



Market Fallout Spawns Physician Buybacks

Last year's tumultuous medical marketplace is forcing physicians, some willingly, into buying back their medical practices. If you're among those considering a practice buyback, keep in mind numerous factors that will directly affect the financial future of your new enterprise.

Financial Foundation

The first concern should be to build a strong financial foundation for your new practice. Start by taking the following steps:

- *Review finances of existing practice:* Your current income statement and balance sheet must be examined in detail. Carefully examine your expenses, and compare current income and expenses with various specialty norms.
- *Determine impact on patient base:* Analyze existing managed care contracts to determine which can and should be renegotiated and brought over to the new practice. New practices typically lose the leverage, and sometimes the patients associated with a larger physician organization's managed care contracts.
- *Review coding habits:* Undercoding and overcoding practices must be identified to develop accurate financial projections. Remember that you may be held responsible for improper coding even after the relationship is dissolved.

That's just a start. You must determine ownership of your accounts receivable, while also calculating their value in the new practice using account aging and payor mix information.

Operational Issues

Once you've established the financial foundation for your new practice, it's time to consider important operational issues. For example, which doctors from your current practice will join the new entity? From that group, which ones plan to retire and who will be responsible for their buyout agreements?

Will you need to recruit new physicians? Buyout obligations and new physician salary requirements will have an impact on working capital requirements. The physician's compensation formula will be critical for motivating the physicians and in providing incentives that benefit the clinic as a whole.

What about non-physician staff? Some contracts prevent and even penalize physicians for taking staff from one practice to another. Hire more billing and collections personnel if this function is absorbed into the new practice.

Also, be sure to compare the current collection ratio to industry norms for reasonableness, and consider the impact of possible changes in patient volume and physician productivity on future collections.

A lot of this depends on your choice of practice management systems. You can lease or purchase such a system, or outsource practice management functions altogether. Costs for each option vary considerably. Choose wisely – it will have a material effect on the success of the new practice.

Buy, Lease, or Rent

Consider your current location. Does it meet your needs? Can it meet the needs of the new practice? Analyze your current lease agreement – should you move to a larger building or a better location?

Also determine whether your medical and office equipment is transferable. Review termination clauses in all contracts and maintenance agreements for any contingent liabilities.

Needless to say, there are dozens of details in buying back a physician practice. Feel free to call us for more information on how to make this process successful and rewarding for your medical practice.