Strategies for Solo Practitioners

Mergers can provide a win-win exit strategy for sellers and buyers.

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According to *Podiatry Management's* 2019 Annual Survey, 28% of DPMs are self-employed as solo practitioners, and another 8% practice solo in professional corporations. Although the majority of DPMs are now in some type of group practice, more than one-third are still practicing solo. Solo practitioners face two main challenges. Either they are struggling to find a way to increase net profit or are in their last few years of practice and planning to "walk away" from their practices when they retire, believing that today, a small, solo practice has little value. Each of these challenges can be overcome through the use of a merger.

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Solving the "Profitability" Problem

If offered a 50% increase in income--with no requirement to work any harder--would a solo practitioner turn down an opportunity that also allowed him/her to take more time off and enabled him/her to focus on the areas of practice she/he most enjoys and which achieve the best outcomes? Even in medicine's current environment of high volume and low fees, all of these beneficial outcomes can be achieved by having several solo practices come together and implement a well-planned, well-executed practice merger.

There are a myriad of long-term advantages and opportunities to be gained through practicing in a group, but aside from these long-term opportunities, a merger makes sense for the immediate economic advantages alone; yet, in spite of the vast number of documented benefits that group practice provides, many doctors still remain solo or in small groups. Consider the instant benefits to be obtained through the creation of a group practice under one roof—say, a group formed through the merger of three solo physicians practicing in the same geographic area.

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For ease of comparison, assume a group of three practices with the same annual financial structure—each with $380,000 in revenue, $220,000 in overhead, and a resulting $160,000 in net income. Although the economics of newly merged practices are likely to improve in a number of ways, to keep this example simple, we will consider only two areas for potential savings—those generated through "sharing" the costs of rent and of staff. A "typical" merger of three practices into a blended practice under one roof could easily capture the rent and staff savings outlined in *Table 1*.

As a result of post-merger overhead savings, the combined net income for the practices represented in this table goes from $480,000 to $720,000—a 50% increase! Note that the overhead ratio in this example drops from 57.9% to 36.8%. The result is that each doctor in the group is now able to keep $63.20 of each $100 collected—as opposed to the $42.10 previously collected, and this is accomplished without an increase in patient volume.

What is important to recognize is that a solo practitioner who is planning a merger with the goal of increasing his/her practice's profit margin must base his/her merger strategy on reducing all "unnecessary" overhead; otherwise, it is unlikely that any plan put in place will be capable of achieving this goal. Doctors who remain in solo practice are paying a high price for maintaining the right to be lone decision-makers. In the example outlined above, if any of these doctors were to choose to remain in solo practice, they would be giving up 50% of their potential income to overhead and would be poorly positioned to capture the future group practice opportunities projected by healthcare thought leaders. Since there is no specific limit to the number of practices that can be merged into a single group, a three-practice merger such as in our example might not be the end point, but rather, simply the starting point for future mergers.

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Solving the "Lack of Value" Problem

Evaluating one of these practices with a net income of $160,000 reveals that the hard assets account for most of the practice's value. A higher valuation would be based on a multiple of the amount of profit that is over-and-above the doctor's salary. In this solo practice example, however, there is no actual profit because the $160,000 in net profit is essen-

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TABLE 1:
A Three-Practice Merger

	Practice A	Practice B	Practice C	Post Merger
Revenue	$380,000	$380,000	$380,000	$1,140,000
Rent	$50,000	$50,000	$50,000	$87,000
Staff	$120,000	$120,000	$120,000	$183,000
Other Expenses	$50,000	$50,000	$50,000	$150,000
Total Expenses	$220,000	$220,000	$220,000	$420,000
Net Income	$160,000	$160,000	$160,000	$720,000
Overhead Ratio	57.9%	57.9%	57.9%	36.8%

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tially equivalent to an average DPM's salary. If someone were to buy one of these practices, s/he would basically be buying a job that has an average salary—along with some hard assets. A downside risk of such a purchase is that it includes $220,000 in overhead expenses—an amount that is likely to increase over the years.

When a solo practitioner is in his/her last few years of practice, it is difficult to support hiring an associate who might purchase the practice upon the doctor's retirement because the practice would need to grow substantially in order to pay both doctors a reasonable salary. Even though adequate growth might be possible over the long-term, enough growth is unlikely to occur over the short-term. For this reason, many solo practitioners, instead, simply close their doors and walk away from their practices.

There is a potential win-win option that a solo practitioner should consider before choosing this option of walking away. Examining one of these example practices from a different angle, we recognize that the $380,000 in revenue would have significant value if it did not include the $220,000 in overhead expenses. Pursuing an alternate option, the doctor about to retire could meet with doctors from nearby practices to see if a win-win merger opportunity exists. This opportunity would consist of another practice purchasing the retiring doctor's practice, closing its doors, and then effectively merging the $380,000 in revenue from this "closed" practice into the new location—that of the purchasing doctor.

Given that many doctors have added associates and/or locations to their practices, the odds are that not every DPM in those practices is fully booked. This opens the possibility of merging a retiring solo doctor's patients and referral sources to a new location without the purchasing practice taking on the overhead of the acquired one. A win-win opportunity is created for the purchasing practice as it is paying less than the actual value it receives, and the retiring doctor receives greater value than he/she would have captured by selling the practice as a standalone—or certainly, more than s/he would have received from closing the practice and walking away. **PM**

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