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*A Member of the  
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# Healthcare

*Better Ways ▲ Better Results*

A NEWSLETTER FOR THE HEALTHCARE INDUSTRY

SPRING 2010

## Combining Forces How to Make a Practice Merger Work

Successful practices – big or small – strategically plan their future. For some, this means merging with another practice. Third in a series, this article explores the elements that contribute to successful mergers. They are the troubling business challenges that all practices face: soaring malpractice insurance, low reimbursement rates and the need to invest in new technology.

Here, a practice merger can make sense. Merged practices can potentially lower their malpractice costs and share administrative and technology expenses.

“Merger costs are a one-time event, so a properly executed strategic merger – combined with a solid business plan – could improve the bottom line for years to come,” says Steve Lutz, Partner-in-Charge of the *Healthcare Services Group* at Wolf & Company LLP.

### Why Mergers Fail

That said, there are a number of reasons that practice mergers are unsuccessful.

- **Incompatible partners:** It really doesn't matter what agreements and contracts you develop if you go into a merger with incompatible partners and/or have unrealistic goals and visions.

**Lesson:** Successful mergers generally occur between physicians or groups with similar values and work ethics (i.e., having balanced lives vs. making as much money as possible).

- **Poor governance:** Business pundits are fond of saying that the two best-run organizations in America are the military and the mob – because everyone knows to whom they report ... and the consequences of disobedience. Without a



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# The Retailing of Medicine

## What You Can Learn From Your Competitors

It's a brave new world in health care these days. Gone are the days when patients automatically pick up the phone at the first sign of sniffles or a rash to make an appointment with their primary care physician. Now, they are just as likely to visit one of the "convenience care clinics" that are popping up in grocery stores, pharmacy chains and mass merchandisers across the country.



### Case Study: Sick Call

Realizing that their patients don't get sick only from nine-to-five, one practice began experimenting with a "sick clinic." Doctors alternated with a nurse practitioner to offer walk-in hours from 7 a.m. to 9 p.m. daily with no appointment necessary.

They advertised their alternative hours in the local paper and got the word out: If you're sick, show up. In addition to solid patient counts, the physicians were pleased to see that nighttime on-call volume dropped significantly, as patients knew they could always come in first thing in the morning

The cold hard fact is that more and more patients are choosing to get their health care the same way they shop — when, where and how they want it.

### What They Want

The rise of retail medicine offers some valuable lessons — and opportunities — for traditional practices. In particular, savvy physicians are paying attention to what the market is saying about some long-standing sticking points in the delivery of health care:

- **Convenience:** Multi-tasking Gen X moms have become the true early adopters of retail clinics, embracing extended hours and walk-in convenience with fervor.
- **Control:** Similarly, Baby Boomers, in particular, are notoriously independent and seek control of their health on their own schedule.
- **Service:** There are 12,000 Americans turning 50 every day — and they want to remain fit, healthy and active. But they are also accustomed to a certain level of personal service. Long waits, aloof staff members and poor communication simply won't cut it.
- **Transparency:** With the rise in consumer-directed health plans, cost-conscious patients are shopping around. In the retail clinic environment, they find all the pricing information they need — fees are clearly posted, menu-style.

### Putting it Into Action

Most practitioners do not have formal business training — it's simply not taught during traditional schooling. But putting the lessons of retail medicine into practice is actually fairly straightforward.

Start by viewing your practice as a business. Carefully consider what "product" you are offering and how that aligns with what patients (i.e., the market) are saying they want, like access, control and one-stop convenience.

Then start thinking through how you can meet those wants and needs.

- **Extend yourself.** Consider using a nurse practitioner or physician's assistant to improve access. Likewise, extended or weekend hours can be a clear way to differentiate your practice. It might not be so much adding more hours to your day, but making your hours better match the needs of patients. Working mothers, for example, would certainly respond better to a 7:00 a.m. appointment than one at 9:30 a.m.
- **Have the answers.** You may very well need to "defend" your fees to a cost-conscious patient. Be prepared to provide tangible quality and service justifications for your fees. At the same time, be ready with data on less-expensive alternatives, including outcomes and rates of complications.
- **Walk the walk.** When patients have more choices, issues such as appointment availability and timeliness, staff courtesy and proper billing become much more important. Hire top-notch staff members who are service-oriented, friendly and courteous.
- **Make your case.** Educate patients that retail clinics are not a substitute for a traditional doctor/patient relationship. Then make sure you let the community know why yours is the preferred practice. Let patients and prospective patients know what you're doing to change your practice to be more patient-friendly. Use community mailers and advertise in local publications to showcase your patient-focused hours and services.
- **Join 'em.** If you can't beat them, consider contacting a few clinics and establishing yourself as the friendly "doctor next door" — one who's available to see patients who have needs that are beyond the clinic's abilities. ■

clear chain of command in place, the merged practice could suffer.

**Lesson:** There needs to be clear agreement on who will manage the merged practice and how group decisions will be made. Majority usually rules, but some issues should require unanimous approval, such as taking on bank debt or the sale of the merged practice.

- **Failure to integrate:** It's easy for territorial behavior to undermine unity within a new group. All too often, merging practices continue to operate independently. They balk at sharing clinical staff and medical records, and nursing staff continues to chart, file and process patients "the way we've always done it."

**Lesson:** Establish consistent, standardized policies and

procedures for everything from charting and refills to lunch hours and vacation days. Here, it's best to establish a clear expectation of the changes to come by designing a post-merger integration plan and timeline — before the merger is complete.

- **Improperly allocated practice expenses:** If a compensation plan is based on equal sharing of expenses, individual physicians have little financial incentive to decrease expenses. Ill will quickly breeds when one physician uses more and different resources than the others.

**Lesson:** Compensation models that hold each physician accountable for his or her own resource use (i.e., each physician is a cost accounting center) promote good operational behavior.

- **Failure to find a workable compensation model:** It isn't just about salary. Practices typically differ markedly in how they compensate for car allowances, insurance coverage, professional fees, and other benefits such as 401(k), profit sharing and healthcare plans.

**Lesson:** Review all components of compensation carefully and establish a plan for integration. In general, the best models reward productivity with incentives aligned with group goals.

### Tools for Success

No doubt, merging practices takes time and effort. But combining forces gives practitioners the tools they need to adapt to an increasingly complex marketplace. ■

*For more information contact Steve Lutz at 630-545-4550.*

## Is a Merger Necessarily the Answer?

While a strategic merger can certainly lead to efficiencies, it is a major step. There are other ways to trim costs and avoid duplication of overhead that aren't nearly as disruptive. Sometimes it's better to use a scalpel than a machete. If you're not ready for a merger, consider these cost-cutting alternatives:

**Form an MSO.** Instead of merging practices, doctors can form their own management services organization (MSO) and combine some of their operational costs, such as administrative, billing/collection, and personnel and equipment pooling. The MSO becomes a service agency with a client base comprised of physician practices. Another option is to contract with an existing independent MSO.

As with any vendor relationship, due diligence is key. Look for an MSO offering your desired mix of services. Some go well beyond billing and collection and offer group purchasing, coordinated benefit programs and payroll services.

**Use an IPA.** Traditionally, an Independent Practice Association (IPA) is utilized to provide services to managed care organizations at a negotiated rate. However, savvy practitioners also use the model to cut overhead. Using its group buying power, a group of IPA doctors can band together for savings on insurance, supplies and drugs.

**Restructure compensation.** Especially in larger practices, changing the physician compensation formula can reduce practice overhead. The key is to encourage cost containment and efficient use of operating overhead. For example, efficiencies could certainly be achieved by replacing a formula that pays physicians based on the practice's net income with one that utilizes a direct allocation of costs.

**Share offices.** Seek out a solo practitioner or small practice to participate in an office-sharing arrangement. This could be a full-time sharing of space, supplies and staff, or simply a practitioner seeing patients one or two days at the office of another practice.

# Wolf & Company LLP

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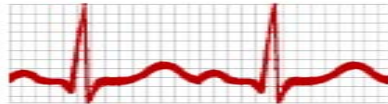
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Wolf Financial Group

## Vital Signs



### Growing an Eco-Friendly Practice

**Y**ou've started down the path to a greener practice. Now it's time to move beyond the basics and color your practice an even deeper shade of green. Here's where to start:

**Your records** – Take advantage of federal stimulus dollars and make the switch to Electronic Health Records (EHR). Eliminate the need for folders, tabs and paper charts, as well as the physical space needed to house them and the staff hours required to maintain them.

**Faxes** – Eliminate incoming paper faxes (such as prescription refill

requests) by sending the information through a fax server, then directly to electronic patient files.

**Cleanup** – Arm your janitorial crew with microfiber mops instead of conventional wet loop floor mops, which use large amounts of water.

**Landscaping** – Ask your landscaping service about using native plants and materials that are consistent with your area's climate – they will require less water to maintain.

**Payment** – You'll save reams of paper when you have your billing office

receive payments by electronic remittance and funds transfer.

**Supplies** – Encourage vendors to stock your supplies using reusable bins, not cardboard boxes.

**Commute** – Offer cash incentives to encourage staff to carpool, take public transportation, or bike or walk to work. Some states offer incentives for alternative commute programs.

Don't be afraid to "brag" a little. Place a small placard at your front desk and let an increasingly environmentally conscious public know that you're doing your part. ■