

*Want clout but don't want to lose autonomy? Joining a megagroup may be right for your practice – if physician leaders are willing to invest time and money*



## *The formula for creating a “megagroup”*

**A**s healthcare continues to evolve, physicians are considering new alternatives for where and how they want to practice. Some of the more common options available to practices today are:

- Staying as is;
- Becoming an employee of a hospital or healthcare network (an integrated delivery system); and
- Selling the practice to a hospital or healthcare network

Another option, the “megagroup,” allows physicians to remain independent from hospitals and healthcare networks while still receiving the benefits typical of a large group setting. A megagroup comprises several independent medical practices (referred to as divisions) that join together and become one larger practice. A megagroup can be a single-specialty or multispecialty

practice, usually having at least 30 to 40 physicians. The physicians can be members or employees.

### **Why physicians join megagroups**

#### ***Autonomy***

Among the primary reasons why physicians join megagroups, rather than aligning themselves with hospitals or healthcare networks, is that they can retain a high degree of autonomy while still maintaining, and very often improving, quality of care. Member physicians make up a megagroup’s governing body, which is headed up by a member-elected board of managers. While the members must abide by the group’s by-laws, each division retains significant autonomy in how they practice within their own walls.

### *Efficiencies and cost savings*

While each division continues practicing in its existing medical office, divisional profits typically improve over time as divisions benefit from cost reductions achieved through the establishment of a central business office (CBO). While each office retains its own office manager and medical and front desk staff, many administrative positions (e.g., billing, managed care contracting, human resources, purchasing, information technology, accounting) are centralized in the CBO. The megagroup also realizes reduced vendor costs through negotiated group purchasing discounts.

### *Other reasons*

Other reasons physicians join megagroups include:

- Increased likelihood of recruiting and retaining top physicians;
- Greater access to information technology (IT);
- Improved ability to deal with regulatory pressures;
- An opportunity to offer additional medical services;
- Enhanced opportunity for success in managed care negotiations and in meeting quality care initiatives; and
- Greater access to bank financing.

## Stages in forming a megagroup

Forming a megagroup includes the exploratory, formative and ramp-up stages.

### *The exploratory stage*

Forming a megagroup starts with a small group of “founding” member physicians. Preliminary meetings are held, and if there is enough initial interest, the physicians will hire a healthcare attorney and healthcare accountant/financial adviser. Selecting the right advisers is one of the new group’s most important decisions. These professionals should have experience with group formations, as well as the regulatory issues associated with Stark, federal and state agencies, and antitrust laws.

At subsequent meetings with prospective members, the group’s advisers discuss such issues as how the group will be governed, the group’s long-term goals and objectives, and the financial risks for prospective members. The group’s advisers will mediate and work to resolve issues that surface among members early on. During these initial meetings, it becomes apparent whether or not there is a general consensus among the physicians to move forward.

### *The formative stage*

#### *Financial modeling*

The next step is for prospective members to provide their own practice’s most recent financial information (e.g., tax returns) to the group’s accountant. This financial information is combined, allowing the accountant to model what the group would have looked like had the practices operated as a single megagroup.

Advisers use the combined information to forecast the group’s future operations, considering possible reimbursement rate increases, expense reductions, startup costs and other expected changes. The amount and type of necessary bank financing is also determined as part of the financial modeling.

#### *Startup costs*

The length of time required before the group commences operations depends on numerous factors, including the effectiveness of the group’s founding members and advisers in planning and structuring the group. Bank financing usually pays for startup costs, so the faster the process, the less costs incurred.

#### *Committees*

As part of the planning process, the group establishes committees to share responsibilities among members and address specific issues. For example, a human resource committee may be charged with determining employee benefits. Other committees can include finance, credentialing, billing and coding, and IT.

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#### *Bank financing*

The problem with obtaining bank financing for a megagroup is that the new group has none of its own assets, e.g., accounts receivable (A/R), to pledge as bank collateral. This problem is resolved by each division assigning its existing practice's A/R to the lender, thereby giving the lender sufficient collateral. So that the bank can have free and clear title to the A/R, any existing debt of the old practices must be paid off. This is accomplished through new term-loan financing provided by the group's lender.

A term loan is also needed to finance start-up costs and initial capital expenditures, such as the possible build-out of a CBO. Finally, a line of credit must be made available for working capital purposes.

#### *Billing and credentialing*

Among the biggest challenges a new group faces is the conversion to new billing software. Staff from each office must be trained on the new software and its associated new procedures. In addition, each provider must be credentialed. Those groups that are most effective in their planning and training in these two areas typically tend to have the fewest bumps in the road once they go live.

#### *Governance and other issues*

During the formative stage, the group's attorney addresses legal and governance issues with prospective members. The attorney for each division and/or member has the opportunity to raise issues on behalf of his/her client. Once all legal and governance issues have been resolved, members sign the group's operating agreement, which becomes the "constitution" for the megagroup. Common issues addressed in the operating agreement include voting rights, profit sharing, personal financial liability and member withdrawal.

#### *Management issues*

Managing a megagroup is very different than managing a five-, 10- or even 15-doctor practice. Since the member physicians of a megagroup are actively practicing medicine, they usually can't commit the time needed to properly manage a practice of this size. For this reason, the members have two options: hire a management team that is employed directly by the group or hire an

outside management service organization (MSO) to manage the practice.

If the group decides to employ its own management team, members usually have significant involvement early on as they develop a strong management team. The advantage of hiring an MSO is that the team will already have experience managing large medical practices. The MSO is responsible for hiring and managing staff, and reports directly to the various committees and board of managers.

#### *Recruiting*

Recruiting new practices is an ongoing activity. Founding members, with the support of their advisers, spread the word about the new group, trying to attain the critical mass that they believe is necessary for the group to achieve its goals. At meetings, prospective members have the opportunity to ask questions that will allow them to better understand what being in a megagroup really means.

#### *The ramp-up stage*

The ramp-up stage, beginning the day the group goes live, is often the most difficult time for members of a new megagroup. Even with all the time, planning and effort spent early on, the weeks (and sometimes months) after the group begins operating can be difficult for physicians, members and staff. It is not unusual to see a short-term decrease in productivity and collections during this time. Short-term borrowing on the group's line of credit can smooth out the financial bumps in the road.

Communication among members is critical. Committees should meet regularly and quickly distribute minutes to all members to maintain complete transparency and build trust. It is also important to manage members' expectations. Members must realize that the early stages are difficult and that they may even suffer short-term losses before realizing long-term gains.

Equally important is ongoing communication between each division's staff and the CBO. At meetings held with the CBO, department heads and divisional office managers should discuss and resolve issues in an open forum.

## The risks of joining a megagroup


Some negative aspects of joining a megagroup are:

- Founding partners' large time commitment;
- Initial capital investment;
- Guarantee of group debt;
- Costs associated with member withdrawal; and
- Costs of "unwinding" the megagroup if not successful.

## Considering the megagroup option

Even with a dedicated group of founding members, many megagroups never get off the ground. There must be a genuine common need for the group to come together and a commitment that goes beyond the

founding members. Without this, it is less likely that the new group will be able to work through difficult issues.

The practices best suited to join a megagroup are those that understand that they are part of a much larger organization. They understand that there must be give and take, and that every decision may not directly benefit them. They must believe that the megagroup option provides them with the best opportunity for ongoing improvement in clinical care, professional development and financial security. 

**join the discussion:** Has your group found a way to remain independent from hospital health networks yet still receive the benefits of a large setting? Tell us at [mgma.com/connexioncommunity](http://mgma.com/connexioncommunity) or [connexion@mgma.com](mailto:connexion@mgma.com)



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