

# Group PRACTICE SOLUTIONS

## What's Inside

GPS

February 2005

### Technology

Read the conclusion of **GPS'**  
three-part EMR series for  
practical implementation  
advice.....3

Don't let any of these items  
slip through the cracks when  
negotiating contracts with  
EMR vendors.....4

### Coding/Reimbursement

Avoid common coding  
errors .....6

### Consultant's perspective

Learn how to incorporate  
goodwill value into a partner  
buy-out.....8

### Mark your calendar

**HcPro, Inc.,  
is hosting a live  
audioconference  
about physician  
compensation  
formulas on  
March 22.**

**Stay tuned  
for details**

Visit our Web site  
at [www.hcpro.com](http://www.hcpro.com).

### ■ Practice development

## Merger fever: Today's simpler version creates more cure than disease

*Practices join together for better reasons*

In today's managed care environment, some small groups reach a point at which they can't work any harder to maintain their incomes, says consultant Randy Bauman.<sup>1</sup> "Payment rates have gotten so low that everybody's saying we need to do something differently," he says.

For many groups, that something means joining forces with other practices to reduce overhead, realize economies of scale, and improve payer contracts. However, these benefits may be elusive without a clear understanding of what you want to achieve and how merging may help you get there, Bauman says.

This recent trend is reminiscent of the merger and acquisition craze of the 1990s, but this time around, groups seem to be heeding the advice of consultants like Bauman and are more practical, better informed, and better equipped for longevity.

Premillennium, groups entered into deals with hospitals and physician practice management companies (PPMC) for the wrong reasons, Bauman says. The prospect of others handling their managed care contracting lured them and eased their concerns about the threat of capitation. "But neither the PPMCs nor the hospitals effectively managed the groups they acquired," he adds. "Thus, hospitals lost millions of dollars and divested their employed practices. The PPMC industry basically disintegrated."

The residual bad taste, combined with

uncertainty over allowable group structure under the pending Stark regulations, resulted in several years of little or no merger activity. But recently, due to "natural economic evolution" and clearer rules, groups now use mergers to increase their profit margins, Bauman says.

Many of today's mergers are on a far smaller scale than those in the 1990s—perhaps a one- or two-doctor practice joining a larger one, says consultant Judy Capko.<sup>2</sup> "They merge with a group that can provide the support they need. It's more like adding a partner than a merger," she says.

And thinking in terms of adding a partner is a smart approach. Major problems occur when two groups with clashing cultures and values join. "Too often [groups] want to put that square peg in that round hole no matter what," she adds.

Never entertain a merger offer on an uneven playing field. "Both groups have to feel it's a win-win situation," Capko says. "If someone thinks he or she is doing you a big favor, move on."

### Size matters

Assuming you achieve the > p. 2

<sup>1</sup> Contact Bauman at 800/467-3310 or via e-mail at [rb@deltahc.com](mailto:rb@deltahc.com). Because of the recent increase in merger activity, Delta Health Care has developed a specialized division called Physician Mergers. Go to [www.physicianmergers.com](http://www.physicianmergers.com) for more information.

<sup>2</sup> Contact Capko at 805/499-9203 or via e-mail at [judycapko@aol.com](mailto:judycapko@aol.com).

## Mergers

&lt; p. 1

right fit, merging can help you remain competitive in several areas, such as technology. The electronic medical record (EMR) is steadily becoming a way of life for many providers and is now even pushed by the federal government. And according to a 2003 survey conducted by the Commonwealth Fund,<sup>3</sup> the predominant factor affecting use of information technology is practice size.

The survey of 1,837 U.S. physicians found that nearly 60% of physicians in large groups—50 or more physicians—use an EMR routinely or occasionally, compared to 25% of solo physicians.

Spreading the implementation cost—which could reach up to \$1 million—among 20 cardiologists is more doable than among five family physicians, Bauman says.

Merging can also improve call coverage, allowing physicians more flexibility with their schedules, Capko says. Further, larger groups can better handle all staffing deficiencies and offer more attractive benefits to employees. Greater human resources, in turn, allow groups to better serve their communities, she adds.

### Not a cure-all

Although merging may increase power in terms of managed care contracting, it won't automatically increase reimbursement. "It depends on the structure and the moxie of management," Bauman says. In other words, it's the individuals doing the negotiating with payers who really determine whether reimbursement will improve.

To increase reimbursement, you need to convince payers that you are a major player in your area—and be willing to terminate contracts with payers who won't raise rates, he adds.

Before taking steps toward a merger, understand your goal and assess whether merging is the answer. For instance, save money through economies of scale, think twice before joining a practice financially but not physically.

For example, if you consolidate five offices with three or four doctors each into one group, but you don't consolidate location or eliminate staff, your savings are minimal, if any.

In fact, you may find yourself needing a central billing office, computer system, group administrator, and more—adding additional overhead, says Bauman.

But with more groups embracing the urge to merge, some may wonder whether small group practices will eventually become extinct. Neither Capko nor Bauman are worried, pointing

to the fact they both work with many thriving small practices.

"We're still a cottage industry," Capko says. "A lot of patients have revolted [against] being pushed around into large practices that merge and change locations where doctors are coming and going. They are looking for a small practice where they can be part of the community," she says.

And many physicians value their autonomy too much to give it up, Bauman says. "Physicians, by nature, are independent and there are always some who are not going to fit [in a group]." ▲

*With more groups embracing the urge to merge, some may wonder whether small group practices will eventually become extinct.*



## Group PRACTICE SOLUTIONS

is published monthly by Advisory Publications, a division of HCPro, Inc. Marblehead, MA

Suzanne Perney	Publisher/Vice President
Lauren McLeod	Group Publisher
Julia Fairclough	Executive Editor
Debra Beaulieu	Associate Editor

### Address:

Advisory Publications, a division of HCPro, Inc.  
200 Hoods Lane, Marblehead MA 01945  
**Telephone:** 800/650-6787 **Fax:** 800/639-8511

**E-mail:** [dbeaulieu@hcpro.com](mailto:dbeaulieu@hcpro.com)

**Subscription price:** \$169 per year, 12 issues

**Issue price:** \$30 each

© Advisory Publications, 2005. Copyright strictly reserved. This journal may not be reproduced in whole or part without the written permission of Advisory Publications.

<sup>3</sup> The study, "Information Technologies: When Will They Make It into Physicians' Black Bags?" was published in the December 7, 2004, *Medscape General Medicine*.