A Consolidation Story

A medical oncology and radiation oncology practice join forces to become a power player in their market

by Monique J. Marino

ILLUSTRATION/GETTY IMAGES

In the Beginning

In the 1990s, three small (between two to three oncologists), independent medical oncology practices came together and created Florida Oncology Associates (FOA). With several locations in northern Florida, the new group was affiliated with US Oncology until about four years ago, when it became independent. In the same geographic area and at about the same time, a large radiation oncology practice, Florida Radiation Oncology Group (FROG), had built a number of freestanding centers. Although FOA and FROG were not integrated, several FOA oncologists leased space at these freestanding centers and were, in essence, practicing in FROG centers. So at least from the patients' perspective, these freestanding centers were a "one-stop" shop experience.

Over the years, FOA and FROG had talked about integrating or joint-venturing, but the time was never right. And then about two years ago (about the time average sales price went into effect), the idea of consolidation became much more appealing—from both a quality of care and a financial standpoint. First, however, FROG had to better define its existing relationship with OnCure Medical Corporation, which managed the technical parts of FROG's practice and owned the equipment at FROG's freestanding centers. Attorneys reviewed the contract and conducted a fair market analysis of the imaging equipment and leases that had been signed between FROG and OnCure.

Finally, about one year ago, FOA, which had grown to between 18-20 medical oncologists, and FROG were able to legally consolidate and create a new entity—Integrated Community Oncology Network (ICON). The consolidation became official in March 2005. Today, ICON includes about 24-25 medical oncologists and between 18-20 radiation oncologists in nine centers located throughout Northern Florida and Southern Georgia. At its medical oncology sites, ICON also employs a number of nurse practitioners and physician assistants. ICON sees approximately 6,000 new patients a year who come from a 100-mile radius up and down the South Georgia and North Florida coast.

ICON offers laboratory services, pharmacy services, radiation therapy, diagnostic imaging, social work services, and chemotherapy administration. Its patient mix is about 50 percent Medicare, 25 percent HMO/PPO, 7 percent Medicaid, with the remainder being more "traditional" private payers.

Why Consolidate?

In many ways, consolidation was a natural progression of the close personal and professional relationship between FOA and FROG. Historically, the two practices treated many of the same patients. And while they had talked for years about some type of formal partnership, there was never really enough incentive for integrating or merging the two practices. FOA and FROG were doing well financially, and everyone was happy with the status quo. And then the economic environment tilted under everyone's feet.

"It was really the decreasing reimbursement for chemotherapy that lit a fire under us and got us looking for ways to diversify our revenue streams," admitted Thomas Marsland, MD, a medical oncologist from Orange Park, Fla., and a partner in ICON. "Both practices were starting to feel certain economic pressures that just made the time right for market consolidation."

Another important driving factor behind the consolidation was an expensive mobile PET/CT acquisition costing somewhere between $2-2.5 million. Consolidation allowed the two practices to jointly purchase the new technology. To get in under the Stark exemption, however, the two practices had to become truly integrated.

"ICON is now able to invest in large capital equipment," Marsland said. "And the practice's bigger size allows us to generate the necessary patient volume and revenue to pay for this new technology."

In addition to diversifying and expanding service lines, the consolidation effort was also driven by a very real need to improve the quality of patient care. Today, ICON has increased quality control over its imaging.

Prior to consolidation, FOA patients had to go to other locations for X-rays or scans. In fact, many patients had to go to *more* than one site throughout their course of treatment and follow-up because of changes in their insurance or in the insurance contract itself. FOA had even more problems when patients went to hospitals for X-rays or scans. The hospital would have rotating radiologists, and FOA physicians were oftentimes frustrated from dealing with multiple radiologists.

Getting timely reports was another concern for FOA. "We were constantly calling and fighting to get patient reports. Patients would be in the office wanting to know what was going on, and I didn't know what to tell them," Marsland said. "Other times, the reports would be garbage. Bottom line—our practice was not happy with the quality and timeliness of its imaging reports."

Today, ICON owns the machines that take all of its patients' images, and staff radiologists provide accessibility, availability, and consistency. Medical oncologists now get their imaging reports in a timely fashion, and it's the same radiologist reading the same scan. Integrating the medical oncology and radiation services at ICON not only improved the quality of service to patients, it also streamlined and improved practice efficiency.

"And our patients love it! They don't have to run to 20 different locations to get their scans—another really positive plus for having these services all in-house," Marsland said.

Making It Happen

Once the decision was made, ICON's consolidation/integration process took between nine months to a year.

"Of course we had a lot of questions such as, 'Is this legal? Or is that legal?' A lot of compliance concerns. At the end of the day, the *biggest* issue turned out to be: How much integration is enough integration to make ICON a consolidated practice that would not violate the Stark anti-referral laws?" Marsland said. "And the two practices paid a hefty amount to attorneys to answer that question—about $150,000 per practice."

The consolidation process required give and take from both parties, and the two practices went back and forth about where they could compromise, what processes would need to be changed or adapted, and determining where their comfort levels were with regards to these changes.

For example, FOA and FROG still run parallel divisions. There's a medical oncology side and a radiation oncology side—with the PET/CT equipment being the true "shared" component of the consolidated practice. The radiation oncologists don't realize any of the chemotherapy revenue, and the medical oncologists don't necessarily share in the radiation revenues. The two revenue streams are kept, for the most part, independent of each other.

"Financially, ICON is not 100 percent integrated in the sense that we don't put all the revenue in one kettle and pay all the physicians out of that one lump some of money," Marsland said. "Still we're all at some degree of risk with regards to ICON's capital expenditures."

Clinically, the two practices are completely integrated. Today ICON does a lot of combined modality treatment. In fact, the two practices had always partnered to offer multimodality treatment to patients; however, consolidation facilitated the development of a fully integrated research program—versus two, separate, independent research programs.

Challenges and Successes

As stated previously, ICON's biggest challenge was defining what integration meant for both practices, and then making sure there was "enough" integration between the two practices.

"And that's what we really paid the lawyers for—to ensure that ICON has enough integration that we're not going to run into any Stark issues," Marsland said.

Another challenge: the billing changes required of a new legal entity. For example, ICON had to change its tax ID number, which meant going back to all its payers.

"Unfortunately, we really dropped the ball with regards to our Medicaid patients," Marsland said. ICON was not assigned a Medicaid number for almost six months, so the practice had close to $6 million dollars in Medicaid charges that were six months and more past due. ICON carried these unpaid charges until about October or November 2005 before Medicaid finally began paying on some of those claims (see "Lessons Learned," page 32).

Still the successes far outweigh the challenges, Marsland said. Overall, ICON has generated additional revenue for everyone involved in the consolidation strategy. ICON was able to recoup some of the revenue lost to ASP through its new PET/CT service line. And ICON continues to look at other ways to expand services, such as a specialty laboratory or a genetic testing facility. The consolidated practice is also exploring building another clinic and bringing all the billing into one central location.

ICON has also been able to increase its market share and market presence. For example, ICON has been offered the chance to partner with the Hospital Corporation of America

(HCA), which is building a medical mall with laboratory services, physician offices, centralized billing, etc.

"Basically, HCA offered us some land at their medical mall site," explained Marsland. "And since ICON is very active in HCA, our thinking is that it probably wouldn't hurt us to build a facility on that campus, which offers combined radiation and chemotherapy modalities."

The construction of a new building presents ICON with new opportunities to streamline and/or consolidate services. For example, ICON now leases office space for its billing departments. So maybe this new facility is a way to bring billing all under one roof, as well as an opportunity to expand our service line through opening a central laboratory or genetics testing department, Marsland suggested.

"ICON has actually toyed with the idea of making surgical or gynecological oncology part of its structure," Marsland continued. "Specifically, we thought about bringing in a two doctor OB/GYN practice." While talks have stalled over turf issues, ICON continues to look at possibly bringing those services in-house sometime in the future.

"Surgery is a little dicier. If you bring in one surgical group, you run the risk of alienating or offending another surgical group," Marsland said. "And in Florida, there is the ever-present issue of malpractice. We have surgeons leaving the state because of the malpractice rates. About three or four years ago, right in my little community of Orange Park, we probably had six or eight urologists—now we're down to two. The same holds true for thoracic surgeons."

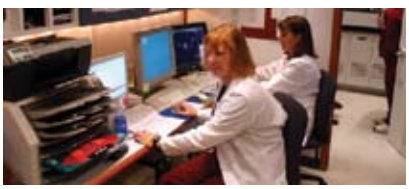
Still, Marsland went on to say that because ICON covers such a large geographic area, it may, in the future, make sense to bring other specialties on board, including OB/GYN, urology, and surgery.

"Cancer care today is truly a combination of all modalities," said Marsland. "It's rare to just use surgery, or radiation, or chemotherapy to treat a patient with cancer. More and more, we're finding that our patients are well-served having access and involvement of *all* treatment modalities."

Consolidation Benefits for ICON

- More integrated patient care
- Better quality control of patient care
- One-stop shopping convenience for patients
- Enhanced research program, including more clinical trials
- Diversified service line
- Increased revenue opportunities
- Increased market share
- Improved leverage in contract negotiations.

Today, ICON owns two mobile PET/CT units that travel to the practice's satellite offices.



Staffed by two dedicated technicians the mobile PET/CT unit performs about 20 scans a day.

Two full-time ICON radiologists read all patient scans.

Lessons Learned

For practices looking to consolidate, ICON offers a simple take home message: make sure your practice dots all its "i's" and crosses all its "t's." In other words, prior to the "Go-Live" date, administrative staff needs to have done its homework—getting physicians correctly credentialed under the new company, reviewing all payer contracts, ensuring that all the necessary billing and tax ID numbers are in place. No oncology practice needs three of four months of unpaid or delinquent accounts receivable because of an error with a tax ID number or some other operational glitch, Marsland said. These problems may seem small, but they absolutely can negatively affect a practice's cash flow—even if it's just in the short-term.

Another piece of advice: take the time to look at your practice's internal processes, including information flow, patient flow, and human resource policies. Will these polices need to be altered or changed because of the consolidation? If so, how? Patients should not be adversely affected when practices make the switch from one legal entity to another. The onus is on your administrative staff to make this change as seamless as possible for its physicians *and* its patients.

Consolidation may also mean big changes in payer contracts. ICON found that some payers—particularly the private payers—wanted to renegotiate contracts because ICON was a new legal entity. Many payers felt that the consolidation was an opportunity to say, "*As a new company, you've got to sign a new contract with different rates or varying rates.*" In some instances, because of its increased size and enhanced service line, ICON actually negotiated *better* rates. However, a number of payers used this renegotiation time to quibble about drug prices.

"Payers are always looking for ways to cut drug revenues, and some payers told us, '*We want a new contract, and we're going to pay you less for your drug purchases.*' But overall, ICON was able to successfully hold the line with most if its payers and, in some instances, do a little better with regards to our payer contracts," Marsland shared. "In retrospect, we probably should have invested more time and effort researching our payer contracts. My advice for other practices looking to consolidate is to be as proactive as possible with regards to payer contracts."

In the end, oncology practices adopting a similar consolidation strategy should not be afraid to cut themselves some slack. "Integration is an active process that does not have to happen on day one. In other words, your new entity does not have to be 100 percent fully integrated by its "Go-Live" date," Marsland concluded. "If your practice has a written strategic plan, outlining *how* your practices will continue to integrate over a period of time, you will likely not be in conflict with Stark anti-referral laws."

Monique J. Marino is managing editor at the Association of Community Cancer Centers in Rockville, Md.