

# Group PRACTICE SOLUTIONS

Inside  
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## Group strategies

Once you've read the cover story on evaluating merger opportunities, read about these two merger myths that can develop false optimism about a partnership.....3

## Financial matters

The year is half over. Take out your group's budget and evaluate whether you're running over or right on target.....4

Spot your claims denial trends, fix them, and put money back in your pocket .....5

## Consultant's perspective

Protect yourself from a physician who refuses to go along with the group .....8

## The term 'partner'

**In Group Practice Solutions**, as in all of HCPro's publications, we speak of a "partner" in casual terms, recognizing that many physicians are either shareholders in their professional corporations, or members of their LLPs or LLCs.

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## ■ Group strategies

# So happy together? Evaluate a merger opportunity before you sign

If you're considering merging your group with another practice, make sure that your potential partner has the same qualities you'd look for in a spouse: trust, a shared philosophy, and a common vision, says Randy Bauman<sup>1</sup>.

But how can you be sure a merger is a great opportunity *before* you commit to a group? "The trick is to remember there's no boilerplate," Bauman says. "If you've seen one merger, you've seen [only] one because everybody's group is different and every merger involves different specialties, sizes, histories, locations, different personalities, and different management."

When you evaluate whether a merger opportunity is right for your practice, consider the following four factors:

**1. Strategy**—The most important strategy question is one only you can answer: Why do you want to merge? "You should be able to list a number of things that the groups can do together that they can't do on their own," Bauman says. "If you can't, why are you merging?"

Additional strategy questions to consider include the following:

- What is the business plan?
- How long will it take to combine practices?
- How will you inform patients of the merger in each individual practice?

**2. Finances**—Many practices believe that being part of a larger group will help them negotiate better payer-rate increases and shrink overhead costs by combining facilities. However, although mergers may increase a group's bottom line, they usually do so by boosting revenues—not cutting expenses.

"Successful mergers are successful because they develop new revenue sources as a group that [each practice] couldn't do on their own," Bauman says. "I'm talking specifically about ancillary services."

The following are some financial questions to remember as you evaluate your merger:

- How will we merge assets?
- How will we divide income?
- What will the capital investments and start-up losses be?
- How will we handle buy-ins and buy-outs?

**3. Operational**—Nail down details about how the merged group will function on a day-to-day basis. Anticipate how the needs of the combined practice will differ from the needs of the individual practices, Bauman says. Determine how your group will handle the following challenges:

- Billing
- Management
- Nursing and other clinical needs
- Employee benefits and retirement plans
- Payer contracting
- Transferring payer

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## Group strategies

&lt; p. 1

provider numbers

- Credentialing

4. **Group governance**—Group dynamics that worked in a smaller environment probably won't work in a larger group, says Bauman. Reconsider your group structure early in the process to avoid surprises later. Consider these questions when determining how you'll govern your new group:

- **How will we make decisions?** Small groups usually make decisions by consensus of all physicians, whereas larger groups usually delegate responsibility to a board. Decide if the new group will have a board and, if so, how many physicians will serve on the board. Determine what the extent of the board's powers will be, whether the members will receive payment, and how often the group will convene.
- **Will an executive committee oversee the board of directors?** Detail the differences in power between the board and the executive committee, and decide whether the executive committee members will be compensated.
- **Will your group need committees for specific issues?** For example, you may need a separate finance committee or compensation committee.

### Obstacles to merger success

As you evaluate your merger opportunity, ask yourself whether your group can fit into the structure of the merged group or whether you're better off on your own.

"A merger isn't for everybody," Bauman says. "A lot of groups have evolved to where they are for very specific reasons, and if you mess with that culture, you make a big mistake."

Bauman advises groups to be especially wary of the following three red flags. If any of these apply to your merger opportunity, consider walking away, Bauman says.

1. **Beware of different philosophies.** Just as you shouldn't expect your spouse's idiosyncrasies to change after you get married, you shouldn't expect your future physician partners to change their practice philosophies after you merge. See the sidebar above.

"If there are disparate philosophies among the groups, it's not going to go away after the merger, and it may get worse," Bauman says. "If you don't reconcile differences during the merger process,

## Are we on the same page?

Compare notes on the following practice areas to uncover philosophical differences that could hinder the group:

- **Uneven incomes or patient volumes:** "Most primary-care doctors who see 20–25 patients a day think they're really busy, but yet there are plenty of physicians who see 45–50 a day," Bauman says. "The physicians who see 25 patients a day think the guys who see 50 provide poor care, and the doctors who see 50 a day think the people who treat 25 are just too slow and lazy. You're going to have to reconcile that variance in practice style."
- **Ancillaries:** "If one group has every ancillary that exists and the other has none, the group with no ancillaries may think that the other group overuses services. The group who uses ancillaries is going to say, 'Those guys live in the past,'" Bauman says. Include language on ancillary use in your merged group's mission statement.
- **Income division:** Groups that divide income equally and groups that base income on productivity operate under different philosophies.
- **Office hours:** Are physicians from each group used to vastly different work schedules? How does each group handle time off? Do they have different approaches to call coverage? These are key questions to ask before completing a merger. ■

they're never going to get reconciled."

2. **Watch out for a lack of commitment to the merger.** A successful merger needs time to take root. Bauman once worked with two groups who wanted to merge but also wanted to keep their existing groups intact in case the merger failed.

At a minimum, physicians should commit to the merged group for two years he says. Deal-breakers—for example, insisting that certain employees stay at the practice or that the newly formed group use a certain billing system—also suggest a lack of commitment to the project. "When there's line in the sand drawn up front, the merger doesn't usually go forward," Bauman says. "If you don't go into it with an open mind, you're

## Merger misconceptions: Bust these two myths in advance

**Myth 1: Being in a larger group automatically means you have more control when negotiating payer rates.**

**Reality:** “Just being bigger doesn’t necessarily give you more leverage with the payers,” says Randy Bauman<sup>1</sup>. “I’ve seen groups as small as eight or 10 have leverage, and I’ve also seen groups as large as 20 or 30 have none. It depends on the market, your speciality, the payer environment, which payers you’re dealing with, and how much market share they have.”

Evaluate your market conditions to determine whether merging is likely to increase your leverage with payers, Bauman says. Consider the following:

- **Market size**—If your group practices in an area with many practice choices for your patients, large payers may not care if you threaten to stop accepting them.
- **Payers**—The bigger the payer’s name, the less likely it will be to meet your demands—especially in a competitive environment.
- **Market share**—If you know that Payer A insures roughly half of your patients and Payer B insures the other half, you can use that to your advantage because the payer has a real concern: If you stop accepting A, the patients can simply switch to B.

If you hope for increased payer rates from a merger, your group needs to be willing to play hardball when negotiating with the insurance companies.

Bauman worked with a group of 20 surgeons who merged to negotiate a payer rate increase. When it came time to walk away from a payer that brought in 20% of its total revenue, the group decided it was too risky and ended negotiations without a rate increase. Two months later, the group complained because the merger hadn’t accomplished its stated goal.

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“You’ve got to say, ‘We want higher rates and if you’re not willing to give them to us, we’re just not going to sign with you,’ ” Bauman says. “You’ve got to have the moxy to stand up to the payers.”

**Myth 2: Larger groups guarantee immediate savings.**

**Reality:** Unless the two merging groups commit to combining their facilities, overhead costs will not decrease. In fact, costs generally increase as the merged group takes advantage of combined capital to buy products and services that they couldn’t afford as individual groups, such as higher level management, technology, and ancillary services.

“You may make more money in a merger, but you’re not going to do it because costs go down,” Bauman says. “You’re going to do it because you can do things together that you couldn’t do separately.”

Be skeptical when a consultant or an accountant tells you that you’re going to save money in a merger. “It’s not that savings don’t exist, but you’ve got to ask for specifics,” Bauman says. “What specific costs are going to be saved? If we’re going to save money on staff, who’s going to be fired. Name names.”

Keep your eyes on the future revenue from the merger. Just because you’re spending money instead of saving it in the short term doesn’t mean the merger isn’t a healthy one.

“The prize in mergers is capital-intensive ancillary services that smaller groups can’t support or maximize to capacity on their own,” Bauman says.

“Buying as a larger group absolutely lowers the cost per doctor dramatically because you’re spreading that cost over a larger base. That’s where you get economy of scale—not through overhead savings.” ■

just wasting your time and money.”

**3. Avoid hand-wringing physicians.** If a physician starts to hem and haw over governance and control issues and obscure tax laws or continues to raise other concerns resolved earlier in the process, “unwinders” may be the cause.

“Unwinders are people who have a vested interest in the merger failing,” Bauman says. “They may be

accountants, attorneys, or practice managers who are either going to be replaced or have their responsibilities changed” once the merger goes through.

If you’re dealing with an unwinder at the negotiation table, repeat the stated goals of the merger. If the physician keeps tugging at the merger’s loose threads, he or she may not be the kind of physician you want to work with on a regular basis. ■