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Dissecting the Doctor Deals

by Kim R. Johnson

Due to the rapid growth in managed care and prepaid plan contracting, large corporations as well as private capital investors look to health care as an opportunity to add business-efficient methodology and to increase or create profit margins in the delivery of care. The number of organizations actively seeking oncology practices has greatly expanded. While oncologists may be flattered with the new attention, most are confused and deficient in their understanding of the legal and tax consequences as well as the long-term effects of entering into an agreement with one of these oncology companies.

Oncologists, most often novices in negotiating contracts, may be surprised at the competitiveness of the bidding for patient care. They most often do not have adequate data available to help them understand the intricate details of their business. Information about cost and revenue per patient and profit per treatment in current oncology practices is critical when negotiating for patients and their health care dollars.

In a demanding and competitive managed care environment, physician practices are increasingly pressed to concentrate on the business side of medicine and to learn to run their practices in a more efficient, cost-conscious manner. In certain market areas, however, there are still many oncology practices with less than three physicians. Most often these practices are underfunded and cannot afford to hire an experienced, well-trained business manager who understands what financial and outcomes data are needed to negotiate contracts with confidence and skill.

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While a competent business manager is crucial for survival in today's market, physician practices must also employ sophisticated computer software able to track the costs of professional and technical services. Knowing these costs enables a practice to track which centers are performing efficiently and which need cost-saving management decisions.

To be able to bid competitively on contracts with a large number of covered lives over a large geographic area, physician practices may need to expand to multiple site offices. Expanding a practice to multiple sites—as well as hiring a business manager and tracking the costs of delivering efficient oncology care—takes capital. Unfortunately, many oncology practices may be at a loss to find the funds required to purchase these resources.

LET'S MAKE A DEAL

Today the individual physician and small groups of physicians are confronted with a variety of restructuring options. Major types of physician arrangements include mergers of practices and buy-outs by hospitals, groups, or management service organizations (MSOs) with stock and/or cash followed by a guaranteed salary for a period of time. Another popular structure is a joint venture, or physician hospital organization (PHO).

The most common arrangement is the MSO, a company that provides necessary capital as well as administrative services (staffing, accounts receivable management, marketing, planning, and research) in return for a percentage of the collected receivables. There are variations on the MSO model, some of which are owned partly or entirely by physicians and outside investors.

Entering into any agreement requires diligence. When evaluating potential partners and before signing any contract, physicians should look carefully at all the available options. They must meet with their current physician partners to discuss why they want a capital partner. After agreeing to time limits in evaluating options, they should work through the following "to do" list:

- Ask about the philosophy of the company courting the practice. Any business decision must be consistent with the physician's own philosophy and values.
- Ask for references for officers as well as for other practices the company owns or manages. Assign someone to call and question references.
- Ask if any groups have signed up and then backed out of the deal.
- Insist on site visits. Go to other facilities the company manages. Talk to the physicians.
- Have the practice's accountant, attorney, and consultant review financial projections, the business plan, and the offers.
- Ask questions and evaluate all information, comparing it to the practice's previously stated goals. Which company most closely matches the initial wish list?
- After choosing a partner, but before signing, evaluate how and if the practice can get out of the deal should things not work out.

The shift in the employer/care giver/patient matrix mandates the need for both capital and health care business expertise. While it may seem that "everyone is doing it," each physician should carefully examine his or her needs, philosophy, and long-term goals before choosing any partner.

As the sophistication in the business management of oncology evolves, options for physicians will increase. Excitement and naivete in evaluating these options should be balanced with answers from professional experts as to the long-term benefits to your practice. Ongoing evaluation of your partner and the new structure will guarantee a successful partnership, poised to compete in tomorrow's cancer care market.