While dermatologists have been witnessing a public, widely reported, and frequently discussed consolidation of the pharmaceutical industry over the past few years, a quiet consolidation of dermatology practices has also been underway. Advanced Dermatology and Cosmetic Surgery (ADCS), a group that started in Orlando, FL in 1989, is the nation’s largest dermatology practice today with 149 clinics across the US. This spring, Harvest Partners LP took a majority stake in ADCS in a deal that values the company at more than $600 million. According to the Wall Street Journal (Orr, May 18, 2016), this transaction is the largest of several recent deals for dermatology groups.

Dermatology groups apparently can be lucrative for investors, but what’s the appeal for the dermatologists who join them? Matt Leavitt, DO, founder of ADCS, and Dave Morell, President of ADCS, discuss the growth of the company, future plans, and the experience of dermatologists in ADCS clinics.

THE INITIAL HUB

“There was not a strategy to ever acquire other clinics when we were initially founded,” Dr. Leavitt says of his early days in the Orlando area. Instead, he started one clinic and branched out with a few smaller clinics in nearby areas with limited access to dermatology—a classic hub-and-spoke model. In time, the hub-and-spoke model was duplicated in other locales. “The Hubs were areas where we would provide services such as Mohs surgery, depending on the clinic we may do some cosmetic procedures; they offered full services, generally speaking, and were generally bigger clinics.”

The goal wasn’t necessarily financial gain, Dr. Leavitt says. “It was more for the purposes of protecting our insurance rates and working with insurance companies’ etcetera, so that we were big enough, where we were not seeing any sort of pressures as far as rates decreasing at that point.

“We also wanted just philosophically to make sure that our doctors, our Physician Assistants, and Nurse Practitioners were in a situation where they were focusing on the patient and really on the medicine.”

With time, it became obvious that many small and small-but-growing practices could benefit from the expertise the ADCS team had been acquiring as it grew: billing, HR/staff management, negotiating with insurance carriers, compliance. After all, many dermatologists are really small business owners, Dr. Leavitt observes, “Behind the scenes we were putting together all the resources that a typical physician would not have access to. So we had fulltime HR people who could work on benefits and make sure they had the best benefits, and do a lot of customization of plans.”

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Industry consolidation is yesterday’s news. More and more small practices are joining larger groups.

BY PAUL WINNINGTON, EDITORIAL DIRECTOR
What’s the biggest challenge for most dermatology practices today? According to Dr. Leavitt it may be compliance itself. “It’s incredibly challenging to have the microscope to really look into your own practices to make sure no corners are being rounded,” Dr. Leavitt observes. “There is no such thing as ignorance is bliss. I think that great doctors with good teams can still miss things that create big big problems for them.”

“You have to be proactive,” Mr. Morrell cautions. “You have to breathe and look at those regulations every single day and to make certain you are complying with them. And that is I think one of the top couple of challenges across the country is that these smaller practices aren’t set up to be able to do that until it’s too late.

That’s one of the chief benefits of practices joining us—that we are going to make certain that they are complying with everything that the government or the regulators need to have put in place for a every sized practice regardless of whether they are large or small.”

“Patient, the office, and the physician is maintained,” Mr. Morrell adds.

Dr. Leavitt and Mr. Morrell note that physicians in ADCS clinics retain a good deal of autonomy in their practices. For example, the company has developed an EHR system, but it is highly customizable for the end user, they say. “Again the cornerstone of what medicine is supposed to be is the doctor-patient relationship. There is no way that you are going to centralize something like that,” Dr. Leavitt says.

Mr. Morrell predicts ongoing consolidation of medical practice in the years ahead. “I think if the consolidators or the bigger platforms do a good job—I think certainly they have an opportunity to be successful—if they don’t take a lot of the things that are important to the physician and the patients.”

He notes, however, that building large practice groups, “is a lot harder than what people think. It is a lot of work because every doctor is different. The states and regions are very very different. So I do not think that this is a very easy process. It’s something that requires a tremendous amount of work.”

Consolidation offers opportunities, especially for younger dermatologists, Mr. Moreel adds. “I think from a perspective of continuing to be able to grow...now we have a larger network of doctor’s and they are so collegial with each other.”