

Steps To Starting a Group Practice

Physicians are seeking ways to have more control over their practices, time, and money, and many often find it difficult to achieve these goals when operating in practices that are owned by a hospital or health-system.

One model that physicians are using as a practice alternative is the medical group, which allows them to lower overhead expenses and to improve their quality of life. The typical group practices are either a single-specialty organization with three to 10 physicians or a multispecialty group of any size. For this discussion, a “group practice” could include a solo practitioner or a partnership of two physicians.

Any physician seeking to develop or expand a group practice needs to explore the process by which the model can be most effective. To do so, physicians need to understand the three stages of group practice development: feasibility, development, and implementation. (Implementation will be discussed in a future issue.)

Feasibility. The feasibility phase involves making a candid assessment of the financial projections of the group practice and doing a cost-benefit analysis of the lifestyle considerations. In this stage, physicians also should consider both the professional and personal interests and differences of each physician in the group in order to determine whether the group practice model is feasible. Interestingly, approximately one third of all potential group practice development projects do not go beyond the feasibility phase due to professional or personal differences and because of conflicts over the proposed physician compensation plan.

Development. Assuming the group practice idea survives the feasibility phase, the next phase—development—is the most time consuming. This phase involves examining the legal and operational issues that the physicians must evaluate in order to help ensure that the resulting practice will succeed.

Among the legal issues the physicians should consider is the development of the articles of incorporation that address governance issues, buy-sell agreements, expense allocation, compensation formulas, and benefits. The physicians also must review any retirement plans and dispose of or revise existing plans, and arrange for new ones if necessary.

When developing a group, one of the most important issues to address involves the possibility of a merger and what effect a merger would have on physician compensation, governance, the pension plan and employee benefits, the name of the practice, support staff personnel, banking and lending relationships, appraisal of real estate, financial projections for the new group, employment agreements with physicians and administrators, licenses, and relationships with vendors.

The physicians also should draft a preliminary merger agreement that includes the group’s articles of incorporation, bylaws, and the names of the directors and officers. It should address how to convert any securities to cash and should include all representations and warranties made by the medical group to its shareholders. It also should address the conditions required to close the deal, termination and abandonment, survival of representations and warranties, and indemnification.

The preliminary agreement also should outline how the assets of the practice could be purchased, including a description of the facilities and definitions of terms. In addition, it should address issues related to the assumption of liabilities; purchase price and adjustments; representations, warranties, and covenants the selling physicians have to shareholders; the representations and warranties of the purchasing medical group; the conduct of the parties prior to closing; the conditions that must be met if purchasing a medical group or selling the medical group; and any restrictive covenants.

The physicians also should review and revise as needed any employment agreements. Such agreements address compensation and benefits, the duties and responsibilities of each physician, term and termination, restrictive covenants, and confidential information.

Finally, the physicians should write buy-sell agreements that outline what events would trigger a purchase, how the purchase price will be set, how the proceeds from a sale would be disbursed. Also, it would include any restrictive covenants and how to resolve any disputes.

Source: John McDaniel, www.newmedicalpractice.org 800-279-01614

Publications related to this topic on website www.practicesupport.com include:

- [Time to Sell? A Guide to Selling a Physician Practice](#)
- [Preparing for a Practice Buy-in Arrangement](#)
- [Medical Practice Valuation Appraisal Guidelines & Workbook](#)
- [Creating the Hospital Group Practice](#)