

The New CliniCorp

KENNETH LUEDTKE REPLACES PETER FERNANDEZ ON BOARD OF DIRECTORS

Editorial Staff

Kats Management Replaces PMA as Consultant to CliniCorp Clients

In the last two weeks (September 17-30), CliniCorp has issued four press releases that have demonstrated dynamic and substantial changes within the organization.

A CliniCorp press release issued September 17, 1992 announced that Dr. Peter G. Fernandez had resigned as president and chief operating officer, and had terminated his employment contract with CliniCorp. The termination agreement with Dr. Fernandez included payments and a stock buy out totalling \$2.1 million.

At the same time, CliniCorp announced that Kenneth L. Luedtke, D.C. would be elected to the board of directors as "part of the management restructuring." On September 25, 1992, another press release announced "an agreement in principle to acquire Kats Management Service." The release specified that "Kats will provide seminar programs to clients formerly served by Practice Management Associates Inc., a consulting firm acquired by CliniCorp in January of this year."

Further inquiry established that Dr. Fernandez is free to offer consulting services on his own using the PMA name. Dr. David Kats will continue as president of Kats Management Service and serve the CliniCorp (formerly PMA) clients. The two press releases, when read together, seem to suggest that the entire approach behind the PMA program, the source of so much controversy, is being dropped in favor of the Kats program.

The other two CliniCorp press releases announced the company's acquisition of four chiropractic clinics in Cape Coral, Florida and 15 more in the Dallas-Fort Worth area.

In an effort to understand these developments within CliniCorp and the impact on the chiropractic profession, Dynamic Chiropractic conducted an exclusive interview with CliniCorp's Chairman of the Board Mr. Robert S. Goldsamt. CliniCorp General Council Norbert Schlei was also present. As you'll see, Mr. Goldsamt states CliniCorp's plans very clearly.

"DC": Mr. Goldsamt, would you please explain what CliniCorp's plans are involving the chiropractic profession?

Mr. Goldsamt: Our business plan is fairly simple. What we are trying to do is to form groups by area of chiropractors so that they can provide effective service to the community. For an example, let's take Florida. Florida has 10 media markets or areas. Our objectives are to first acquire, and then develop the number of clinics which are at least 10 to 15 percent of the number of chiropractic clinics in each media area. And we're going to do that state by state.

Let's take the Palm Beach area. We make our acquisitions there and acquire the best practices we can, the largest, the cleanest, most upright, and best-known in the area. We don't buy the practice, we buy the clinics. The acquisitions are done in many different ways, but we're trying to separate the ownership of the clinic from the practice. Then we fill in with development i.e., new clinics,

until we have a perfect market area. Chiropractic is a retail business. People like to travel three miles, four miles, on convenient roads, just like a retail business. We want to have our units distributed just like you would retail stores in each area -- convenient and accessible.

Next we begin acquiring health care plans (PPOs). That will become our marketing arm to larger entities: insurance carriers, HMOs, and perhaps the government directly.

We will be marketing through all media. Chiat/Day/Mojo is our advertising agency. They're the group that did the Energizer ads. They've had more creative ads this last year, I think, than any other agency. Jay Chiat himself has gotten very interested in this project. So we're going to market patients in. Obviously we're going to manage each unit (clinic) as logically as we can on a central basis, pulling as much administration time away from the chiropractor as possible, leaving the DC time to practice chiropractic. That's important, as it frees up about an hour and one-half a day in some cases.

On the wholesale basis we're going to have the PPO, which will deal with the large groups. So we'll be able to drive patients in and manage it in a very logical fashion. When you do that, out the bottom comes the ancillary services, and under the federal guidelines we will be over \$50 million in invested capital. When you get tangible assets invested in a single health care capital, which will be chiropractic, that will cross over the safe harbor rules. This public company will be allowed to own all the assets. So out of that is going to come rehab., diagnostics, MRI and orthopedics.

If we have 10 to 15 percent of the chiropractors in an area, even from the insurance perspective, now we can take care of that area. We're going to go after that wholesale business.

If I have those types of clusters in all the media areas and similar arrangements in the smaller areas on perhaps a PPO basis, now all of a sudden workers' comp. comes into all this. Workers' comp. is two-thirds back injury costs. If we can take care of backs, and can figure a way to buy-out the other third, the medical side, we can offer a pre-paid plan to a state and the carriers in that state for workers' comp.

Now, look at what it's going to cost. We've got all the facilities; we have the chiropractors that have to be paid, but that's it. So my incremental cost for workers' comp. has to be lower than anybody by a mile. With the chiropractors as the theme, I've got the best chance of solving the workers' comp. problem in this country. No one else can do it. That's very large, and very important.

Workers' comp. is out of kilter. In the case of Maine, which had the worst workers' comp. problems in the country, worse than California, relatively, AIG received six million in premiums last year but had to pay out 60 million dollars! That in turn goes back to the premiums in small companies.

In California, businesses are going under all the time. They can't afford workers' comp., and chiropractors are the key to the solution. But they've got to be in a group like I've described. So, that's major and that's nationwide. We see that as the focus, and if we can do it successfully in the Palm Beach area, I think that experiment will carry enough power that it will be heard "around the world" literally. I think it can be done.

The country desperately needs chiropractors! The medical profession has not done the job of forming itself into groups that are effective enough to solve the problems. Chiropractors are still malleable enough for this, and it just happens that their area of expertise is the biggest area of the problem. We see that as number one.

Personal injury has some of the same aspects. We've had calls from PPOs and some of the major carriers for the first time who are starting to say: "Well, could you set up a PPO for us in Florida

because we get chiropractors for our personal injury business": \$60 million just one carrier, one state. What was happening in the insurance industry is that as costs went up, as long as they could maintain spread, they were making more money. So everybody was sitting on the costs and riding the crest of the "increasing costs band wagon."

But now it is almost impossible to lay off costs, so all of a sudden the problem now has reached desperate proportions. The chiropractors have a real chance now of gaining their acceptance and doing an enormous service for the health care system. These are some of the reasons why this is important and why we are interested in chiropractic because there is a major contribution to be made here. But it's got to come from a large organization that can do this. That's what we see happening.

What I've done is to group the country into regions for acquisition and operations. Region 1 is Florida, where we are most intense in our acquisitions; region 2 is Texas; region 3 is the West; region 4 is the Midwest; regions 5 and 6 are the East.

The government is really listening to intelligent suggestions at this point and ready to look at anything that goes to states and changes laws. So whatever now exists is going to be irrelevant. If you can do something right, they'll help you. I'm very fortunate in that a lot of my personal friends and Norbert Schlei's (CliniCorp's council) are in Washington as Senators, Congressmen, etc. and are active in the health care field, and we've been talking. So we see acquiring these units in these regions, and we're going to be national fairly quickly.

We've been trying to enhance our image. Starting at the bottom, there was no way to go but up, which is pleasant. We've had Ken Luedtke, D.C. come on as chairman of the board. He'll help us put the Midwest region together. John Leatham is joining us. As the past president of Alliance Insurance he'll be the helpful link from the insurance industry. We'll continue to try to build quality directors, because we have to make this a first quality company. Everybody is going to be looking at us, everybody.

In each region we have a partnership between an administrator and a chiropractor. So in each area we have one of each heading up a region. It will be like that all the way across the nation. We think the structure will work. Now we don't know exactly where the government is going, but the government doesn't know either. What we're forming really is a health care unit of specialty providers.

We can make our services available with the best prices of anybody. Now for the questions you asked earlier: "Will our operation hurt the little guy?" Well, it may and it may not. I can't answer that totally. The major business clearly is going to groups; it has to. That's what the government is forcing. You've got 30,000 solo practitioners in chiropractic. That's too many. By forming into larger groups the chiropractors can provide the managed care that's going to be required.

We have two kinds of marketing we're going to do and we're going to be testing. No one has ever had the staying power locally to put enough dollars into marketing. We're planning to spend, certainly initially, up to 10 percent of our gross on advertising. In Palm Beach, if we're doing \$25 million, we could spend two and one-half million the first year. That's an enormous amount of money for one market. We can do a lot with that. So it's not going to be, "Come in for a free exam." A lot of it is going to be image-oriented advertising. We are going to test how we can uplift and enhance the image of chiropractors, and explain to people what they do. Most people don't even know what they do.

In that process we hope to increase the overall awareness of chiropractic and the overall business

of chiropractic in that marketplace. The solo practitioners will probably benefit, but we'll also be taking some business from them. When you get to a brand name, it's going to happen.

But we think our biggest market inroad is going to be medical, because they are seeing patients they shouldn't be seeing. So we think we'll pull patients away from medicine. Can I guarantee it's all going to happen? I don't know. I spoke to Jay Chiat, our imagemaker and asked, "Can you really change the image of chiropractors and get it launched?" They think they can. We'll certainly have the money to do it. We'll find out. It's never been done. No one has ever been able to spend that kind of dollars, not on market by market.

So our plan is quite benevolent. We're trying to go right across the country, media market by media market, state by state, trying to get clusters. Then we form a health care delivery unit with ancillaries, and market it to large buyers of services.

I think the government is going to make even larger buyers of services, that's what we are talking about, in the hope that they'll force consolidation of the buyers. It's wide open for us. Kaiser-Permanente for example doesn't have one chiropractor! In a way, that is to our advantage, because they have to compete with us. We can hook up with any one of a number of HMOs to buy the medical. So we've got to have a cost savings (utilizing chiropractic care), a dramatic cost savings.

The government doesn't care whether it's MDs, nurses, or DCs, if it is efficacious, inexpensive, and quality-controlled they're interested. The prejudices toward chiropractic are going to fall away because of the desperation of the government to provide economic health care for all.

"DC": Which states do you see being first?

Mr. Goldsamt: Florida is first. Texas is going to be very active early on. It's hard to say where California is going but it is active out here. We'll wait and see what's going to happen. If the health care system changes ... remember Florida's already a no-fault, so they are over a lot of the bridges that California hasn't crossed yet. So it's safer for us to operate in California but not as safe as Florida where we see where it is going. Texas perhaps will be second. California is very active and Arizona also.

We want to play with areas that we have the largest number of units, but that the numbers are not so large that we can't test them. So the last place that you are going to see a lot of our testing is going to be Los Angeles. We want to be perfect first. L.A. is different than anywhere else, but other parts of California are a lot easier, so we might test outside, San Diego or up North someplace. The West is heavy on our docket. There are 10,000 chiropractors in this state. That's a lot of chiropractors -- it's 20 percent of the profession.

"DC": What can the average chiropractor expect in a relationship with Clinicorp?

Mr. Goldsamt: There are three kinds of chiropractors that seem to be interested in what we have to offer: first, the young guys coming out of school looking for a job. They will be filling in for the new development projects (clinics) and working at our established clinics; second, the young lions, those with practices that are building, and in this case we usually develop transactions for some of them that will enable them. We usually pay one times gross, trying to be fair with everybody. We usually break that up half cash, half stock, because we want them to participate. It is very important for us to have the chiropractors as CliniCorp stock holders, as we'll then have a lot of growth in that stock over time. We want them to be our partners in this thing. We'll pay fee for services, 25 percent of services rendered. That's standard. In some cases, if they're managers, they'll get salary in addition. If they have more responsibility in a large growing practice, then we'll

let them develop more units (clinics), one or two more units which they'll supervise.

So a DC, while right now he may only be earning 50 percent of the income of that unit right now, expenses are about 50 percent, he's giving us half of it in some fashion or another. While he has cash in his pocket and stock in his pocket, his income is down. We would hope that through the combination of marketing and wholesale business, we will bring that (income) back up. We're giving him more hours, so he can take things in life more pleasant. We're taking the administrative and marketing burdens away from him. He's got a lot of time now to practice, and he'll take vacations and be able to live like a person. And if he's really aggressive, we'll do a transaction with him for two more units. So in that fashion, he'll get his income back up very quickly, maybe in the first year. If we didn't give him two more units our hope is that within the terms of his contract, which should be three to five years, we're going to be able to get his income up by increasing the volume of that unit. We're hoping that at the end of this the object is to have the same income as he had before he found us, but with our stock and cash in his pocket. And a much better life. So that is what we expect to happen.

The third group is the older DCs. They've built a tremendous asset in their practice. They spent their whole lives on it, but they've got no one to sell it to. They are the least liquid of all, and so are obviously super excited about us coming in because now they have a buyer for their assets, not a bunch of young DCs who could only pay them over a 15 or 20 year period.

So those are the three kinds of DCs who are getting involved, and there's a lot of opportunity for chiropractors here because some of these guys are pretty good businessmen. They've never had the opportunity though to be anything other than running their own clinic or two or three clinics.

We expect to be a large company, and clearly we're going to try to take advantage of all the talent we can get our hands on. Some of these guys will be able to get into managerial positions. They've never had that opportunity before, and there is some real talent sitting around. From that perspective some of these guys will obviously come up into the holding company, or work in the regions. It's going to change a lot of things. There are big changes coming here.

"DC": What can a new chiropractic college graduate expect?

Mr. Goldsamt: Come to work for us first. They can go almost anywhere we have units. To get our retail distribution, we're going to be opening new units. They will be one-man units initially, so a graduate may start in a larger unit as an associate. We'll be feeding him business so that we hope we can get him up to full speed in a couple of years.

What we are trying to do is to conform to the law in each given state. We have to do what is absolutely legal in every single state. But the facts are that we are managing the practices and the structure of it is right now as a separate, health care partnerships, with us managing. We've chosen that structure since it seems to be the most universally accepted. But we're trying to follow a steady course that is acceptable for all states.

Mr. Schlei: It's not only complying with the law within the jurisdiction, but it is better for the chiropractor to feel that he is part of a chiropractic partnership in a corporation. He's not just an employee.

Mr. Goldsamt: You can put your incentive in more places by having them manage it themselves. The government is thinking that fee and service should be separated from profits, so there is this overhead and complex structure. But forming these managed care groups should be very simple.

That's really what we see in the future. That's not so far off, by the way, it's going to come upon us

with lightening speed. We'd like to make life a little more easy. We need to get a certain amount of size so we can conduct these experiments to make sure that Washington is aware of this and the role that chiropractors can play. The best way to make them aware of it is to do it.

The goal would be to get about 10 percent of the profession in our relationships. That's about 5,000 DCs. Since a lot of it is going to be larger practices, finishing all our mathematics and our costs, it looks like each chiropractor working with us contributes about \$100,000, and would make approximately the same income for himself, on an average that is about what is going to happen.

So we add it up: That means that the chiropractors themselves, if we are successful in our acquisitions program, would be delivering us about \$500 million in profits. Add in the ancillary services: another \$500 million. So if you can conceive of the universe we are looking at, it's about a billion dollars of profits. We hope to get there in a reasonable time. We cannot dictate what will happen, but that is the universe.

What happens is that once a company is that large, what does it mean for chiropractic? Well, the chiropractors have suffered from a lack of a big partner or a big market since the beginning. All the health care categories, drug companies, hospital supply companies, and public companies of all types have applied their resources to sponsor various medical categories. We think that a company of this size level has no choice. We've got to put some dollars back into the business. We've got to help with research, give help to the schools, and do all those things that have not been done in such a long time. It is a public company's responsibility to do that, and for our investors. Insurance companies, mutual funds, people who have been somewhat against chiropractic, they're going to wind up on the bandwagon.

So we think that the efficient structure is the corporate format in a public company. And by its very nature it must put money back into chiropractic. We have to do everything absolutely in our power, we can cut no corners, everybody is going to be looking at us. So we think it is going to be good for chiropractic in the long run, and then all health care professions are going to change. It's just that the problems are so great that this really should be the hour for chiropractors. Because they are desperately needed.

Editor's Note: It is not often that a company just beginning to execute its business plan is so willing to share their intentions and strategies publicly. Dynamic Chiropractic would like to thank Mr. Goldsamt and CliniCorp for being so candid with the chiropractic profession regarding their plans.

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