

Transcript Details

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ReachMD

www.reachmd.com
info@reachmd.com
(866) 423-7849

Is the Local Hospital Interested in Purchasing Your Practice?

WHETHER OR NOT TO SELL YOUR MEDICAL PRACTICE

Thinking of selling your medical practice. Guess what! Your local hospital maybe interested in buying it. Welcome to the Business of Medicine on the Clinician's Roundtable. I am your host Dr. Larry Kaskel, joining me today is Mark Halley, President and CEO of The Halley Consulting Group, a physician practice management and consulting firm specializing in the strategic development and performance turnaround of both hospital-owned practice networks and independent medical offices. He is the author of The Primary Care Market Share Connection and a co-author of The Business of Health Care.

DR. LARRY KASKEL :

Mr. Halley welcome to the show.

MARK HALLEY:

Thank you Dr. Kaskel, pleasure to be here.

DR. LARRY KASKEL :

Well my first question I guess is, it seems to be that hospitals don't have a very good short-term memory. Seems like we have been through this before?

MARK HALLEY:

We have actually. We like to show one of those nice continuous cycles. We are back at it again. We were on again from about 1985 until 1998 or so, off for 3 or 4 years, but hospitals are back to hiring and employing physicians with a vengeance.

DR. LARRY KASKEL :

Yeah, I was part of a large group in 2000 and then the consultants came in and told the hospital, get rid of all your employed physicians immediately and so they did, and then we all you know fragmented off and formed our own practices now and it seems like now I can go

back to the hospital and say buy me again.

MARK HALLEY:

That's right. In fact, in many communities, the most current trend started again in the late 2002 - 2003 era because hospitals learn that as they divested particularly of their primary care practices, they also risked losing market share that went with those physicians.

DR. LARRY KASKEL:

Right and in addition to market share all those physicians had to steal away the ancillary services from the hospital.

MARK HALLEY:

Absolutely, fair in love and war.

DR. LARRY KASKEL:

Yeah. So are they just bad at managing medical practices and that's what their problem is and now somehow they have magically gotten better?

MARK HALLEY:

No there are a number of....

DR. LARRY KASKEL:

They are still bad; they are still bad at it.

MARK HALLEY:

There are a number of factors, but the major reasons that we see as a consulting firm working with hospitals and with large physician networks is simply not understanding the business. They certainly understand the hospital business, but there are a number of reasons that hospitals just don't pay attention to the rules for success in an ambulatory setting.

DR. LARRY KASKEL:

Take me through a recent conversation you had with a local hospital and tell me, you know, what transpired.

MARK HALLEY:

Well for example, sitting down with a local hospital CEO, conversation very frequently might go something like this. We divested of our primary care physician network or cut back on the number of physicians we employed, we started seeing a decline in our market share as measured by discharges and our competitors are gaining that market share, so we realize we gotta get back into the business, how do we do it right this time and then we begin to go through a series of critical success factors to ensure that the hospital is successful. In addition to that, many of the hospitals are finding that they are needing to employ specialists these days in addition to primary care physicians.

DR. LARRY KASKEL:

Well let's say hypothetically I want to sell my practice. I have a 3 physician group and I put it on the chopping block, what kind of money can I expect to get, is it based on revenue, is it based on profit, is it based on ancillaries, any ideas?

MARK HALLEY:

We see a whole series of things occurring and it depends very much on the market similar to selling a piece of real estate. In some markets, real estate is a very hot commodity because there is a lot of demand.

DR. LARRY KASKEL:

Where would that be right now, I want to know where that is?

MARK HALLEY:

Lets pretend like it used to be New York and California, but at any rate and in other markets, there is no market, there is no demand. However, what we are finding in major metropolitan areas in particular, we are finding that multiple hospitals have realized the need to capture market share and primary care practices and then attract through to their affiliated specialists and hospitals and you might find in some markets, folks beginning to even pay again for goodwill whereas in most markets right now, its simply fixed assets, maybe accounts receivable at a discount if the hospital buys that at all, potentially some value for a covenant, for you signing a covenant not to compete, but it wouldn't be the huge several hundred thousand dollar deals that we were seeing in the mid 90s.

DR. LARRY KASKEL:

Well so then its really not in my interest to sell, I mean because if a local hospital approached me, basically they will be getting from me half a million dollars in radiology services, \$240,000 in physical therapy services, \$200,000 of whatever other service and yet they are only going to pay me \$300,000 for my practice, it doesn't make sense to me.

MARK HALLEY:

If that and so the answer is yes. A physician has to have other motivations to be out of the business if he is going to sell in many markets

today. He or she might have for example a motivation to improve quality of life or to add partners or to get out of the administrative hassles all of which may or may not be accomplished by selling the practice, but getting rich on the sale, not likely to happen. The hospital is by a law; particularly the not-for-profit facilities are not able to account that potential referral revenue in determining the value of the practice.

DR. LARRY KASKEL :

That makes me very sad.

MARK HALLEY:

And that is a sad thing for physicians today. We should have sold back in the mid 90s, in the heyday.

DR. LARRY KASKEL :

If you have just tuned in, you are listening to the Business of Medicine on the Clinician's Roundtable. I am your host, Dr. Larry Kaskel. My guest today is Mark Halley, Mark Halley, President and Chief Executive Officer of The Halley Consulting Group, and we are talking about whether or not to sell your medical practice.

Mark what can we learn as physicians from the mistakes we made in the past, where did we go wrong last time, what can we do differently this time?

MARK HALLEY:

Well as physicians, not talking about the mistakes the hospitals made, but as physicians picking the right partner is probably the most important factor in the success or failure of a transaction and picking a partner that understands the ambulatory business or is willing to recognize that its not part of the hospital is critical. Picking a partner who is the market share leader is also critical. You don't want to tie your wagon to somebody who is struggling to keep from going under, who is capital strapped. You don't want to sign or attach your wagon if you will to somebody that's got unstable leadership where there is likely to be turnover.

DR. LARRY KASKEL :

If I as a physician want to sell, should I go out and get an independent evaluation or doesn't that matter because the hospital is going to get their own.

MARK HALLEY:

I would let the hospital get it.

DR. LARRY KASKEL :

But obviously theirs will be lower than mine?

MARK HALLEY:

Yes it will be, it will be, but again if you are in a bidding more situation, those 2 hospitals keep each other honest to your benefit. If you are not in a bidding situation again you still hold all the cards. If you don't feel like you have gotten a fair deal, you still have the option to go out and get your own appraisal later on.

DR. LARRY KASKEL :

And how do I even go about initiating the process, do I call the local hospital CEO or is there is someone else at the hospital that makes those decisions?

MARK HALLEY:

Personally I would start with the CEO.

DR. LARRY KASKEL :

Say Hi, Hi, this is Dr. Kaskel, I have got the greatest practice in the world and you need to buy it?

MARK HALLEY:

I would show up and sit down and say, have I got a deal for you. Here's what I am interested. I want to have a confidential conversation with you. Here's what I am interested in doing, are you interested in talking with me about it. If not, fine move on.

DR. LARRY KASKEL :

I am going to do that next week. I will let you know how it turns out.

MARK HALLEY:

Good tell me.

DR. LARRY KASKEL :

What leads to success when the physician is employed? Because I believe a doctor needs to be incentivized, have some skin in the

game, when the doctor runs his practice, he runs it well. When he works for somebody, he wants to go home.

MARK HALLEY:

Right and we tell our hospital clients that "physicians don't make very good employees", they make great business partners even if they are on your payroll and we have several things we remind them about, #1, Of course I have hammered on understanding the theory of the business. #2, Making sure the CEO is supportive of the network. #3, Engaging the physicians in operational governance even though the hospital owns it, let the physicians remain involved in driving the success of the practices. #4, Make sure they are engaged in sharing vision. #5, Give them the incentives, make sure that they have an opportunity to earn income based on how hard they want to work. Also add some meaningful measures to make sure they can track. Most physicians know exactly how many patients they need to see in private practice to pay their staff and how many more they need to see each day to pay themselves. Give them the numbers, physicians are real bright people and if they have got that information and the incentive to work toward that bottom line they will achieve it.

DR. LARRY KASKEL:

Mark I want to go back to what we started with was, again back in 2000-2001, the hospitals divested themselves and that was based on consultants coming in and telling them to do so.

MARK HALLEY:

Right.

DR. LARRY KASKEL:

What were the market conditions then as compared to now? Why would they do that then and now do 180 degrees?

MARK HALLEY:

Well a lot of consultants don't really understand the concept of capturing market share, what they were focused on in those days was the bottom line of the hospital.

DR. LARRY KASKEL:

There is a thing called a loss leader out there.

MARK HALLEY:

There is, but those loss leaders could become painful over time. In reality what hospitals should be focusing on and are now increasingly focused on is the fact that your average primary care practice captures between 3000, 4000, even 5000 patients and holds them.

Patients who consider that physician, the doctor in the community. Surgeons don't have market share. They have cases and admissions. Patients come and see them, then they go away. Nobody wants to see their surgeon 3.65 times a year, but we don't think anything about seeing our family physician 3.5 times a year or our general internist or our pediatrician or even our OB at the appropriate time and so as hospitals begin to realize who holds their market share. They begin to gain interest again in primary care practices and in the specialty practices it takes to attract that market share to the hospital.

DR. LARRY KASKEL:

What do you do if you have a group of physicians and one of the doctors wants to sell the group and the others don't?

MARK HALLEY:

Hmm. In that particular case it gets down to the structure of the physician group. Who is going to play, what happens if they split the practice. How would they move a partner out and allow that partner to remain independent. I have seen a couple of situations like that where some physicians wanted in and one or two didn't want to play and entered into perhaps an independent contract, a relationship with the hospital instead of becoming employee.

DR. LARRY KASKEL:

Well we are almost out of time, I was wondering if you could just wrap it for the physicians listening, what they should really put at the top of their list if they are considering selling their practice, what to do?

MARK HALLEY:

We usually in working with physicians who are contemplating selling ask them to consider their own personal characteristics; whether or not they are ready to sell and there are a series of questions we can run through to assess that. How well practice is performing and whether or not it will be attractive today to qualified buyers. What its market position is. If you are in a strong market position, obviously you are in a better place to sell. What kind of payer mix you happen to have in your practice it is always of interest and most important perhaps the question of who has got the leverage in the town. Do the hospitals have more of a leverage in control or can you stay and play as an independent provider and do so successfully.

DR. LARRY KASKEL:

Mark if someone wants to get a hold of you to help them through this transition, how do they find you?

MARK HALLEY:

They can find us very easily on the web, www.halleyconsulting.com or they are welcome to call us at 614-899-7325.

DR. LARRY KASKEL:

Mark Halley thank you very much for joining us today.

MARK HALLEY:

Pleasure.

DR. LARRY KASKEL

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