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MAS

Friday, August 09, 2019

(Room 9)

14:00 - 15:00 Business Models and The Need for Change

MAS

GPCME 2019

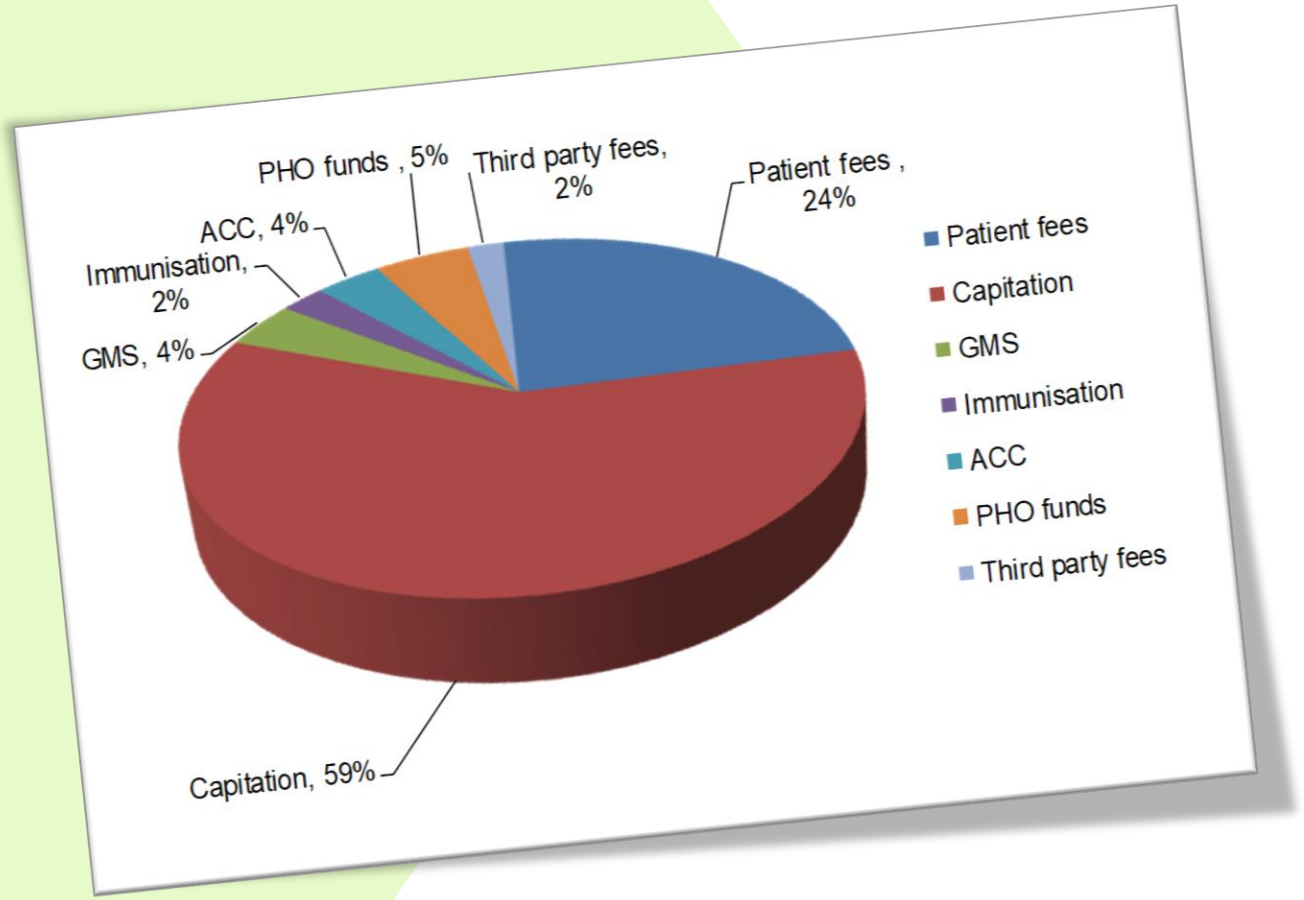
GP business models – the need for change

GP business models – the need for change

- The complex business of general practice
- What's changing?
- Why change the business model?
- How to change from a cost sharing business model
- GP remuneration
- Success factors

General practice – a complex business model

- Patient fees now often less than 30% of total practice revenue.
- Various revenue streams and services add complexity to the GP business model.
- Several income streams no longer dependent on GP/patient consult
- Many and varied complex business ownership models and methods of payments for GP's



What's **changing**?

- Health system looking to rebalance towards primary/community based care.
- The composition and the flexibility of the workforce.
- New technology and models of care e.g. **healthcare home.** Requires additional investment and changes to the way practices work.
- Increased business complexity, standards, audit requirements, accountability and compliance e.g. Foundation Standard.
- Our GP workforce is ageing – close to 60% of GP owners intend to retire in the next 10 years. *
- Labour promised to increase GP training funding to intake of 300 per year but nothing in budget rounds to date.

* RNZCGP Workforce survey – 2017

Drivers for **change** to the business model

- Capitated funding and proactive health management
- Less direct revenue from GP/patient consult
- Group practice quality standards
- Increased compliance and administration
- Complexity of cost-share accounting
- GP stress/work-life balance requirements
- Group governance, business planning and management needs
- **Succession planning**

Succession planning – what will **buyers** look at?

- What does the existing ownership, business model & governance structure look like?
- Are the remaining owners like-minded & 'functional' as a leadership group?
- What are the responsibilities & obligations as a working owner? Practice agreement?
- Does the practice have good business management capability?
- Does the practice have good management systems – Cornerstone or Foundation accredited?
- Are the premises appropriate or in need of redevelopment or refurbishment?

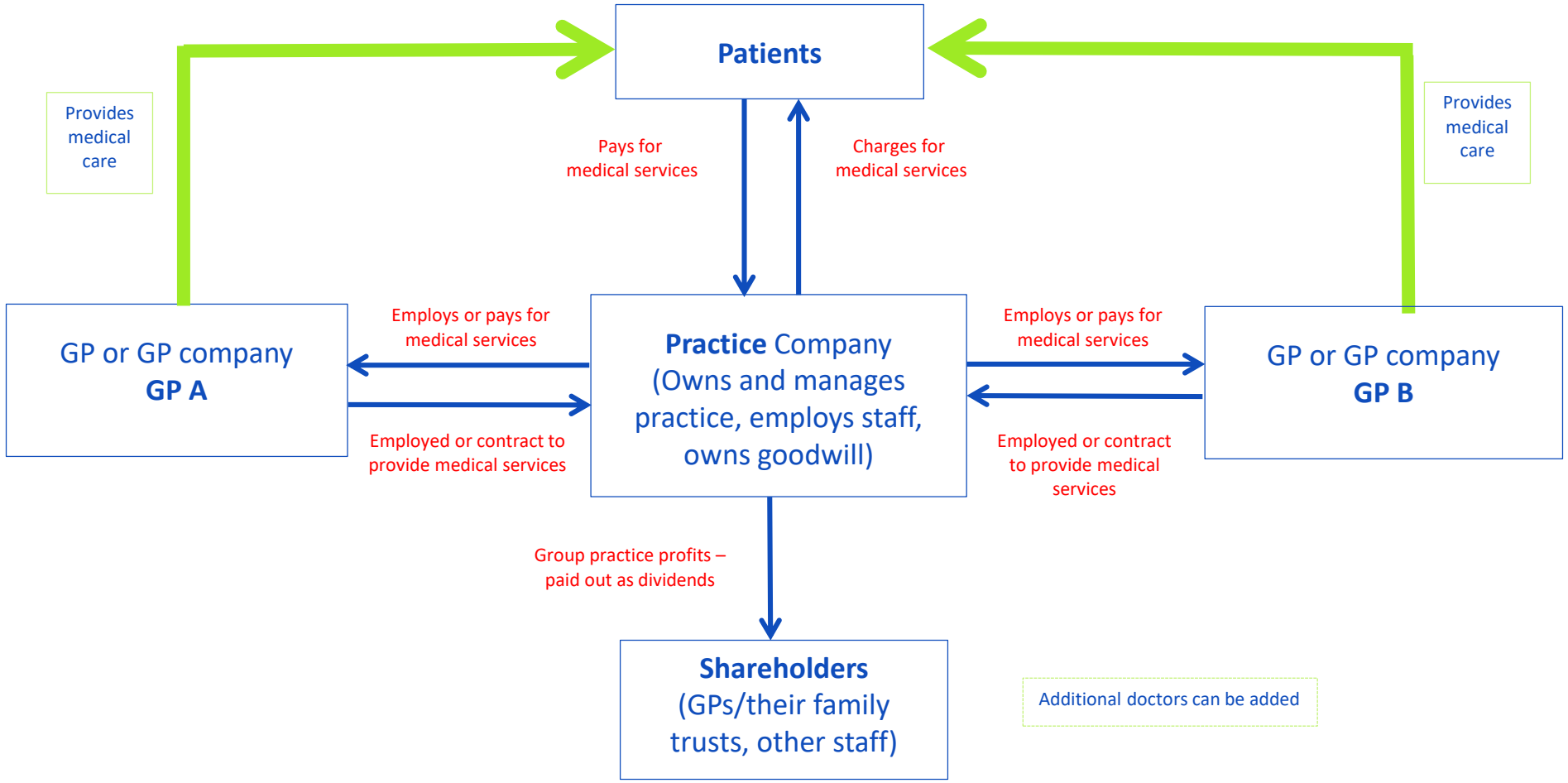
What are **younger GP's** looking for?

- Being an equal shareholder/director in a GP owned group practice with good governance and business management ticks most of the boxes.
- Having an equal say in how services are provided, flexible working arrangements, work/life balance and collegial support are important.
- A team based approach with a simple business model is preferred – GP working owner remuneration based on hours/sessions worked and profits based on shareholding.

Cost sharing and **personal goodwill**

- Makes succession planning and valuation more difficult
- High income need not mean high value. Practice value is mostly determined by a multiple of the earnings to the owner **after GP remuneration** cost at 'market'
- MAS 2018 GP remuneration had average GP FTE cost at ~ $230,000. E.g. GP earns $300,000 = profit (earnings to the owner) of $70,000 but **maybe not……**
- If market GP remuneration is based on 12/13 consults in a 4 hour session but owner does 16/18 consults per session this can increase remuneration cost by 1/3rd meaning no profit and little practice value because of the personal goodwill factor.

Remove personal goodwill with **profit share** model



'Why bother **restructuring** – I am close to retirement?'

- Can enhance practice value and simplify sale process
- Makes practice more attractive to next generation
- Takes value off the table now – reducing risk for those close to retirement
- Debt restructure benefits for existing younger partners/shareholders with other non business debt
- Lowers entry costs for young buyers saddled with other debt already
- Can enhance ability of practice to borrow externally
- Business is able to be better managed financially with less potential for conflict between owners.

How to get **from cost share** model **to profit share** model?

- Practice valuation
- Agree remuneration model
- Source funding for Newco to acquire practices – shareholder or external or both?
- Sell practices to Newco
- Equalise practice values
- Employment or consulting agreements/contracts
- Agree dividend policy

Equalisation of practice values

Practice equalisation example				
Practice	Value	Equal value	Payment due	SH Loan held
A	$120,000	$100,000	$20,000	$40,000
B	$80,000	$100,000	-$20,000	$0
C	$110,000	$100,000	$10,000	$30,000
D	$90,000	$100,000	-$10,000	$10,000
	$400,000	$400,000	$0	$80,000

- If debt to higher value practices is held in New Co then total net value of the business would be $320,000 (Assets of $400,000 less loan liabilities to shareholders of $80,000)

- Each shareholder in New Co has a 25% equal share in the business with a value of $100,000 each if higher value practices are paid for equalisation or $80,000 each with debt to shareholders held in company.

GP **remuneration**

MAS survey – December 2018:

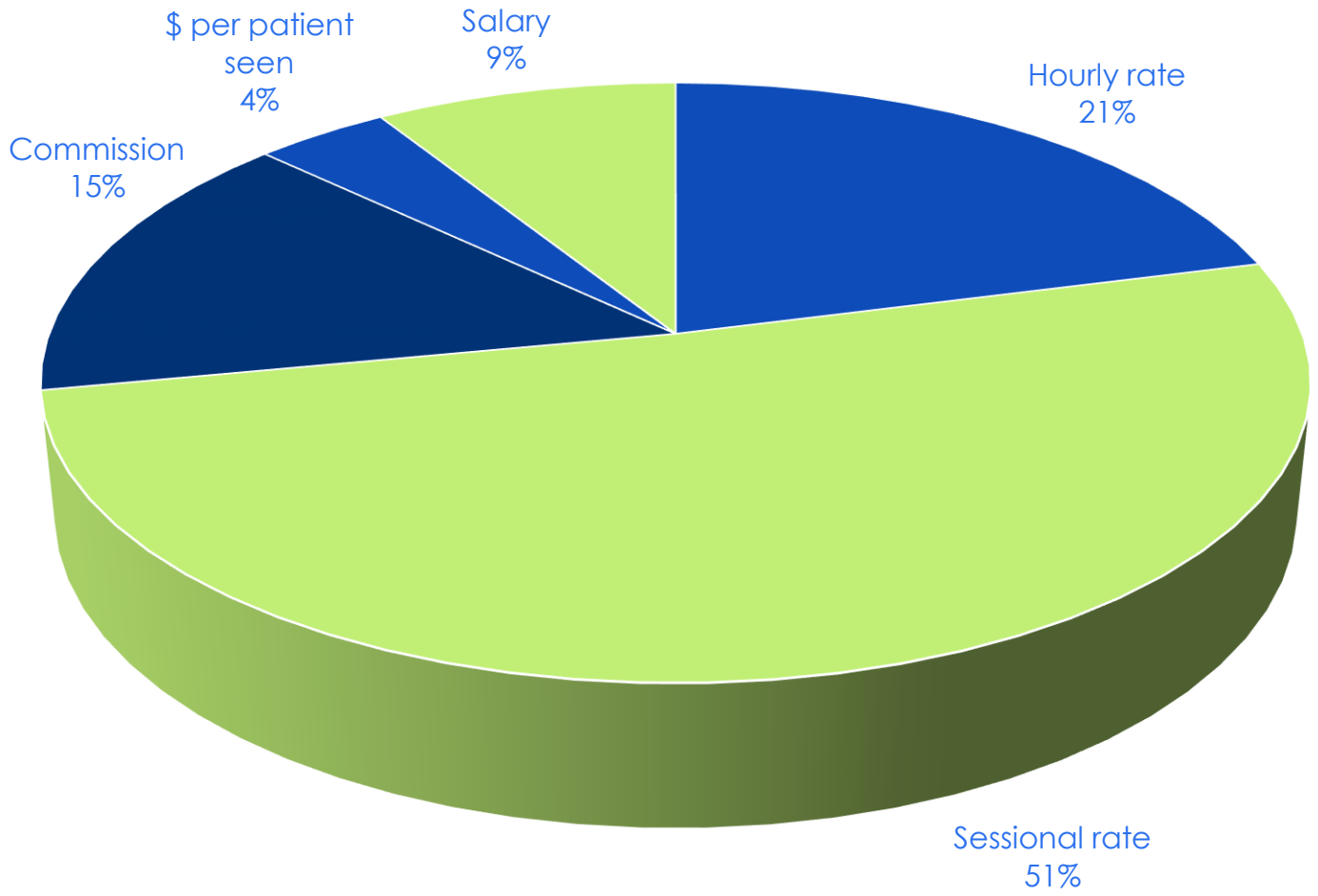
- Trend is away from % commission (FFS) based payments towards hourly, sessional rates or salaries.

- 72% of practices paying hourly or sessional rates
  - Hourly median range of $101-$105 for employees and $106-$110 for contractors
  - Session median range of $401-$425 for employees and $426-$450 for contractors.

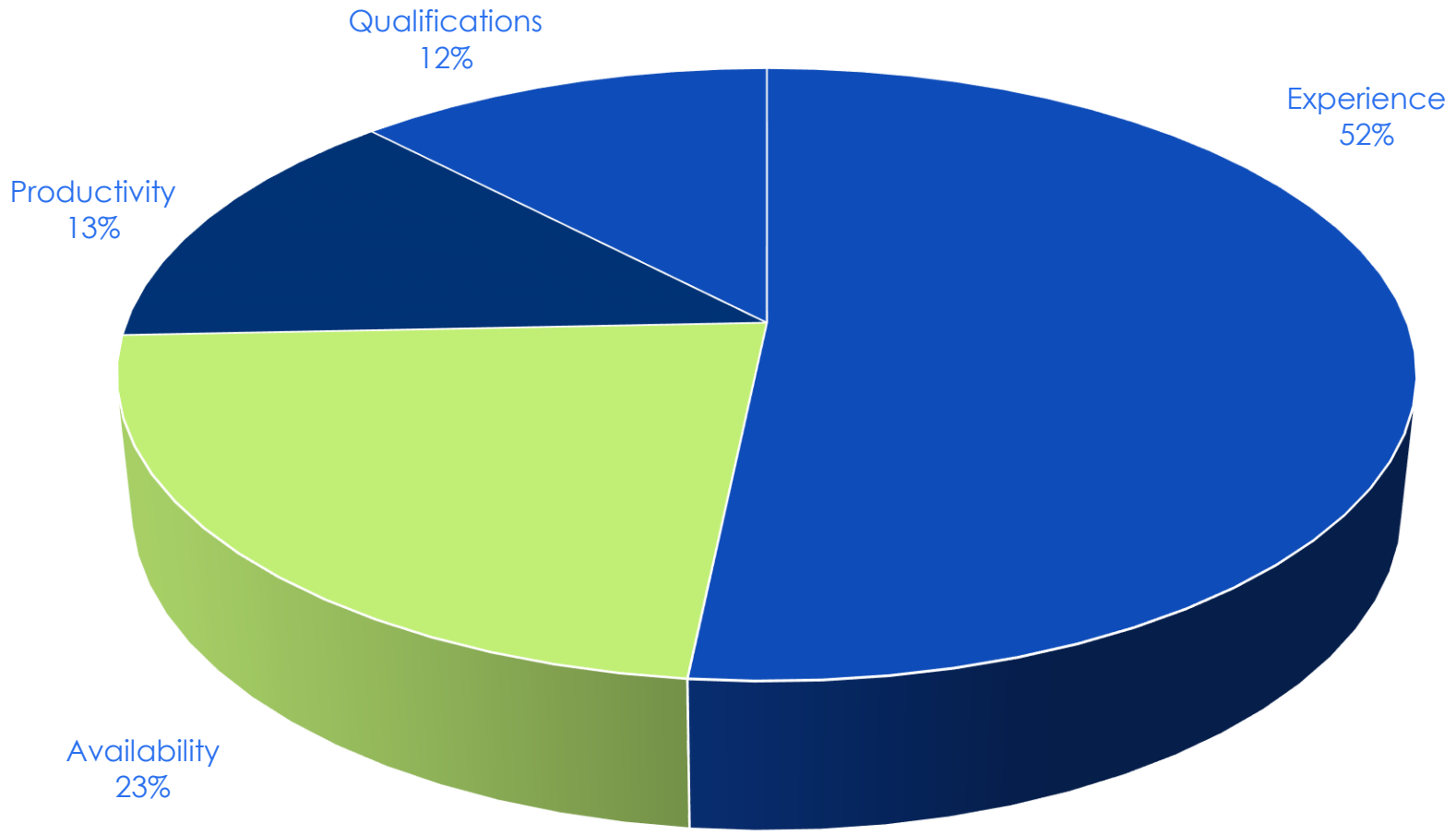
- Increasing number of employees but majority still contractors in GP owned practices

- Median salary range for FTE GP was $181,000 to $190,000.

GP remuneration - how are **GPs paid**?



Main reason to pay **higher remuneration**



Success factors and **issues** to resolve

- Clear governance and management structure needed with ‘single voice’ from owners and management.
- All income and goodwill is owned by the business for best financial management – remuneration models need to be developed for higher value services e.g. minor surgery clinics.
- Should encourage more proactive health management, better use of lower cost nurse providers, clinics, education and self-management of some health conditions e.g. all smears undertaken by nursing team.
- Should encourage better teamwork, consistency, group standards and group practice compliance e.g. all patients invoiced per fee policy.
- Is everyone on the journey? A ‘culture survey’ for all staff and partners may help to uncover issues to be resolved.

Resources and contacts

MAS HealthyPractice®
healthypractice.co.nz

MAS risk and investments
mas.co.nz

MAS Business Advisory Services
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