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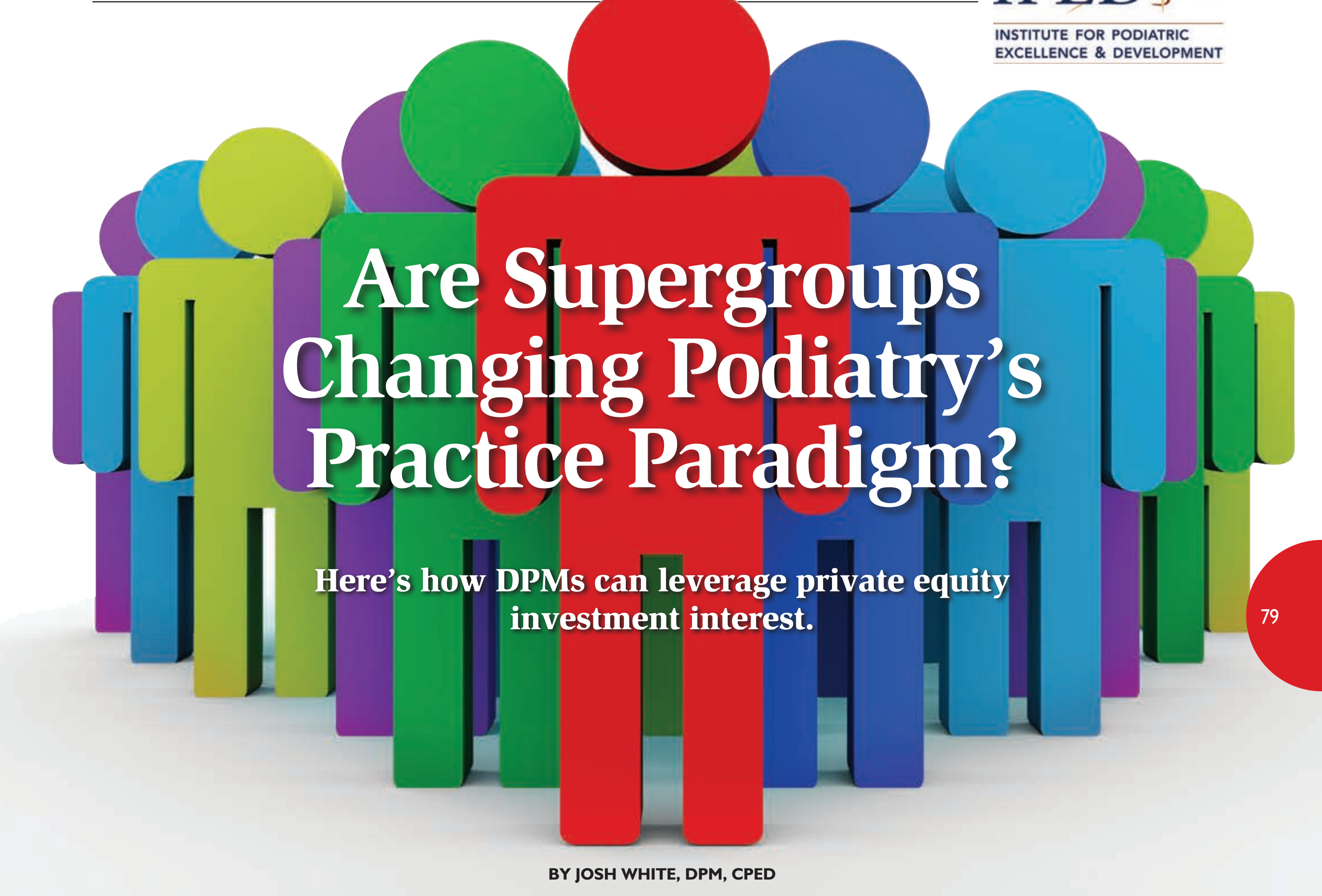

Are Supergroups Changing Podiatry's Practice Paradigm?

Here's how DPMs can leverage private equity investment interest.

BY JOSH WHITE, DPM, CPED

This article, written exclusively for PM, appears courtesy of the Institute for Podiatric Excellence and Development (IPED). IPED's mission is to motivate, inspire, and synergistically bridge the gap between students, residents, new practitioners, and seasoned veterans in the field of podiatric medicine. They are committed to the idea that mentors with passion to share and mentees eager to learn make a powerful combination that allows IPED to bring and renew a full life to podiatric physicians, their practices, and their well-being throughout the U.S. and beyond.

Well-run podiatry practices that deliver cost-effective patient outcomes are well-positioned to benefit from growing interest in "supergroups" by private equity (PE) investment firms. Considering the challenges posed by increasing compliance costs and new payment models, being part of a large group offers, on several levels, the best way for podiatrists to practice today.

So why should your practice position itself as a private equity investment? For decades, PE firms were reluctant to invest in healthcare provider organizations, given the complexity of payment models and the accompanying regulatory environment. In recent years, investors have been acquiring practices in various specialties and are now looking closely at podiatry. For DPMs interested in the potential of leveraging the value in their practice by developing ancillary revenue streams, while maintaining some control in how the practice is run, the private equity route can be attractive.

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A Brief History of Costs Impacting Practice Structures

According to the 2018 *Podiatry Management* Practice survey, fewer podiatrists than ever, 39%, are in solo practice. For several years, with reimbursements shrinking and regulatory

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demands growing larger, podiatrists have increasingly formed groups of three to five practitioners as a way of sharing infrastructure costs.

Concurrently, many health systems have been acquiring solo practitioners and smaller physician groups in order to reduce medical variation, improve outcomes, and satisfy payment reforms that require broad patient populations. According to the American Medical Association, 2016 marked the first time that less than half of all practicing physicians in the U.S. were not practice owners. Becoming an employed physician in a hospital system can be a good option for those looking for a quick exit strategy from the burden of private practice, particularly for those close to retirement.

Physician groups wishing to remain independent but driven by the need for advanced EMR systems and data analytics to succeed in value-based payment and population health programs, across a wide range of specialties, have found that the best way to stay competitive with hospital-owned systems is to gain size and scale. This trend is most common in dermatology and ophthalmology and increasingly in orthopedics, gastroenterology, and urology.

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Over the past 10 years, podiatry has seen the emergence of "supergroups" comprised of 30 DPM practitioners or more that create the size and scale to dominate podiatric care in a regional market. Originating with Village Podiatry Centers based in Atlanta, other large and growing supergroups include Foot and Ankle Specialists of the Mid-Atlantic (FASMA), Weil Foot and Ankle Institute, InStride Foot and Ankle Specialists, the Preferred Podiatry Group, Foot and Ankle Centers of Georgia and New Jersey Foot and Ankle Physicians and Surgeons.

How Private Equity Purchases Change the Landscape

Private equity works by purchasing one or more large group practices in a geographic area and then consolidates back-office operations. Generally, this is completed with the support of professional management and information technology that's only possible with the scale created by aggregation. Once the operational platform is consolidated, the larger entity can leverage ancillary services such as physical therapy services, magnetic resonance imaging (MRI), computed tomography (CT), pathology lab, bone growth stimulators, durable medical equipment (DME), foot orthoses, surgery centers, hyperbaric oxygen wound healing centers, and more. Implementing evidence-based treatment protocols can achieve better outcomes for patients, increased revenue for the practice and lower overall cost of care to payers.

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By creating larger, better run, more effective healthcare delivery organizations, private equity-owned practices can better compete against hospital-owned groups and negotiate better contracts with third-party payers. Customarily, after a few years, based on improved profitability and effectiveness, the private equity investors sell the practice to another group or hospital system, offering participating physicians an additional opportunity to benefit from an increased valuation.

Depending on the geographic market and type of practice, medical practices acquired by private equity firms are commanding multiples of as much as six times practice earnings, far higher than is typical when selling to other practices and hospitals. Such an outcome offers podiatrists an exit strategy that is potentially more lucrative than is possible by selling their own smaller practice to another practitioner or to a hospital-based group.

Podiatry's Attraction to Private Equity

Medical practices are considered investment-worthy when they incorporate such qualities as:

- A lean operating model with specific treatment protocols and a strong organizational structure
- A strong physician-led and directed clinical culture with clear citizenship standards and expectations and quality expectations
- A shared vision for growth
- A common understanding of the growth, integration and operational plans for the enterprise

Investors look at the feasibility of improving back-office functions and adding new services that will garner better reimbursements as healthcare moves to outcomes-based payments. Maximizing a practice's appeal to private equity partners involves embracing services that accountable care organizations will pay for, such as those relating to diabetic wound care and keeping patients mobile.

In 2011, David Helfman, DPM, founder and CEO of Village Podiatry Centers wrote, "I have always felt that physicians needed a simple business model to manage their practices.

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After reading almost every business book on the planet, I was fortunate to read a book called *Traction: Get a Grip on Your Business* by Gino Wickman three years ago and was fascinated by the business process. I saw an immediate application in the Village Podiatry model. As a result, our group has grown 35 to 40 percent per year over the last three years using many of the tools outlined in the book. The system in Wickman's book is called the Entrepreneurial Operating System® (EOS, EOS Worldwide) and has now been implemented in over 200 very successful entrepreneurial companies worldwide. If you follow the system and successfully implement it into your practice, it will harmoniously orchestrate all of the moving parts of your practice, help you run your practice better and get more out of your practice as a business."[1]

Village Podiatry has grown to be one of the largest podiatry supergroups in the country with, as of February 2019, 52 practitioners in 38 locations in Georgia and Tennessee. It has also attracted the interest of private equity firms.

The EOS "6 Key Components"

The EOS model (Figure 1) stems from a discovery that any business can achieve success by focusing on and strengthening what it refers to as the "Six Key Components™".

Vision Component: Strengthening the vision component is simply getting everyone in the practice 100% on the same page with a clear understanding of where the practice is going and how it's going to get there. Once clarified, it becomes easier to make decisions about people, processes, finances and strategies. The vision of the practice can be determined by answering what EOS refers to as "The 8 Questions". These are:

It's fundamentally important that every person working in the practice embody what have been determined to be the core values of the practice.

1) What are the core values of the practice, the guiding principles for the organization?

2) What is the core focus, what it does better than anyone else?

3) What is the 10-year target, the big goal for the practice to accomplish a decade down the road?

4) What is the marketing strategy, the mechanism for attracting the right patients and payers to the practice?

5) What is the three-year picture, what the practice should objectively look like in three short years if the 10-year target is to become a reality?

6) What is the one-year plan, the four to seven most important things to accomplish that year that align with the three-year picture?

7) What are the quarterly rocks, the most important things for the practice to tackle in the next 90 days, again consistent with the annual plan?

8) What are

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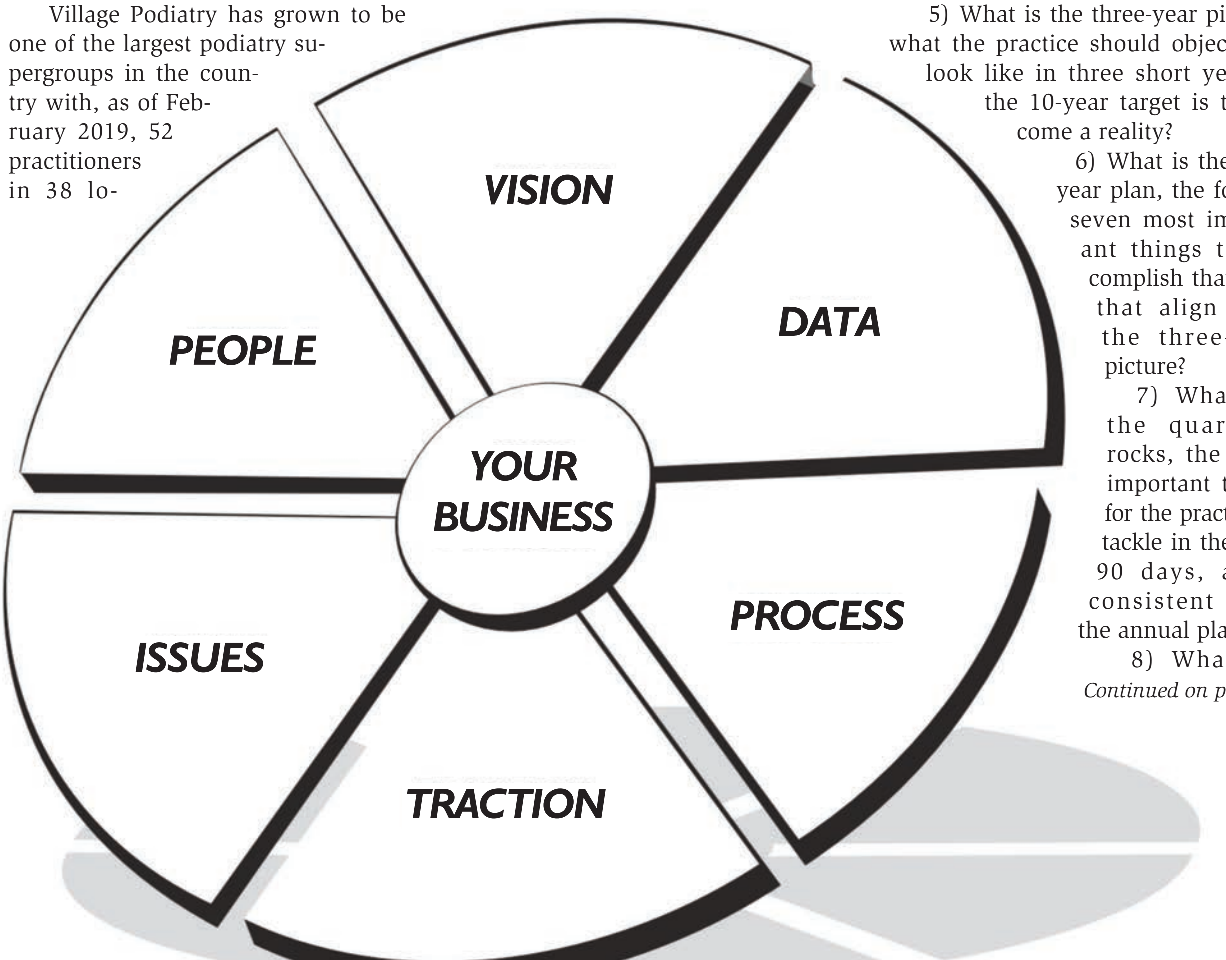

Figure 1

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the issues, the obstacles, concerns, and opportunities that stand in the way of achieving the vision?

People Component: Every person working in the practice should embody what have been determined to be the core values of the organization. Every person needs to assume a role that matches his/her natural talents and desire. Obstacles to achieving the vision of the practice occur when roles, responsibilities, expectations, and job descriptions are unclear. Scalable growth is only possible if the structure of the practice is such that it creates clear accountability for every essential function.

Data Component: It's important to develop a small set of numbers, reported weekly, to determine, at a glance, how the practice is doing. A "scorecard" makes it possible to predict, by seeing trends, how to anticipate where things are heading in the near future. The goal is to eliminate management assumptions, subjective opinions, emotions, and ego. Each tracked metric should be the responsibility of a single person in the organization. Some examples might include:

Metrics to track revenue:
- Days in Accounts Receivable
- Net collections
- Clean claim rate

Metrics to track patient satisfaction:
- Average time in waiting room
- Number of social media engagements

Metrics to track patient management:
- Number of patients seen
- PVC (per visit charge)
- PVR (per visit revenue)

Issues Component: The success of any practice is very much dependent on its ability to identify, discuss and solve problems in order of priority and as quickly and completely as possible, so that they go away forever. Frequently, practices do not commit adequate time to solving fundamental problems; it's usually easier to procrastinate and common in meetings to spend a lot of time discussing without committing to effective resolutions. Unfortunately, "quick fixes" cannot lay the firm foundation upon which to grow a thriving practice.

Process Component: Running a medical practice is complicated. As the number of people employed and the number of patients increases, it becomes exponentially more difficult to keep things running smoothly. Most practices operate more inconsistently and are much more complicated than they need be. There are many resources available to podiatrists to help them develop, train on, and implement front office and back office protocols. Once practice core processes such as billing, accounting, marketing, scheduling, hiring and firing, rooming patients, inventory management are identified, it's important that their fundamentals be documented and packaged in a way that they are followed by all.

Traction Component: Making the vision of the practice a reality depends on the creation of discipline and accountability--which can only be achieved after the roles in the practice are defined and filled by the right people, key metrics are tracked, issues identified and solved, and core processes documented and followed by all. Vision without traction is a hallucination. Traction without vision risks the practice growing, but not in the right direction. The ability to create discipline is the area of greatest weakness in most practices.

Supergroups have emerged as the most effective way for many podiatrists to compete in an increasingly challenging healthcare market.

Summary: EOS Could Be Good for Your Practice

Supergroups have emerged as the most effective way for many podiatrists to compete in an increasingly challenging healthcare market. Supergroups also offer podiatrists an opportunity for a profitable exit strategy given their attraction to private equity investment groups. No matter the size of the practice, podiatrists stand to benefit by focusing on improving their organizational health and streamlining operations. There are potential benefits to solo practitioners by forming group practices; group practices of every size might increasingly look to combine or be acquired by even larger organizations.

The private equity community is looking to capitalize on fragmentation in the podiatry market and is aggressively looking for platform-ready groups to invest in. Macro trends within healthcare services will continue to favor large providers with scale, strong management, strategic vision, and access to capital. Such factors will increase the attractiveness of large podiatry groups partnering with private equity investors with potentially the best retirement strategy available to podiatrists today.

The Entrepreneurial Operating System© was instrumental to the growth and success of the original and one of the largest podiatry supergroups in the country. Concepts associated by following such an approach can benefit almost any practice large or small. **PM**

Reference

[1] Helfman, David. "Secrets to Bringing an Entrepreneurial Edge to Your Practice". Podiatry Today, Vol. 24, Issue 2, February 2011, pp. 62-66.

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