Four Keys to Profitability When Expanding Your Practice

BY CHRIS MCDONAGH, ASSOCIATE EDITOR

With costs rising and reimbursements declining, finding ways to boost practice revenues can be a challenge. One option is to increase your range of services by adding a new treatment, such as Botox, or a new technology, such as a nerve fiber analyzer.

While new technology might improve patient care and enhance your reputation as the most high-tech practice on the block, the expenditure may also land you in hock. Before investing serious amounts of time and money, here are four key questions to ask.

What's the Plan?

"Anything you add has to fit within your business plan," said Michael Parshall, a consultant and principal at the Health Care Group, a consultancy based in Plymouth Meeting, Pa. You need more than a budget, he said. You should have a plan of attack that tells you what actions your practice should take to achieve its strategic goals. This will be especially useful when a number of options arise at the same time. "If you already have a plan, then it will eliminate any options that divert you from your strategic goals."

To help you establish and fine-tune your plan, your practice should perform a periodic coding analysis. By keeping track of CPT and ICD-9 codes and pulling together those that are most frequently used, you can quantify the conditions that you see and the treatments that you provide. While a quarterly analysis would normally suffice, Mr. Parshall suggests a monthly analysis when you're introducing a change to your practice.

Where Are the Patients?

Vendors may tell you that shifting demographics will guarantee you a rising supply of patients for their technology. But do those nationwide trends hold true for your community?

If demand for a new service doesn't already exist among your current patient base, you will need to do some research.

Check your community's demographics. Suppose, for instance, that you are thinking of adding Botox services, the people who are most likely to pay you for this service will lie within a certain age and income range. How many of those individuals are in your community? One starting point is the factfinder.census.gov[1] Web site, where you will find results of the last national census.

Start a referral log. "If you don't know what you're giving away, then it's harder to know whether you can support certain services and technology," said Mr. Parshall. When you refer one of your patients to another physician, make a note of both the diagnosis and the likely treatment.

Talk to referral sources. While your referral log may give you an idea of your minimum patient volume, the potential volume may be much higher. "You need to talk to your referral sources before you can quantify what sort of volumes are out there," said Mr. Parshall. He gave the example of a cataract/glaucoma practice that performed 1,200 cataract surgeries annually and was now considering adding retina. According to its referral log, the practice was sending out about 70 or 80 vitrectomies and buckles each year. After the physicians talked to their referral sources, they learned that they would be able to

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double that volume (presuming, of course, that they could count on the support of those primary care physicians and optometrists).

Will you lose referrals? How will your adoption of a new service or technology affect important relationships? Suppose, for instance, that you purchase a nerve fiber analyzer. If your referral sources already are using this technology, they may start thinking of you as a competitor and that, warned Mr. Parshall, "could hurt relationships in all aspects of your practice."

What Are the Benefits?

Before adding any new service, you will need to perform a cost-benefit analysis to make sure that your practice can afford the expenditure. If you rely on third parties to cover your costs, you should check that those insurers and Medicare carriers cover the service you're considering. You may deal with 40 or 50 different carriers during the course of the year, but you won't necessarily have time to contact all of them. "What you're looking for is the big numbers: the 20 percent of your payer mix that's giving you 90 percent of your revenue," said Mr. Parshall.

Having established that you can get the referrals and that third parties will cover the cost, you need to ask whether this revenue stream will be sustainable. For instance, if there is a question over whether or not the service improves patient care, "payers may eventually decide to stop reimbursing you and you'll end up owning and paying for a piece of equipment that you no longer use," warned Mr. Parshall. "The service has got to make sense for the patients."

What Are the Costs?

Once you have estimated your patient volume and payments, you can perform a cost-benefit analysis to get an idea of potential returns—but not all the costs are immediately apparent.

An easily overlooked cost is personnel time, said Mr. Parshall. "The amount of time that staff will spend on a particular service or technology is part of the cost." And the more accurate your estimated costs are, the more reliable your pro forma will be, he said. For instance, rather than basing these costs on the average staff salary, you should consider which members of staff would be using the machine.

The annual maintenance fee—which, for high-technology equipment, can be 15 percent of the purchase price—is another important part of the equation, said Mr. Parshall. When negotiating this arrangement, make sure that the contract is very clear about what's covered; otherwise you may be hit by unexpected costs. "Don't be put off by the fact that they present you with a standard contract," he advised. "They are always able to modify it."

Colleagues in other practices can warn you about other costs that you might not have anticipated. "Societies have established listservs that are excellent forums for asking these sort of questions," said Mr. Parshall.[2] By asking about a particular vendor online, you may find out about costs—usage fees, for instance—that the vendor forgot to highlight.

Follow-Up

Whenever you add a new technology or service, you need to see whether the reality lives up to your original expectations.

"If you fall below your numbers, you need to see what sort of a beating you're taking," said Mr. Parshall. "That way, you can take steps to either cut losses or increase appropriate utilization."

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1 After going to factfinder.census.gov, pulling income data for your Zip code involves an eight-step process: (1) select "Data Sets" from the left-hand column, (2) for income, select "Summary File 3" and "Quick Tables," (3) from the "Geographic Type" pull-down menu, select the 5-digit Zip code option, (4) from the "Select a 3-digit Zip" pull-down menu, select the first three digits of your Zip code, (5) from the 5-digit Zip pull-down menu, highlight the appropriate Zip code, (6) select "Add," (7) select "Next" and select (8) Other demographic data are available in Summary Files 1 and 2.

2 Members of the AAOE can visit www.aao.org/aaoe for the E-Talk listserv.

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