

# managing the margin

...strategies for generating new revenue and controlling costs

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## FEATURED FOCUS

### Top Money Makers for Your Physician Group Practice

Robert F. Hill, Jr., and Alan M. Zuckerman

Each year, physicians seem to work more hours, see more patients, and perform more procedures. Yet for all of the increased effort, the result is only a minimal increase in net revenue and contribution margin, and the incremental compensation is even less. Practice expenses — driven by staffing, malpractice insurance, supplies, pharmaceuticals, regulatory compliance, and other costs—are routinely increasing at the rate of 5 percent or more per year. In many specialties, collections for professional charges are increasing at only 1 to 2 percent per year. For hospital-owned physician groups, the current estimated average loss remains at more than \$75,000 per employed physician annually. Declining government payment levels only increase this burden.

Despite this potentially bleak financial outlook for physician practices, opportunities are available to generate incremental net revenue and contribution margin to offset declines in professional fees and rising

practice expenses. Some opportunities are not appropriate for a particular practice depending on the physician specialty, patient mix, competitive environment, and other factors. However, for every kind of practice, there are many examples of approaches that have proven successful.

#### Add Ancillary Services

The best way for most physician practices to generate incremental revenue is to add ancillary services. Many ancillary services are characterized by high volume and can enhance the quality of patient care, improve customer satisfaction, and generate significant contribution margin for the physician practice. For example, a recent report by the Medical Group Management Association concluded that an orthopedic practice can generate, on average, \$42,000 in annual margin by adding diagnostic radiology services compared with \$41,000 by adding physical therapy services and \$23,000 by adding MRI services.

Ancillary services that can be offered by a physician practice continue to expand:

- Medical imaging (including X-ray, mammography, MRI, CT and PET scans, and bone densitometry)
- Laboratory services
- Cardiac diagnostic testing (including EKGs, stress tests, and catheterization)
- Physical and occupational therapy
- Pharmacy services
- Outpatient surgery and minor procedures

The potential for significant revenue and contribution margins generated by ancillary services comes with some risk. The cost of imaging equipment typically is more than \$50,000. The capital investment to develop an operating or procedure room can easily exceed \$500,000.

Fortunately, the cost to finance the development of ancillary services is at historically inexpensive levels due to low interest rates and the variety of financing options that are available from equipment vendors and leasing companies.

Any new or expanded service that will be offered by a physician practice requires careful planning and analysis, and hospitals that employ physicians must consider the impact that offering ancillary services at a physician practice location might have on operating performance of existing hospital-owned ancillary operations. Key considerations include:

- Demand for the service
- Legal and regulatory issues
- Competition
- Technological changes
- Capital cost
- Financing or lease arrangements
- Insurance coverage and payment
- Facility and space requirements
- Availability, quality, and expense levels of technical and support staff to provide the service
- Cost of supplies and equipment maintenance
- Downside risk and other business planning issues

Practices that want to minimize the risk involved in developing ancillary services can consider a turnkey oper-

ation from the vendor in which they lease or buy the equipment and also contract for staffing and management services. This approach can also reduce the costs of supplies and other operating expenses, which can result in increased contribution margin.

### **Leverage Provider Time**

Generally, a goal for the practice should be to delegate tasks to the lowest-level staff member who can handle the responsibility at the lowest cost. To this end, the practice should make the best possible use of nurse practitioners, physician assistants, midwives, nurses, medical assistants, health educators, and other extenders.

For instance, nurse practitioners may be able to handle walk-in or urgent care visits to limit disruptions to the physician's schedule. Nursing staff could handle patient and family education, phone follow-up, and other routine clinical duties that either interrupt or prolong the physician's work schedule. Medical assistants could handle patient and exam room preparation, take vital statistics, give injections, and handle other responsibilities that do not require a higher level of clinical capability. When an office is appropriately staffed, physicians are able to handle the most complicated and acute patient care responsibilities, which generally are paid at higher levels.

### **Use/Add Providers**

For primary care physicians, another way to leverage

professional time is to contract with or hire hospitalists, physicians who practice exclusively in an inpatient setting. Working with a hospitalist can enable a primary care physician to focus on the office-based practice, which is often the most profitable aspect of the practice. With a well-managed hospitalist relationship, the primary care physician can increase office-based productivity, generating \$25,000 or more in incremental revenue, which more than offsets the typical decline in inpatient revenue. Hospitalists also are being contracted or employed more frequently by surgeons and other specialists to manage inpatient care.

Large primary care practices often have the opportunity to expand by adding a specialist to the practice. Specialists can provide higher margin services to the benefit of the practice. In-practice access to a specialist keeps referrals in house and can also enhance patient convenience.

### **Increase Accessibility**

After-hours or urgent care services can represent a new revenue stream for physician practices. Also, evening and weekend hours of service are highly recommended as an opportunity for providers that are not at full capacity. Providing urgent care services can increase fee-for-service revenue and reduce the cost of providing healthcare services by avoiding unnecessary emergency department visits. For practices that are not full, urgent care services can

serve as a referral source for new patients. When considering whether to extend office hours or provide urgent care, the practice must consider the incremental staffing and other associated expenses.

A practice should also review its allocation and use of space. Resources should be appropriate for the use of exam rooms. If excess space exists for a practice, the practice should consider leasing the space to another provider. If excess space exists and the existing providers are at full practice levels, an additional physician or nonphysician clinician should be hired.

Practices can also expand the practice to a new location. Practices considering this approach should assess the supply and demand for physician services in the respective specialty. In select situations, it may be possible to lease space at another practice located in a different market. For example, a surgical practice could lease space to a primary care physician or medical specialist during afternoon or evening sessions. Physicians can also provide services at nursing homes or retirement communities, which may lead to securing a medical director position at the respective location.

For primary care physicians, a means of increasing revenue is to handle call coverage for unassigned patients that present to the hospital emergency department. This coverage will generate professional revenue at the time of service and can serve as a

referral source for new patients.

Physicians also may consider offering house calls to increase revenue. Although this approach may not be an efficient revenue-generating strategy for busy practitioners, it may be an option for physicians whose practices are not at capacity. Home visits are extremely convenient for some patients and their families and may ultimately generate new patients for the office-based practice. In 2001, the average charge that CMS allowed for physician home visits was \$95, compared with \$76 in 1999. To provide this service, a practice should set limits on travel time and distance and consider higher pricing for weekends and holidays.

### **Take Advantage of Technology**

Other means of leveraging time and increasing revenue for the practice are to use electronic medical records, on-line scheduling, and other technological innovations.

Partners Health Care System in Massachusetts has developed a web site to handle requests for electronic medical second opinions. Other tertiary and quaternary providers are offering similar on-line services. The process includes a referral from the patient's primary physician, on-line registration, completion of patient history, and payment by credit card. Much of the process is handled through web-based interaction and results reporting via e-mail. The cost to consumers for this convenience typically

## Why Think New Revenue?

In the 1980s, the ratio of collections to charges for physician practices was often 85 percent or higher. Today, physician practices are fortunate to collect 65 to 70 percent of charges. Proposed future cuts in federal and state payment for physician services may make the situation even more dismal. The difficulty of working harder to achieve modest, if any, increases in net revenue and compensation is affecting physicians across the country, whether in private practice or an employment relationship.

Obviously there is a limit to how hard, how long, and how efficiently physicians can work.

Once expenses are at benchmark levels, the value that can be gained from pursuing cost-reduction initiatives is minimal and to a great extent outside the control of the physician, the practice administrator, and/or the ownership entity. To offset future revenue declines, physician practices need to evaluate and then develop alternative sources of revenue.

ranges from \$550 to \$600 per consultation.

Medem, a California-based organization, provides consumers with fee-based on-line consultation with physicians. Physicians can sign up to be a provider of the service and are covered by medical liability insurance. The professional fee per consultation generally ranges from \$20 to \$30. Medem charges physicians a processing fee that is about 10 percent of professional fees.

### Optimize Payment and Cash Flow

Practices should periodically complete an audit to assess the appropriateness of coding and charges for optimal revenue. The purpose of the coding assessment is to ensure that the practice is coding at the highest appropriate level. A detailed fee analysis involves comparison with a regional and/or national fee schedule, which is

published by several organizations. Comparisons can typically be made with 25th percentile, median, or 75th percentile statistical levels. A practice should also compare its fee schedule with those of local and regional commercial insurance organizations.

Like any business, a physician practice should look to enhance revenue-cycle performance to enhance cash flow by improving the accuracy and efficiency of the billing process. Practices should also consider contracting with an external organization to collect aged accounts.

Another means of improving cash flow is to target cash-only patients. A Mississippi physician sees patients on a cash-only basis and provides instruction to insured patients on how to file claims with their insurance companies. Charges are \$40 to \$45 for an office visit, \$40 for most X-rays, and \$20 for an elec-

trocardiogram. For this particular physician, cash flow has improved.

Expenses have reduced because tasks related to insurance verification, billing, and collections, and the associated paperwork have been reduced or eliminated. Within the next five years, the practice is reportedly targeting \$500,000 annually in cash collections.

### Consider Service Charges

Despite the backlash that is often received from patients and their families, many practices are now charging patients for phone time, paperwork, and other services that in the past were considered routine. Examples include:

- A physician who charges his patients \$2 per minute of telephone consultation (depending on insurance regulations)
- A practice that charges a \$25 fee if the on-call physician determines that the matter is routine and could have been handled during regular office hours
- Practices that charge patients \$5 or more for completion of paperwork for schools, summer camps, employers, or insurance companies
- Practices that charge for photocopying or forwarding medical records (often either a flat fee or a charge per page)
- A practice that charges a flat fee of \$30 per year for administrative and other services, including records transfer, resolution of insurance issues, and phone consultation
- Practices that charge for

family consultations to discuss the care or condition of a family member

### Consider Providing Nontraditional Services

Adding new or expanded services can also enhance practice revenue. For example, executive health physicals are being offered in select markets. A suburban Pennsylvania practice offers executive physicals on Tuesday and Thursday during morning sessions. Each appointment takes about two hours. The support staff provides most of the services, with the physician handling the greeting and wrap-up with the patient. The service has been extremely successful; cash collections average \$150 to \$200 per visit, and the appointment wait time typically is more than three months. The service is projected to bring in more than \$35,000 annually in net revenue.

Practices with a forward-thinking approach to medical care and a willingness to evaluate and implement nontraditional services should consider the following potential revenue sources:

- Boutique medicine (also known as concierge plans or physicians on call)
- Pain management clinic (e.g., low back, neck, headache)
- Lyme disease clinic
- Sclerotherapy (e.g., varicose veins treatment)
- Facial peels
- Participation in clinical drug trials
- Hair removal
- Hearing testing
- Vitamin sales
- Health promotion clinics,

such as weight loss, living with prostate cancer, nutrition counseling, smoking cessation, stress management, and substance abuse classes and groups

- Complementary medicine services

### **Focusing on Revenue**

There is a limit to the economic benefits of cost-

reduction initiatives, particularly after benchmark levels have been achieved.

Practices should continuously seek new sources of revenue and improved contribution margin. With careful planning, almost any practice should be able to achieve positive results when these opportunities are thoughtfully initiated and managed. ■

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Robert F. Hill, Jr., CHE, is manager, Health Strategies and Solutions, Inc., Philadelphia, and a member of HFMA's Metropolitan Philadelphia Chapter.

Alan M. Zuckerman, FACHE, FAAHC, is director, Health Strategies and Solutions, Inc., Philadelphia, and author of *Healthcare Strategic Planning: Approaches for the 21st Century*.

Questions or comments about this article may be sent to Alan Zuckerman at [azuckerman@hss-inc.com](mailto:azuckerman@hss-inc.com).

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