

Not Your Father's Healthcare Acquisition Strategy

By [David Friend](#) | May 12, 2016 [160 Comments](#)

In today's brave new world of healthcare investment, merging with another company is not only smart, but perhaps necessary for survival. And the \$40 billion in healthcare deals announced in a single day in April proves just that.

As I said in The New York Times' Dealbook column, [“Health Care Companies See Scale as the Only Way to Compete.”](#) these deals are designed to achieve critical mass and position these companies as winners in the brave new world of healthcare investment.

Here are some of the ways I see healthcare organizations tackling the challenge:

- **Redefining business models:** Companies are building integrated supply chains and franchises around platforms based on organ systems such as cardiac, respiratory and immune systems; anatomical features such as faces; and specific diseases such as Alzheimer's. This is why a drug company would buy a medical device maker. Abbott bought St. Jude because it wants to transform its drug business into a cardiovascular franchise. St. Jude has twice the sales of high-tech gadgets used on the heart and a lineup of more cardiac offerings waiting for approval. This is the same reason Sanofi announced it wants to buy Medivation—to bolster its portfolio of oncology drugs. Medivation is one of the few profitable, commercial-stage oncology companies.
- **Companies are integrating supply chains to provide care on an industrial scale.** Rather than say “we just make drugs,” a pharmaceutical manufacturer may decide it's “the company that makes your face pretty.” Take Allergan for example. The company bought the drug Botox. It could also buy a device maker or a surgical procedure and create an entire supply chain for plastic surgery. Integrated supply chains are one of the [five revolutionary forces](#) shaping healthcare investment. (The others are the convergence of genetic code and computer code, mobile technologies, negative return on capital and patient care moving away from hospitals.)
- **Companies are aiming to reduce risk.** A concentration of devices, technologies and drugs around disease states or body parts allows companies to control a larger share of bundled payments and be more efficient in delivering care. AbbVie's purchase of Stemcentrx and its novel therapies for small-cell lung cancer complements its leadership position in hematologic oncology.

Those who figure out how to successfully integrate all the necessary components will be big winners as \$10 trillion in new wealth is created for the companies and investors who make the right choices. Those who fail to understand or cannot adapt will see much of their market value transferred to the winners, just like we've seen in the mobile phone sector.



ABOUT THE AUTHOR

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Dr. David Friend is the Chief Transformation Officer and Managing Director of BDO's Center for Healthcare Excellence & Innovation. He has more than 35 years of global healthcare experience serving as a C-Suite Operating Executive, Board Director and Advisor to Academic Medical Centers, Employers, Payors, Hospitals, Physician Groups, REITS, Law Firms, and Post-Acute Care Organizations.