Case Study

California Managed Imaging

Ventura, CA

The Birth of California Managed Imaging: A Merge-Light Success Story, Part 1

The radiology industry continues to evolve in a rapid and multifaceted manner, with shifting payment models, hospital consolidation, and recently, increased merger and investment activity among groups. While this newly robust transaction environment may cause some trepidation for independent groups and physician shareholders, it has also created opportunities for groups with long-term strategic goals and data at their fingertips...especially in consideration of merge light agreements. When groups "merge light," both entities share a tax ID number, a board of directors, and an executive committee while retaining their original compensation, benefits, and management structures.

This two-part case study series will analyze two merge light agreements that created growth, quality, and stability for a California radiology group.

Merge-Light Case #1

Pueblo Radiology Medical Group + Radiology Associates of San Luis Obispo

When Pueblo Radiology Medical Group (PRMG) merged with Radiology Associates of San Luis Obispo (RASLO) in 2010, RASLO had 12 radiologists covering two hospitals and four outpatient imaging facilities, with 100% of the billing done in-house. The group was geographically isolated, but faced substantial competition for outpatient imaging from other local providers, including hospitals and physician owned facilities. PRMG continued to work with its same team of trusted revenue cycle management advisors from Zotec Partners.

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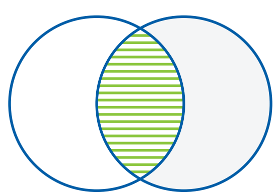

An Ideal Cultural and Strategic Fit

A positive and trusting relationship existed between PRMG administration and RASLO's administrator for several years prior, which substantially improved the success of the venture. Both groups also shared many similarities critical to the decision to merge, including a similar group structure and ethos, an identical PACS/RIS system, and the same hospitals covered in the same hospital system (Dignity Health).

Though RASLO had nearly half the number of physicians as PRMG and less than half in revenues, PRMG's preliminary analysis was positive in terms of sharing best practices, cross-coverage, cost savings, and payor contract improvements.

Merge-Light Gives Way to CMI, Equality for RASLO

Given the cultural and strategic comparisons that were uncovered, RASLO and PRMG decided to affiliate under California Managed Imaging (CMI) in a merge-light agreement. This meant that while both groups continued to operate their facilities and professional contracts on a day to day basis autonomously in almost all respects, they also provided cross coverage at times when needed while sharing best practices. The key elements of the affiliation were not made possible without the highest degrees of trust and transparency:

- RASLO shareholders and PRMG shareholders all became equal shareholders in CMI.
- RASLO and CMI executed an exclusive professional services subcontract agreement that required RASLO to continue providing professional services at the two hospitals RASLO was covering at the time.
- RASLO assigned its hospital professional coverage agreement to CMI.
- PRMG signed a turnkey lease arrangement with RASLO for RASLO's outpatient imaging centers, under which RASLO provided imaging center management and radiology coverage to PRMG, which also gave PRMG the rights to bill and collect for all work done at those facilities.
- All CMI and PRMG contracts became the operative payor contracts for the hospitals and outpatient imaging centers, respectively.
- CMI and PRMG bills and collects all revenues, is paid a management fee, and remits the remaining revenues to RASLO on a pass through basis.
- RASLO had the right to terminate the relationship at any time.

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Number of locations:
7

Number of physicians:
52

CEO:
Wayne Baldwin

Zotec Partners billing client since:
2005

Results Reliant on RCM Partnership

PRMG expected RASLO to see financial improvements of 5-6% as a result of cost savings and improved payor relationships, however in the 12 months after the affiliation, RASLO's revenue increase was $1,200,000, or about $100,000 per radiologist, after CMI fees and expenses. The rise in revenue can be accredited to PRMG's partnership with Zotec Partners, the largest privately-held provider of radiology revenue cycle management services in the U.S. After making the switch from an in-house billing staff to Zotec Partners, RASLO's billing costs also went down while its fee income increased by nearly 10%. In addition, PRMG's and RASLO's combined malpractice premiums decreased by over 40%. Both groups continue to share success by utilizing best practices and providing radiology resources when needed.

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The Benefits of Independence: A Merge-Light Success Story, Part 2

Done correctly, radiology mergers can have a dramatic and positive impact on operations, and organizations are embracing the strategic merger concept while eschewing traditional asset transfer deals. The goal? Reduce the cost and complexity of a transaction while preserving the benefits of independence, which also allows each individual practice of the merged entity to still “eat what they kill” and be financially rewarded for their hard work.

Merge light agreements give groups the opportunity to share a tax ID number, a board of directors, and an executive committee while retaining their original compensation, benefits, and management structures.
Part two of this series illustrates how two competing radiology groups successfully and harmoniously merged together while maintaining their autonomy, reducing procedural and operational touch points, and streamlining contracts.

Merge-Light Case #2

San Luis Imaging Medical Group Joins CMI

When RASLO and PRMG came together to form CMI in 2010, San Luis Imaging Medical Group (SLIMG) owned and operated San Luis Diagnostic Center in competition with RASLO, a group with more than 10 radiologists on staff. Subsequently, SLIMG sold San Luis Diagnostic Center to Dignity Health’s local hospital (French Hospital) and retained the professional contract so it could continue to provide professional radiology coverage at the facility.

When RASLO and PRMG came together to form CMI in 2010, San Luis Imaging Medical Group (SLIMG) owned and operated San Luis Diagnostic Center in competition with RASLO, a group with more than 10 radiologists on staff.

Once a Competitor, Now an Equal Shareholder

SLIMG joined CMI on January 1, 2018, becoming equal shareholders in CMI with other RASLO and PRMG radiologists, and including a seat on the CMI board. Like RASLO, SLIMG assigned its professional radiology contract for San Luis Diagnostic Center to CMI with an exclusive radiology services agreement to provide the professional coverage at San Luis Diagnostic Center going forward, and continues to operate at the San Luis Diagnostic Center independently. SLIMG has the right to leave CMI at any time with the merger-light agreement.

Immediate Improvement

After two months, SLIMG saw a decrease of 38% in its malpractice premiums, and increased its revenue more than 15%, with expected increases of approximately $100,000 per SLIMG shareholder radiologist. In mammography codes alone, SLIMG has seen a 50% increase in reimbursements averaged across all carriers.

The Role of RCM Technology

The revenue cycle and practice management challenges facing radiology groups today continue to grow more complex, especially in a merger agreement. With Zotec Partners, the largest privately-held radiology revenue cycle management provider in the U.S., PRMG was able to strategically view organized data for a very informed business decision, which allowed it to ultimately merge with RASLO and create CMI.

According to Wayne Baldwin, CEO of CMI, it was important for PRMG to get ahead of the curve, with business guidance to consolidate and analyze both groups' fee schedules and determine a path forward for negotiating as a new group. He says, "We did an early data analysis with Zotec Partners to prepare for negotiations of new reimbursement contracts for the merged group. By doing so, we were able to renegotiate payer contracts right out of the gate, at the official legal onset of the merger."

Zotec's business intelligence and reporting analysis tools give groups the ability to locate and identify fee schedules, volumes of services performed by CPT code by payer, and billed charges by code. With this level of visibility and data, CMI continues to develop some of the best and most strategic reimbursed contracts in Southern California.

Baldwin adds of CMI's merger success, "By deploying the strategy that the "whole is greater than the sum of the parts," and using a weighted average aggregate payer approach, we find that everyone is winning."

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