

The “Business” of Dermatology

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Practice Management

During medical school and training many decades ago, business classes were not part of most physician’s curriculum. It is possible friends or family members may have helped guide your decisions, as far as business decisions were concerned, but usually, most of us just figured it out on our own. That is how I did things when opening my office twenty years ago. I just winged it! Fast forward to 2018, and it seems like the time has come for dermatology to be part of the business world.

If you attended the annual meeting this year, you might have noticed the overwhelming number of practice management booths. I receive several emails and letters every month with the offer to buy out my office and take over the “management.” In this month’s editorial , I will try to explain the business of dermatology, and this current “buy out” frenzy in an oversimplified version from a doctor, not an investment banker or a writer! Like my days as editor of my high school newspaper, I will investigate the who, what, where, when and why of this issue.

Who:

Private Equity (PE) Firms: An investment management company that provides financial backing and invests in the private equity of startup or operating companies through a variety of loosely connected investment strategies. Each firm raises money from investors who expect to then make a return on their investment by recapitalization, mergers or acquisitions, or initial public offerings. The recapitalization means that extra cash earned by growing the business is distributed to the owners. Mergers and acquisitions mean the smaller firm might sell to another firm for a multiple of the business, and an initial public offering is when the company offers stock options to the public to invest in your dermatology practice. Usually, in addition to these the PE firm will take a management fee for helping build the business while using their money to do so. Private Equity firms usually hold on to companies for the long term if they are profitable. PE firms are different than Hedge Funds which typically make shorter-term investments in securities or other more liquid assets. Well, known examples of private equity firms are Goldman Sachs and The Carlyle Group.

What:

You can either be an employee of one of the groups that is backed by a private equity group, or you can partner with a PE firm to provide equity to grow your dermatology business without having to risk all your own assets to do so. If you are older and ready to phase out, you can sell your practice based on a multiple of EBIDTA, (earnings before interest, taxes, depreciation, and amortization) and negotiating a valuation of your practice.

Where:

The trend seems to be going on throughout the entire United States. Different PE firms are concentrating in different areas of the country.

When:

This seems like an exit strategy for an older dermatologist if you can get equity out of your office and phase out in a way that will allow you to have more free time. If you are younger and have more than ten years left before you want to wind down the numbers may not make sense for you. You should discuss any proposals with your accountant and your lawyer to see if they make sense for you. There are also models that involve only a partial sale of your office which might make more sense if you have many years until you want to retire. Today many doctors embrace the idea of spending 100 percent of their time providing patient care. For younger dermatologists who don't want the headaches or responsibility of owning their own practice these PE backed groups may offer fair compensation as an employee.

Why PE Firms Want Dermatology:

This model has previously worked in dentistry, emergency medicine, radiology, and other healthcare specialties. Dermatology is very attractive to PE firms, because the demographics of the US are aging. According to the US Department of Health and Human Services, the average age in the US by 2019 will be up to 54 Million people over the age of 65, from the current 46 million. More of these seniors will have access to healthcare which will boost the demand for dermatology. These patients usually have expendable income, and many dermatology patients who come in for general dermatology or surgical dermatology will also be cosmetic patients. Cosmetic procedures produce cash income that is not regulated by insurance companies or the government. Dermatology is outside hospital systems, and not subject to the cost savings that hospitals try to impose on procedures done in the hospital or its surgery centers.

Why Would a Dermatologist Work with a PE Firm?

In speaking with many of my colleagues these are some of the pros and cons of having PE firms owning or managing your office:

The Pros: This may give you the ability to collaborate and network with other dermatologists which could possibly make a good dermatology practice even better by pooling resources. These loosely affiliated groups can simplify administrative burdens. It is difficult for solos providers and small physician groups to afford to purchase and maintain electronic health records and comply with government reporting requirements. Billing cost represents about fourteen percent or more of visits in small offices. Billing costs are lowered by pooling your billing personnel and software. This also may help with product purchasing in bulk as well as a shared marketing and social media for the company. With a larger company there may be improved benefits and human resources and as well as possible maternity leave allowances or job sharing options.

The Cons: You may have loss of autonomy due to the administrative support of a corporate structure. This may include loss of major purchasing decisions as well as key decisions about the practice. This may also include inability to hire or fire your own ancillary personnel. The company may encourage you to hire extenders or aestheticians to supervise to grow the practice but possibly not respect your role as the physician in the professional hierarchy of the office or practice. Always get your employment agreement reviewed by a lawyer and try to negotiate anything you can't live with or without.

In Conclusion:

In the end, as always, when things are changing around us, we can choose to bury our heads in the sand, or we can become knowledgeable about what is going on and make an educated decision. Is the business of dermatology a bad thing? I think as long as we continue to give patients the quality of care they deserve and don't compromise our Hippocratic Oath, partnering with the business world is something that might be here to stay.