Driving Forces Behind Consolidation

- Reimbursement
- Ability to add Revenue Sources
- Increasing Overhead
- Declining Physician Incomes
- Practice Management
- Recruitment
- Transition (Practice Succession)
Advantages of Group Practices

- Increased Revenues From Same Practice Production
- Reduced Overhead
- Managed Care Contracting
- Technology Upgrade Capability
- New Revenue Streams
- Call Coverage
- Clinical Staff Leverage
- Reduced Competition
Advantages of Group Practices

- Access to Capital
- Real Estate
- Enhance Human Capital
Disadvantages of Group Practices

- Loss of Control
- Personnel Decisions
- Retirement Plan
- Start up Costs
- Possibly More Overhead (GPWW)
- Governance
- Lease and Debt Obligations
- Disruption of Referral Patterns
- Physician Compensation
- Antitrust
Merger Myths

- Billing Will Improve
- Overhead Will Go Down
- Staff Will Be Cut
- Reimbursement Will Increase
- Behavior Will Change
- Higher Priced Management is Better Management
To Succeed....... 

• Leave Your Ego at the Door  
• Be Ready to Compromise  
• Make the Hard Decisions Early
Starting the Process

- Forming a Merger Committee
- Hiring Independent Consultant/Facilitator
- Hiring Independent Legal Counsel
- WRITE THE CHECK (Commitment to the Process)
Three Steps to a Successful Merger

- Due Diligence/Feasibility
- Contract Development
- Implementation
- Timeline: At Least Six Months Minimum!
Due Diligence/Feasibility

• Purpose
  – Review and Assess the “Why” of the Merger
  – Identify Issues Needing Resolution Before the Merger Can Take Place
  – Decide Whether the Merger Should Even Take Place
  – Provide a Framework on How the Merger Should Take Place
  – Communicate Benefits of the Merger
Due Diligence/Feasibility

• Steps During This Process
  – Interview Physicians
  – Evaluate Practice Finances
  – Review Fee Schedules
  – Review Coding Patterns
  – Review Retirement Plan Issues
  – Evaluate Personnel/Salaries/Benefits
Due Diligence/Feasibility

- Steps During This Process (Continued)
  - Review Facilities
  - Prepare Cash Flow Projections
    - Determine Common/Shared Overhead
  - Prepare List of Projected Start up Costs
  - Prepare Organizational Chart
  - Decide Legal Entity
  - Evaluate Tax Issues
  - Decide on Contribution of Assets
    - How to Handle Existing Accounts Receivable and Fixed Assets
Due Diligence/Feasibility

• Steps During This Process (Continued)
  – Decide on Preliminary Organizational Structure
  – Decide on Preliminary Physician Compensation Plan
    • Watch for Stark Issues
  – Decide Issuance of Equity Interests
  – Decide on Governance
  – Begin Discussion of Implementation Issues
Watch Out For......

- Continued Resistance
- Inability to Compromise
- Lack of “Group-Think”
- Sacred Cows
- Hidden Agendas
- Clashing Personalities
- Inability to Make Decisions
- Staking out Leaderships Roles too Early
Contract Development

- Drafting of Entity Agreement
  - Equity Interests/Contribution of Assets
  - Buy Out
  - Management
  - Removal of an Owner
- Issue: Should there be a demerger clause?
Contract Development

Drafting of Physician Agreement
  – Compensation/Benefits
  – Termination
  – Covenant not to Compete?
  – Stark Compliance (Group Definition/DHS compliance)

• Deciding on a Name for the New Group Practice
Implementation – Major Issues

- Centralization of Billing and Collection
  - Where
  - Who
  - Policies and Procedures
- Obtain New Provider Numbers
- Administration (Human Resources, Accounting, A/P, etc.)
- Computer selection
- Computer training
- Computer conversion
- Notifying third-party payers
- Vendor Selections
- Facilities
Dissolution – Major Issues

• How to roll the practices back out
  – Initial Capital Needed
• Distribution of Joint Assets
• Who Will do the Actual Winding Down
  – Collection of A/R
  – Payment of A/P
  – Final Distributions
Conclusion
(Remember What Dr. Sholin Said)

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