



What to Ask First When Acquiring a Physician Practice

By Karin Chernoff Kaplan

Hospitals and health systems continue to acquire physician practices at a significant rate. With that much time and energy going in to acquisition, the process needs to be as efficient as possible. The questions that follow can help structure a practice acquisition that will distinguish a good acquisition target from one that may not be successful for the health system or the practice:

How will our medical staff feel about this acquisition? Is the practice significant enough that independent physicians will perceive it as a tipping point in the mix of employed and independent physicians? Will independent specialists see a potential for losing referrals as these physicians become employees? It's important to address the perceptions of these specialists, particularly if they are major admitters.

Are the physicians productive, and will acquisition change that? Compare the individual physicians in the group with peers and benchmarks. Make sure that analyses use data that is truly comparable. Be sure that you aren't dealing with an illusion of high productivity caused by nurse practitioners and physician assistants billed under a physician's name. Consider how a shift from group-based compensation to compensation based on individual performance could affect productivity.

Is everyone in the practice sticking around? Don't be blindsided by unexpected retirements. You are purchasing a practice with an assumed patient following, and retirements can reduce that following.

How do overhead expenses look? Make sure there are no overhead expenses hiding as "practice expenses." Compare expenses to specialty benchmarks. The overhead of any acquired practice is likely to go up when acquired, so a practice that starts off with pre-acquisition high overhead should set off alarm bells.

Does payer mix raise comfort levels or concerns? If the physicians don't currently accept all payers, but would have to do so if acquired, how would that affect the practice's financial performance? If they already accept all payers and are doing well financially, that should raise your comfort level.

Are you comfortable with coding in the practice? Questions about coding mean questions about revenue and quality, as well as potential regulatory concerns. If coding questions arise, you can have an expert perform a coding audit to identify any pattern of high level coding (and possible unsupported up-coding) or low level coding (which could indicate that the health system could help the physicians bring in previously unrealized revenues). A clinical chart review is another possibility, to be sure that the practice's standards are consistent with what the health system wants.

Are the providers using an Electronic Health Record? If not, are they open to the transition? If the physicians are still using paper charts, a financial barrier may have prevented them from transitioning to an EHR. However, some physicians have an overall resistance to the change in practice style aside from the investment required. Since ultimately all providers employed by a hospital/health system will need to use an EHR, this should be a red flag. If the practice does use an EHR, there may be licensing issues and other IT barriers to transitioning from one system to another. These should be identified during the due diligence process.

What investments are required? There are likely to be improvements required in a practice's physical space. Physicians often defer capital outlays -- especially if they are planning to sell and know a buyer will make the improvements. Know what you are getting into.

The answers to these questions don't necessarily tell you "acquire" or "don't acquire." Rather, they give you a full picture of the target acquisition, help you see the pros and cons, and give you a more complete basis for deciding whether to move forward. Keep your eyes wide open and you'll have the full picture you need for making a decision.

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