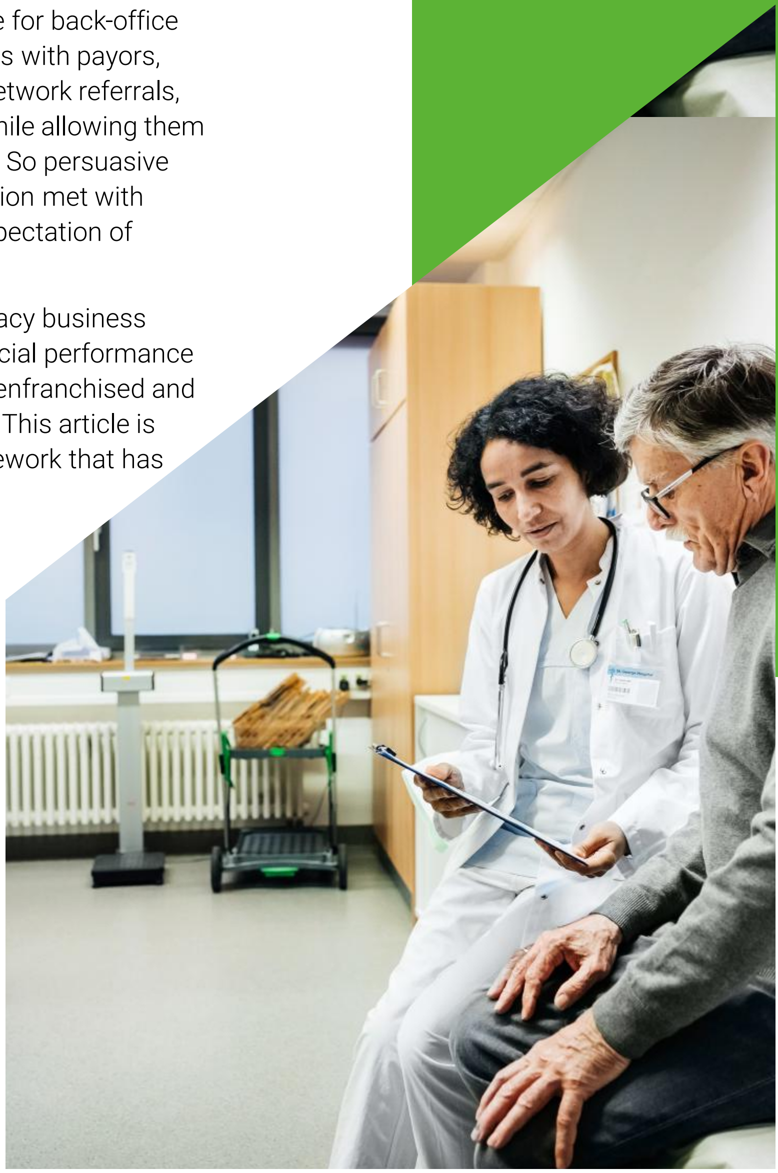
# Transforming a medical/dental service organization

## Establishing a value creation culture

The operating environment for medical and dental services organizations (for ease of reference, referred to as MSOs throughout this article) has undergone significant shifts in recent years. Many organizations are navigating balance sheet constraints as macroeconomic conditions—including the interest rate environment, regulatory framework, and patient utilization patterns—have evolved substantially from the assumptions that underpinned their initial business plans.

In theory, the arrangement creates economies of scale for back-office functions, improves the practices' negotiating positions with payors, dampens volatility, grows patient volume through in-network referrals, and relieves practitioners of administrative burdens while allowing them to do what they do best-- focusing on serving patients. So persuasive was this thesis that once initial attempts at consolidation met with success, numerous similar rollups ensued with the expectation of matching or exceeding those initial results.

Now, many of those organizations we advise have legacy business models that require recalibration to generate the financial performance originally contemplated. This has left practitioners disenfranchised and created pressure on organizational financial flexibility. This article is about fixing that broken business model using a framework that has proven to be effective.



# How broken is the business model?

Many MSOs are over-leveraged, having raised debt to acquire practices around the pandemic timeframe when interest rates were low and multiples at their peak. Systems integration has been challenging and oftentimes left incomplete. Managing financial records can be complicated, and legacy joint-venture agreements further add to this complexity. The drive toward full integration has been slowed by a half-hearted commitment from physicians themselves, resistance to efficiency initiatives from back-office employees, and pushback from insurers objecting to MSOs' efforts to place multiple practices under single-rate agreements.

As a result, many practitioners are becoming impatient and disillusioned as the promised economic benefits become increasingly distant. The loss of control becomes more acute. Some practitioners are even "quiet quitting" by curtailing their commitment to the practice.

Urgently seeking ways to reverse this state of affairs, value creation has become a top priority for MSOs and sponsors have become more circumspect about further wading into this area.

# There is hope.

The MSO market is projected to post a 13% compound annual growth rate through 2031, with M&A activity anticipated to accelerate given the economic and administrative challenges that practitioners face when operating independently. In addition, mergers or acquisitions of smaller (or distressed) MSOs are a much easier way of creating scale than numerous single office acquisitions.

The key to protecting and enhancing the value of MSO assets is to create an integrated network with a culture that focuses on delivering cost-effective, high-quality care that improves both patient outcomes and physician job satisfaction. Value creation at MSOs depends on molding a collection of individual practices into a single, unified organization whose practitioners are motivated and aligned with the aims and outcomes of the business. By aligning MSO stakeholders with this goal, MSOs can position themselves to optimize performance and value.

Value creation can take various forms. Some focus principally on costs and emphasize standardizing vendor contracts in areas such as medical supplies, increasing the use of generic medications, and consolidating leases and landlords. These, however, are the belt-and-suspenders type initiatives that enhance value creation around the margins. But there’s only so much margin improvement that a focus on costs alone can achieve.

For most MSOs, far greater potential for value creation lies in aligning practitioners and MSO management around a value creation plan that focuses on filling the seats and achieving operating efficiency metrics designed to meet established margin thresholds, with patient care always remaining the priority.


## 01: Creating a career path.

Maintaining low turnover rates is key. That requires a meaningful investment into the success of the clinicians. It begins with an effective onboarding program that integrates new practitioners into the clinics and the overall company. Such support also takes the form of continued training and education, self-help tools, and the introduction of new diagnostic and treatment technologies, more now being AI-assisted. Having a path for progression to lead or be the senior practitioner in a clinic and providing market or regional leadership opportunities also are key components of an attractive career path.

Senior practitioners with ownership in each practice through a joint venture structure or through overall company equity ownership better align interests. Practitioners' satisfaction and retention are key contributing factors to value creation.

## 02: Integrate, as much as practical, acquired practices.

Standardization of systems, processes, payroll cycles, and other operational elements reduces complexity and improves efficiency. Understood upfront is an expectation of gravitating to enterprise-wide common practices. In an effort to win over doctors, MSOs can be too flexible, creating inefficiencies for essential back-office operations.

Integration, however, can be challenging, albeit necessary to achieve. Barriers such as technological obstacles and resistance to change can break the momentum of integration initiatives. Effective integration execution requires disciplined, persistent effort, with visible buy-in from senior MSO leadership. It requires a campaign that showcases the benefits to acquired clinics.

## 03: Operate a patient-centric organization.

Great care needs to be taken to transition a prospective patient into a patient sitting in a chair. A very intentional process needs to be in place to move the prospective patient from lead to scheduling to showing up. People won't tolerate fifteen-minute waits on the phone or failing to receive a timely response from email/web inquiries. Integrated call centers are often a source of efficiency, so long as call center operators are sufficiently trained to make the patient engagement process efficient and easy. We are also increasingly seeing an alternative model as a compromise in which patient engagement (such as scheduling) remains local, with processes and metrics are standardized.

## 04: Fill the seats.

A seat not filled equates to lost revenue. From having an efficient scheduling system to sending reminders in advance of appointments to maintaining a call list to fill cancelled appointments, all are important components of maximizing the productivity of clinics.

## 05: Tailor lead generation.

There is no magic bullet for effective lead generation. Leads are generated differently depending on the specialty and geographic market. A combination of referrals, marketing, website effectiveness, and understanding the channels for patient lead generation are all common components to effective lead generation. Highly tailored is the key.

## 06: Recognize that compensation heavily influences behavior.

There are various levers an MSO can pull to promote alignment, but the most powerful is through compensation tied to key benchmarks and metrics at the clinic level. Thoughtfully designed compensation schemes and incentives that reward productivity and long-term commitment towards building the business encourage practitioners to look beyond their own practices to the larger aims of the organization.

## 07: Make payor negotiations a core competency.

In a difficult and dynamic rate environment, MSOs require expert negotiators. It's not a job for the office manager. Payor negotiations must become a core competency and not a hobby. Similarly, MSOs can create significant value by professionalizing collection practices and ensuring that deductibles, copays, and insurance revenues are quickly and efficiently converted to cash.

## 08: Round out a geographic market.

Effective management of the MSO's real estate and geographic footprint can also create significant value. Data-driven, disciplined site selection, proactive lease management, and a coherent geographic footprint strategy will all contribute to promoting geographic market efficiency.

## 09: Deploy a SWAT team to address underperforming clinics.

Sometimes, regional oversight is insufficient to address the needs of underperforming clinics. Using a trained operations team that specializes in working with clinics to diagnose and address the issues driving underperformance has been shown to be effective. And if the prospects of the location are low, closing the location may simply be the right answer. Our advice: Don't wait too long.

## Some additional components to consider in a value creation plan:

- Optimize clinic staffing levels.
- Rationalize third-party spend.
- Rationalize, where needed, the geographic footprint.
- Understand clinic profitability.
- Assess the effectiveness of the corporate and field-support structure.
- Use real-time data versus relying on end-of-month results.
- Consider a board of directors' composition that tilts towards operations and industry experts.

For various reasons, many medical and dental service organizations have not performed to their full potential, frustrating both owners and practitioners alike. To stabilize an MSO and position the business for its full potential, it's imperative that leadership designs and implements a plan that aligns the practitioners' interests with the MSO, takes advantage of synergies, and is guided by key operating metrics. It's not easy, and it doesn't happen overnight; however, the rewards of a disciplined, comprehensive approach to value creation of MSOs are worth the effort.

Underperforming MSOs can be turned around, and meaningful value created, through a tailored value creation plan.

# Authors

Randall S. Eisenberg
Partner & Managing Director, New York
reisenberg@alixpartners.com

Conor McShane
Partner & Managing Director, New York
cmcshane@alixpartners.com

Greg Magrisi
Partner & Managing Director, Boston
gmagrisi@alixpartners.com

Jerry Wang
Partner, New York
cwang@alixpartners.com

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