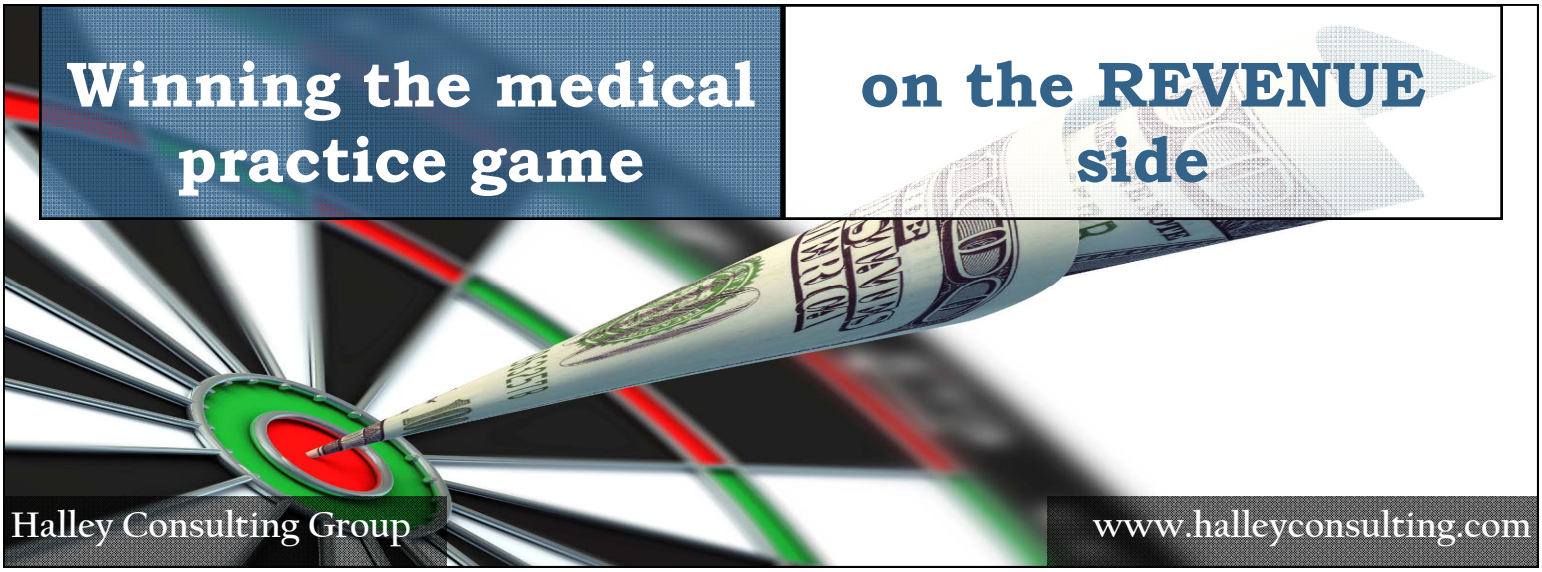
# Winning the medical practice game on the REVENUE side




When it comes to hospital ownership of medical practices, the old adage, "history is destined to repeat itself," appears to be true. In the late 1980s, hospitals aggressively sought to employ primary care physicians. Subsequently, many struggled with operating losses averaging more than $80,000 per physician annually. Several of those hospitals sought to cut those losses by divesting their hospital-owned practices.

Today, many hospitals are getting back into the medical practice business through the employment of both primary care and specialty practices. Unfortunately, some hospital executives are not applying the lessons learned about physician employment over the past two decades. Again, we see many hospitals facing the same (or greater) financial losses experienced previously. Yet physician integration remains a strategic imperative and physician employment appears to be a critical tactic.

So how do you come out ahead when you are in what seems to be a losing game? At Halley Consulting Group, we have found that eight network-wide initiatives can work wonders in helping a healthcare organization win the medical practice game on the revenue side.

Although these network-wide initiatives include expense reduction and control, they focus more on optimizing revenues. As you know, the medical practice business is labor-intensive as opposed to capital-intensive. Labor is a fixed cost over the short term, representing up to 75 percent of total costs. High-fixed-cost, low-profit-margin businesses such as medical practices succeed on the revenue side of the income statement, and therefore we place a special emphasis on revenue at the individual practice and network level.

Here, then, are the eight critical factors you need to know that affect net patient revenue in primary care practices and employed specialty networks:

**1) *Volume-capacity mix*.** Volume-capacity mix involves matching the physician network capacity with the hospital's ability to attract patients to its primary care practices and affiliated specialists. Excess capacity needs to be filled within an acceptable timeframe – or removed. In mature markets where the supply of primary care providers meets or exceeds the demand for services, the volume-capacity question becomes especially critical. Obviously, this revenue factor is heavily influenced by the effectiveness of the organization's payer-contracting leverage and capabilities.

**2) *Payer mix.*** Managing a physician network's payer mix has many financial, ethical, mission and even legal facets. Patients/customers want to build a long-term relationship with their preferred provider. Because attrition rates of patients are relatively low, changing a poor payer mix in a primary care practice is a slow process. It is far better to manage the payer mix up front and insist on filling practice capacity with patients who participate in higher-margin health plans.

**3) *Fees for services*.** To optimize payment, it is essential to have a common fee structure throughout the physician network and to review that fee structure frequently.

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**4) *Provider productivity.*** The key to the success of any physician network is the productivity of its providers. Productivity is largely a function of a compensation model that promotes high productivity and a corresponding culture among physician peers. Providers operating at or below median levels of benchmark productivity will have difficulty creating viable practices.

**5) *Relationship management*.** As markets mature and the supply of primary care providers exceeds demand, it becomes more difficult to maintain established practices, which naturally lose patients through attrition. It is even more difficult to build new practices or strengthen those that are marginal performers. Primary care practices depend upon referrals from established patients as their primary source of new patient volume. It is critical to develop a culture of excellent customer service that attracts and retains a group of loyal patients who refer their friends. Monitoring patient satisfaction through surveys and the new-patient ratio (new-patient visits as a percentage of total patient visits) and setting demanding customer-service targets is essential. Specialty physicians must address patients and referring physicians as customers.

**6) *Coding and documentation*.** Primary care providers are trained to document for clinical purposes, not billing and compliance purposes. The federal government's fraud and abuse investigations in recent years underscore the importance of accurate coding for billing by physicians. Providing ongoing education about how to code accurately and reviewing physicians' coding and documentation are two tasks that can positively impact revenues for many practices and networks.

**7) *Receivables management*.** Hospitals that own group practices tend to centralize the billing process and often mix practice and hospital billing. However, there are significant differences between hospital billing practices and the needs of the physician business. For example, many of the steps in an effective practice billing process occur at the group practice site. A totally centralized process disengages the practice site from accountability for those steps and leads to higher days in accounts receivable, a lower collections percentage, and frustrated patients/customers and staff. A central processing approach shares responsibility for receivables management. The practice sites focus on data verification, point-of-service collections, proper credit extension and private-pay follow-up. The central processing office supports the practice sites by processing primary and secondary insurance claims, conducting insurance research, producing monthly patients' billing statements, and supporting the pre-collections process for private-pay patients. Site managers have accountability for receivables performance and become internal customers of the central processing office.

**8) *Service mix*.** The hours a practice site is open and the services it provides significantly affect the practice's bottom line and competitive position. In many hospital-owned networks, laboratory and radiology services are provided in the hospital, which enhances the hospital's bottom line but penalizes the high-fixed-cost, low-profit-margin primary care business. Enhancing the services provided by hospital-owned medical practices is a very effective way for a hospital or health system to increase its patient volume. Forcing patients to travel to the hospital for services normally found in a physician's office has the opposite effect.

Network wide initiatives should be conceived and implemented in a participative manner. This approach requires that employed physician leaders and senior management address challenges faced by the network and develop jointly supported initiatives. The true success of a hospital-owned medical practice network structure starts with the development of a partnership between senior hospital administration and employed physician leaders. This partnership creates a shared vision focused on achieving the strategic objectives of an integrated system. Operational decisions are made according to correct principles for the medical practice business rather than rules that govern hospital departments.

## About Marc Halley, MBA

**Marc** is the founder of The Halley Consulting Group and has served as its CEO since 1995. The company was the culmination of Marc's many years of providing practice consulting to varying medical specialties, including hospital-owned primary care and specialty networks. Today, the team at Halley Consulting works to develop strategies to capture market share and to improve the operational performance of owned and affiliated medical practice networks. They have worked with physician groups in nearly every specialty across the United States.

Marc is a frequently requested speaker and has authored many articles that have been published in industry magazines. In 2007, Marc "wrote the book" on hospital ownership of medical practices as a competitive strategy. ***The Primary-Care Market Share Connection: How Hospitals Achieve Competitive Advantage*** was published by Health Administration Press in March 2007 and is available online for purchase. In addition, several members of Halley Consulting, including Marc, recently contributed several chapters to a three-volume set of books titled ***The Business of Health Care***, released in late 2007. The firm's third book, ***The Medical Practice Start-Up Guide***, was released in 2008 by Greenbranch Publishing.