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COVER STORY
TAKE A PILL!
New small-molecule drugs offer dermatologists treatment options for alopecia, atopic dermatitis, psoriasis, rosacea, and vitiligo.

FRANCHISES IN DERMATOLOGY
If a franchise group approaches you, what should you know?

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FRANCHISES IN DERMATOLOGY

What to know if one approaches you
Doctors are no strangers to franchises. As the proprietor behind Subway restaurants, Doctor’s Associates, Inc. is not only the largest franchise operator in the world, but also one of the fastest growing. While that coincidence may only impact the lunch hour of some dermatologists, the trend toward franchising physician practices may impact their entire careers. According to industry insiders, dermatology franchises accounted for approximately 8 percent of the total practice landscape by the end of 2015. “It is very difficult for a small, independent practice to compete and remain viable right now, and very onerous for independent physicians to maintain,” said John Macke, COO of Dermatologists of Southwest Ohio, which has 16 locations and 31 dermatologists. “By collaborating with a group, physicians have the scale for greater purchasing power, and the management resources to tackle burdens that solo practices simply can’t handle anymore.”

Generally, a medical franchise arrangement is a type of joint venture between the physician and the business management franchiser. This model is subject to various state and federal legal compliance requirements governing the corporate practice of medicine, self-referrals, and fee-splitting, among others. From a business angle, the physician is able to leverage their professional medical services in exchange for practice support and efficiencies, IT infrastructure, operational management, brand recognition, and marketing plans.

As more dermatologists are approached to consider the franchise model, there are some key considerations that need to be made in order to ensure an ethical, legal, and ultimately beneficial enterprise for both patient and physician. >>
Is the price right?
Whether selling or buying into a franchise, costs are likely an immediate concern for many dermatologists. In addition to the potential for costly initial fees, monthly revenue percentages paid to franchising groups can likewise make a lucrative-looking deal financially unsound in the long term.

In order to accurately negotiate how a practice is going to be valued by a group, dermatologists should secure the right legal and business advisers in order to establish a fair market value. “What people need to be aware of is how groups are valuing their practice,” said W. Patrick Davey, MD, MBA, AAD Practice Management Committee chair. “It’s based on something called free cash flow. Traditionally, we’ve always valued them on accounts receivable, the equipment that you had available, and usually some sort of goodwill factor which was based in the referral patterns that you had built up over the years.” Unlike accounts receivable, which are determined by money owed for services already rendered, free cash flow is a performance measure based on the amount of cash a practice or other financial entity has available after subtracting the amount required to maintain its current growth or assets base.

According to Dr. Davey, outside help is essential when making value assessments. “You can’t do it by yourself; you need to find someone who understands it.” Rebecca Satoskar, MD, a dermatologist in Fairfax, Virginia, who recently partnered with the Integrated Dermatology Group (IDG), agrees. “After a lot of discussion, research, and legal review with my lawyer, I felt that IDG was offering me a very fair deal that would provide me with the services that would allow me to have my own practice,” she said.

Some other important questions to ask during the negotiation stages include:

- What is the initial franchise fee? How much are subsequent fees, and are they tied to profits?
- How much support are you being offered in terms of administrative assistance, equipment, or staff?
- What, if any, restrictions are in place?
- How easy is it to enter in and out of a contract, and are there termination penalties?

Warning signs
No enterprise is without risk, and likewise there are some key things to note when vetting potential franchise groups in order to avoid a bad deal. “There are certainly a lot of models out there that can prey on newer doctors who don’t know any better. Once they get them, it’s like indentured servitude. The goal of a partnership, if it’s done correctly, should be that it’s rewarding for both parties,” said Andrew Krakowski, MD, chief medical officer at DermOne, which bills itself as a network of comprehensive dermatology practices rather than a franchise model, providing dermatologists with a practice support platform that enables them to focus on patient care while benefitting from DermOne’s efficient operations and centralized systems and process.

Some things to watch for include:

Loss of physician autonomy
Depending on the preferences of the physician, policies imposed by the franchiser that impact clinical decision-making can pose a problem. Rules dictating the number of patients seen, treatments offered, and outpatient referrals may be stifling to some practitioners, but an acceptable trade-off to others.

“Some groups dictate to the dermatologist how to practice. If the physician is comfortable with that arrangement, it is a good fit. That’s not necessarily a red flag, but a limitation that

Looking for extra help deciding which practice model best suits your needs? The AAD offers an online practice toolkit at www.aad.org/practice-tools/running-a-practice/practice-toolkit that discusses advantages, disadvantages, and important legal considerations of different models, as well as transition techniques, and other resources.
the people running the practice might create. It’s no different than if you had two doctors working together, and one is the partner and one is the associate. The partner might tell the associate, ‘We’re not going to offer Accutane, because I’m afraid of the medical-legal liability.’ Our model allows the partners to control the medical decision-making which gives them the freedom and flexibility to provide high quality patient care. This type of flexibility is typically what makes physicians happy,” said Jeff Queen, CEO of Integrated Dermatology Group.

Dr. Davey advises that dermatologists uncomfortable with this level of oversight be aware of the pros and cons of aligning themselves with a larger group network. “Some of these larger groups are telling the providers that they want them to continue doing what they’re doing. But then there are people who are told essentially that there are guidelines of care. You have to fit into their model. You might have to use their laboratory, for example, for your pathology specimens, or their surgeon if there’s a Mohs surgeon in the group. So that limits your control somewhat.”

**Reputation**
Reputation should also play a large role in the consideration of any franchise group. “People forget that not only do you get assets in a sale, but you also have liabilities. You don’t want to join a group that doesn’t have a good reputation, because that will then impact your own. You want to do your due diligence to check the reputation of the organization you’re joining,” Dr. Davey said.

**Reimbursement**
It’s important to know exactly what you are being paid for and how, in order to avoid any potential fraud and abuse violations. Utilizing lab operations owned by the purchasing franchiser may not necessarily implicate a dermatologist for self-referral, assuming they are not getting any economic return by using that particular lab. Perks such as compensation for productivity also may not necessarily be violations, although Rick Cooper, JD, AAD 2015 Annual Meeting Dermatology Practice Alignment and Care Models session speaker and health care attorney, advises physicians to still be cautious about such arrangements. “Getting paid based on productivity isn’t necessarily non-compliant,” he says. “A lot of doctors get paid based on productivity, but the devil is in the details.” One of the most crucial things to watch for is that any group-based practice a physician becomes part of could potentially affect one’s reputation.
part of is compliant with Stark Law, which prevents practitioners from referring patients to entities they have a financial stake in. (For more on this topic, read www.aad.org/dw/monthly/2015/september/to-be-a-stark-group-practice and www.aad.org/dw/monthly/2016/january/dermpath-fraud-and-abuse-six-scenarios-to-consider.)

**Equity backing**
The financial backing of a franchise group can impact the long-term future of a dermatologist’s relationship with the organization. “The risk you have with some groups is that if they’re backed by private equity, when they exit you won’t know who your next partner is going to be,” Macke explains. He describes his own group, Dermatologists of Southwest Ohio, as ‘100 percent physician owned,’ a distinction that Macke acknowledges gives doctors complete autonomy, but with the tradeoff of no immediate financial payout. “Some of these groups have great benefits, but there’s also some uncertainty. When you’re with a group totally owned by physicians, then you know they have the same goals and long-term vision. With private equity, you get the immediate payout, which is great for a number of physicians, but you lose some control and you don’t know what the long-term will be.”

Dr. Davey cautions that dermatologists should be smart about accepting immediate payouts from investor-backed groups. “I had a professor at the Ross School of Business at the University of Michigan, and he would say beware of the devil bearing cash. He used to teach about venture capitalists and one of the things I took away from it is that you want to really be wary of someone offering you a lot of cash.”

Jeff Queen estimates that there are presently 10 different “sponsor-backed” (private equity) dermatology franchise groups seeking practices due to the specialty’s attractiveness as a potential market. “These are very successful hundred-million or multi-billion dollar backed private equity firms. The reason they’re stepping into dermatology is that they’ve done this before in other business lines. The big one is dentistry, but also with veterinary medicine and behavioral health services,” he says. “We [Integrated Dermatology Group] are a practice. We’re not sponsored by any investor group. We have a 20-year horizon, not three to five years with investors expecting a quick return.” (See sidebar for a snapshot of franchising in other specialties, p. 41. And look for an upcoming feature on the role of big businesses, including private-equity backers, in health care this summer.)

**Know the law**
While it is becoming increasingly common for larger dermatology groups to have their own in-office laboratories, they are exempt from laws against self-referral and anti-kickbacks due to a legal mechanism called an in-office ancillary exception. However, if a practice sells to a third-party franchiser with the intention of the lab remaining part of the newly franchised practice as part of the same legal entity, the dermatologist would have to sell their entire interest in order to avoid any potential self-referral violations. “It requires the collective groups to be legally structured in a certain way and operate in a certain way. It’s incredibly detailed, and there are a lot of different elements that have to be met,” Cooper cautions.

Franchised dermatologists should similarly be aware of legal implications of referrals for Mohs surgery within their group. In order to avoid any kickback violations, Cooper recommends that physicians go with a basic rule to make sure they aren’t being “compensated in a way that rewards them directly for referrals within the entity.” (See sidebar, p. 39, for a review of key laws.)

**Incentives to franchise**
Despite the sometimes complicated considerations involved with franchising, there can be some notable benefits as well. The appeal of a so-called brand-name medical business in a time of increased workloads and declining reimbursement is undeniable. Nearly every franchise group emphasizes decreased administrative responsibility as a main draw to entice busy physicians. Financial and managerial assistance with staffing, HR, billing, IT maintenance, and new equipment are common perks.

“I’ve been a dermatologist for nine years. I’ve often thought of myself as entrepreneurial. I did not know how little I knew about the business world until I started working [at DermOne] and saw the subtle intricacies that go into running a successful business from the financial and managerial side of things,” Dr. Krakowski said.
Selling to a franchise group can also be an appealing option for dermatologists nearing the end of their careers. “For someone who is retirement age it can be a good strategy, because they can sell their practice and get something out of it. They may even decide to be an employee for five more years, and then don’t have to deal with the day-to-day administrative burden,” Dr. Davey said.

Dr. Satoskar took advantage of such an arrangement, acquiring a practice from IDG which had been operated previously by a retired dermatologist. She credits the group with not only making it feasible for her to go into solo practice, but also helping her expand the practice’s offerings to include Mohs surgery. “The practice had a tremendous Medicare population, where skin cancers were common. IDG had experience setting up all those labs, helping us acquire the proper equipment, and getting us off the ground in terms of the requirements for Mohs surgery,” she said.

Queen’s personal motto, “Do only what only you can do,” fits the basic promise of most franchisers: to alleviate non-clinical administrative tasks. “To the dermatologist, that allows you to practice great medicine. All the other things that distract and aggravate you in a practice — Meaningful Use, PQRS, collecting receivables, paying bills, supervising staff — we handle. Practice management is not generally taught in medical school, but we are professional business operators. Our expertise and experience allows us to take on the tasks that weren’t part of their medical training and do it competently, thereby reducing the headaches of practice management,” Queen said.

**Franchising and the future of dermatology?**
As solo practices across dermatology continue to dwindle, dropping from 44 percent in 2005 to 35 percent in 2014 according to the AAD Dermatology Practice Profile Survey, the long-term success of the franchising model may loom larger as it taps into the specialty’s increasing shift toward group practice. While franchise groups (unsurprisingly) see their enterprises as a natural part of that expansion, how it translates into reality is yet to be determined.

“We’ve seen and heard leaders in the world of dermatology get up on a podium and argue rightly that models have to change.” Dr. Krakowski said. “If we take excellent care of the supported physicians in our network, then they will in turn, provide excellent clinical care and hopefully unparalleled experience to our patients.” *dw*

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**Tooth and claw: quick facts on veterinary and dentistry franchising**

Other specialties have begun to see a rise in franchising opportunities, including in the medical spa market. Equity-backed groups in particular have shifted their focus toward veterinary medicine and dentistry. The funds required to start and maintain a franchise can be broken down into three main cost categories. Start-up costs refer to initial, one-time expenses required to get a business up and running. A franchise fee is the initial payment made to the franchiser for the right to use their name, often a lump sum of several thousand dollars. Royalty fees are subsequent payments made to the franchiser, which are based on a set percentage of weekly or monthly profits made by the franchisee.

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