



Is it Time To

Team Up?

- In planning a solo-practice merger, first consider the reasons for joining forces with another physician.
- You'll increase the likelihood of success if you merge with a physician with a similar work ethic and practice patterns.
- Hire a facilitator—an attorney, management consultant, or accountant—to “orchestrate” the merger and help you reach consensus.
- In announcing the merger to patients and referral sources, stress what's in it for them.

Joining forces can make for increased income, better patient services, and a practice that third-party payers find more attractive.

BY GAIL GARFINKEL WEISS

In medicine, going it alone has its advantages; a solo practitioner has total control over clinical, financial, and scheduling decisions, there's no need to deal with partners' idiosyncrasies, and a small setup often means low overhead. The drawbacks of one-physician arrangements are equally apparent. To name three: there's no one else to help handle the workload, access to managed care contracts may be limited, and there might not be enough patients to develop profitable ancillary services.

If you're a soloist who has decided that the cons of that practice model outweigh the pros, you have an important decision to make. You can invite another physician to partner up with you, you can hire an associate (perhaps from the most recent crop of third-year residents) or you can merge with another soloist whose practice is already up and running and can readily bring an income stream, a patient load, and experienced staffers to the table.

"Merging with one or two other solo physicians isn't without risks," says Jack Valancy, a practice management consultant in Cleveland Heights, OH. "But the other physicians are 'known quantities' with established practices. Risks can be minimized and the possibility of success increased if the physicians have a good relationship going in, exercise due financial diligence, and put together a solid business plan."

STEP 1: THINK ABOUT THE WHY AND THE WHO

Before moving forward, consider the reasons that you want to merge with another physician, says attorney Sandra E. D. McGraw, CEO of The Health Care Group in Plymouth Meeting, PA. These might include:

- More convenience and efficiency for physicians because they can share call and hospital rounding, and consult with each other.
- To save money by reducing staff and occupancy expenses; two physicians practicing together probably won't need twice as many staffers—or twice as much space—as two doctors practicing separately. Moreover, one computer system will suffice, as will one electronic health records system.
- To increase revenue. If Dr. A and Dr. B grossed \$400,000 each on their own, together they might be able to finance a DEXA machine, which could bring in an additional \$300,000 in revenue. So as a team, instead of \$800,000 gross income they bring in \$1.1 million. "There's an additive quality that often makes a two-doctor practice worth more than the sum of its parts," says McGraw.
- To provide more comprehensive services for patients by, for example, bringing in a PA or NP, and doing on-site lab tests and X-rays. And like

a DEXA machine, these additional services are potential moneymakers.

Once you've considered the "why," think about the "who." Because a business merger is like a marriage—complete with a contract that consultants liken to a prenuptial agreement—compatibility is essential. If you're looking for a long-term professional relationship, you'll want to merge with someone who is roughly the same age as you are. But May/September mergers also have their benefits. "An older doctor who wants to work fewer hours might consider merging with a younger physician who has a smaller practice and is willing to take on some of the older doc's patients," says Robert G. Baldasari, a CPA in Fairfax, VA. "Conversely, a young physician might consider a merger with an older doctor in order to expand his/her practice faster than is possible simply from referrals."

H. Christopher Zaenger, a practice management consultant in Barrington, IL, suggests teaming up with a physician who has a similar work ethic and practice patterns, and shares your ideas about call and insurance plan participation.

The more familiar you and your staff are with the other physician's protocols, the better. As part of a premerger effort to assess compatibility, Sandra McGraw arranged for each participant's office manager to visit the other's practice. "They pulled charts to review documentation, looked at which codes were commonly used, and assessed whether the office's practice patterns jibed with their own," she says.

Due diligence comes next. Don't proceed without confirming that the other physician is board certified, and checking his malpractice and medical board disciplinary history. The last thing you

want is to ally yourself with someone whose clinical or interpersonal skills are questionable; once you're a team, his lawsuits will be your lawsuits, too. Other potential roadblocks: one of the doctors has a heavy debt load, or a long-term lease on office space that can't easily be sublet. Think twice, too, if your staff is adamantly opposed to a merger, but make sure that the reason isn't solely related to preserving their jobs.

STEP 2: DEVELOP A BUSINESS PLAN

Once the main decision—"I want to affiliate with you"—is made, it's time to turn to the "getting it done" issues. "An attorney, practice management consultant, or accountant has to facilitate this and help the parties reach consensus," says Geoffrey T. Anders, former president of The Health Care Group. "That person—and it should be one person, not different people for each physician—will guide the doctors through the decision-making process."

After holding a series of meetings with the merger participants, the facilitator will put together a business plan that addresses the following issues:

Practice governance. How will major decisions be made? If three physicians merge, which decisions will require a two-thirds majority and which will require a unanimous vote? "Issues that should require unanimity include hiring a new physician, adding a new practice location, purchasing expensive equipment, and firing key employees," says Chris Zaenger.

Location, space, and equipment. Is one of the parties optimally located with sufficient office space to accommodate the new entity? Is new office space required? Will each physician keep his or her existing office space? You'll need to do a demographic study

to determine which venue will best serve your combined patient loads, and how much space you'll need to provide existing—and perhaps new—services. The participants' specialties, ancillary possibilities, and growth plan will define equipment requirements.

Legal structure. Will the physicians form a new corporation and, if so, what kind? Should one merge into the other's existing corporation? Zaenger usually recommends forming a new corporation. "It creates credentialing nightmares for everyone," he concedes, "but it has the advantage of leaving prior liabilities and acts of malpractice in the old entities."

Compensation. Will physician pay be based on collections? Hours worked? RVUs? Will receivables be pooled, with each physician getting an equal share regardless of income? Perhaps more than any other issue, it's important to have a meeting of the minds on money matters. "The most common strategy is for each physician to draw the same salary, with additional profits distributed in proportion to productivity," says Valancy. "In practice, though, it comes down to what all parties are comfortable with."

Staffing. Consultants advise picking an office manager first, or deciding which one you're going to keep. "This shouldn't be a negotiation," says Anders, "it should be an assessment. You're trying to determine which manager is most suited to overseeing the merged practice. And because a two-or-three doctor group may need an office manager who has experience with larger operations, maybe you'll decide to hire a new manager."

If you're planning to expand the practice—and perhaps even add an NP and a PA, both of whom will need support staff—you probably won't have to deal with the dicey issue of which employees to let go.

Accounts receivable. Existing A/R can be valued and acquired by the new entity, or remain with the old entities to provide each doctor with an income stream during the early months of the merger.

Robert Baldassari recommends that the new entity impose a collection fee on A/R that's paid after the merger goes into effect, because shared employees will be involved in prodding insurance companies, phoning patients, resubmitting paperwork, and so forth—all of which cost money. For example, if the collection fee is 10 percent, and Dr. A collects \$100,000 in post merger A/R, the practice will keep \$10,000 of that amount.

Integration issues. What will you call the merged entity? What will your fee schedule be? Which third-party payer panels will you join? What computer system will you use? Will you have a common malpractice carrier? How will you reconcile retirement plans? What equipment will you keep and what will you sell or discard? How will the doctors evaluate what each is bringing to the deal, and how will those who bring more be compensated for the differences in value?

The facilitator can help each physician put a price tag on his practice, based on net profit, value of fixed assets less depreciation, and other factors. "If it's a merger of unequals—which it almost always is—one aspect of the negotiation will be how to equalize things," says Robert Baldassari. "So if Dr. A, whose practice is worth \$500,000, merges with Dr. B, whose practice is valued at \$400,000, Dr. A might get more stock in the merged corporation, or take more in compensation. Or Dr. B might pay Dr. A \$50,000 over time."

"What if?" issues. What if one of the physicians gets sick, becomes disabled, or dies? Even if the physicians

have mitigated the risk of illness or death with insurance, what if practicing together just doesn't work out? What happens with the office, staff, and equipment? Who gets to keep the phone number? Will there be a non-compete clause? Chris Zaenger recommends that the parties agree on a trial period, during which a physician who wants to back out of the deal can do so without sustaining any costs other than his pro-rated share of formation costs (if unpaid) and expenses incurred at the point of departure, such as legal fees. You'll also need to determine rules for exiting after the trial period ends.

STEP 3: PUT IT IN WRITING, THEN NOTIFY PATIENTS

Because a merger requires considerable paperwork, most facilitators put together an "interdoctor letter agreement," which encapsulates the main aspects of the deal. "This allows the physicians to review the entire transaction without wading through a myriad of separate but interacting documents. It also reduces the costs of revising the deal, if necessary, since only one document needs to be changed," says Sandra McGraw.

Each physician then has the opportunity to take the letter agreement to his own adviser for review and suggestions.

Once everyone is on board, the required documents are drawn up and signed. Among the papers is a "plan of merger," which outlines the legal basics of the transaction; for example, corporation A merges into corporation B and B survives, B merges into A and A survives, or a new corporation is formed. You'll also need a new operating agreement if you're a limited liability company, and new "employment and shareholders' agreements and bylaws" if you're a C corp., S corp., or other

form of professional corporation, says Sandra McGraw. Depending on how you structure your new entity, you might need retirement plan amendments, director resolutions, compensation agreements, and other documents to consummate the transaction.


Wait until the ink on the paperwork is dry before notifying referral sources and patients, in case one of the participants reneges at zero hour. You probably won't be able to keep word of the contemplated merger from getting out, but you definitely don't want to make an official announcement followed by a "never mind." The notice that ultimately goes out to patients should be on the new practice's stationery; indicate that you're delighted to announce that you're joining forces with Dr. X; and specify the new entity's location, hours of operation, and advantages to patients (e.g., longer hours, increased services, plentiful parking).

Figure at least six months from conception to completion of the merger, but the process might take much longer. Zaenger, who is currently combining three solo practices in Crystal Lake, IL, says that the process—which involves construction of a new building—will take more than two years.

Rather than trying to speed things up, consultants stress the need to take the time to do it right—and in the right order. "One of the surest ways to derail negotiations is to introduce sensitive topics, such as whom to fire, too soon," says McGraw. "Start by talking about what you're going to build together. You can tackle the trickier decisions later, once you have a history of working together and are able to build a consensus based on common vision. For this to work over the long haul, it has to be a win-win."

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