Oncology—
A "Rising Star" Investment

by Thomas R. Barr, M.B.A.

Those of you with a business background may be familiar with the Boston Consulting Group's model that divides all businesses into four simple and discrete classes—Rising Star, Cash Cows, Dogs, and Question Marks. It is my belief that current market conditions have made oncology a "Rising Star" investment opportunity. A steady or decreasing supply of qualified distributors (cancer centers), certain growth in the number of new buyers (increasing number of patients with cancer), and the availability of new and better technology are all trends that can only help an established distributor (a physician practice or hospital) make a return on its investment. The time is *now* to invest in the future of your physician practice!

The first step is to start thinking like a business and protect your bottom line through two fundamental business strategies—product line extension and product line expansion. As a business, your practice must follow the laws of a free market economy, which dictate that businesses *must* produce revenue in excess of costs. (Although some believe otherwise, physician practices *can* and *should* earn a profit.)

I like to use the metaphor of medicine being an art that is funded by a business. The problem with that analogy is that art and profit have never enjoyed a comfortable relationship. The role that profit plays in medicine remains a particularly thorny issue. Americans remain divided over whether access to medical services is a fundamental human right that should be funded by the government or one that would be best served in a free market economy built on competition and consumer choice. While the debate over *how* to pay for health care continues to ebb and swell, physician practices that are run like a business are rewarded with an accurate financial view of their bottom line.

Thinking like a business means first understanding the revenue and costs associated with each component of your service line. It's not as hard as it sounds because CPT codes (developed for billing purposes) allow a fairly easy separation of services into distinct product lines. Service lines for most physician practices typically include medical E&M services, administration of drugs, laboratory services, and a research component. More and more physician offices are also offering radiation and product services to patients.

You only need a few simple tools to produce business line managerial accounting: a procedure productivity report, a procedure revenue report, and a profit and loss statement for each service line. With the information contained on these forms, your practice can see which service lines are losing money and which ones are making money, as well as identify areas for extending or expanding services.

Extending your service line involves making your existing services and products more widely available. The underlying goal of this business strategy is to increase your patient population. Opening an office in a new location, offering second opinions, and providing infusion services are all examples of how you can extend your service line.

Service line expansions involve providing new services to existing customers. Your physician practice can become a one-stop shop for patients by expanding your services and eliminating the need for patients to go elsewhere for parts of their treatment regimen. Generally speaking, offering new services, such as IMRT or PET, is easier for a physician practice than extending its service line in the hopes of attracting new patients.

I'm not going to lie to you—the upcoming reimbursement cuts *will* be a challenge to your practices. By my calculations, each practicing medical oncologist in a physician practice will lose approximately $75,000 to these lower drug payments or the equivalent of a 20 percent reduction in physician compensation for physician-owned practices.

This news should come as no surprise to anyone in the oncology community, and physician practices are being attacked on two fronts. Fueled by the desire to cut or contain costs, both Medicare and private insurers are rushing to develop and test new reimbursement models. Oncologists and others interested in ensuring quality cancer care and patient access to care can continue to debate, negotiate, and compromise on these reimbursement methodologies, but at the end of the day physicians *will* be paid less money per patient.

While the news is dire, physician practices that are run like a business can survive and even thrive in this chaotic health care environment. And, whether your practice decides to extend or expand its service line, you must first develop a strategic plan to ensure a return on your monetary investment. Physician practices that adhere to a carefully thought-out strategic plan that is based on sound financial analysis *can* protect their bottom line.

Thomas R. Barr, M.B.A., is executive director of Creative Healthcare Network, a collective of product and service innovation companies for community medical practices.