

# How *Efficient* is Your Practice?

by Elaine Towle, CMPE

The Medicare Prescription Drug, Modernization and Improvement Act (MMA) was signed into law late in 2003, and the many changes mandated by this legislation continue to affect the office-based oncology community. Today Medicare pays average sales price (ASP) + 6 percent for all drugs purchased and delivered in the private practice setting. The transitional payment for chemotherapy administration codes—which helped keep most office-based practices in the black for 2004—has dropped from 32 percent (in 2004) to 3 percent this year. It will disappear entirely in 2006. The entire structure of the coding system for drug administration has changed. While Medicare has established new temporary codes in 2005, other payers are slow to recognize these new codes.

In a last-minute attempt to ease some of the pressure on private oncology practices, the Centers for Medicare & Medicaid Services (CMS) late in 2004 implemented a one-year quality of care chemotherapy demonstration project to look at patient symptom assessment and provide much-needed additional reimbursement for oncology practices. Unfortunately, many practices are still projecting significant losses for 2005.

In 2006 practices will have the option of choosing *how* they obtain drugs for Medicare patients. One option

will be to continue to purchase drugs and receive payment based on ASP +6 percent. The second option will be to participate in Medicare's Competitive Acquisition Program (CAP) and obtain drugs from a CMS-selected vendor who will bill Medicare directly.<sup>1</sup> CMS released the proposed CAP rule on March 4, 2005 (see page 14). While the final CAP rule is not expected until some time this summer, practices need to begin *now* to prepare.

## *Survival of the Fittest*

Efficiency is essential to the survival of your practice. In today's reimbursement environment of decreasing revenues and escalating costs, good business processes are essential to maintain, and perhaps even grow, your practice. If your oncology practice is to remain financially viable, you must focus on three broad areas: legislative and regulatory issues, improved operations, and patient satisfaction.

Your oncology practice may be far removed from Washington, D.C., but you can no longer afford to ignore Congressional and regulatory activities. Now more than ever, your practice must understand the legislative and regulatory environment, including any changes that are proposed and implemented. Get involved in the reimbursement process and stay ahead of the learning curve.

At the same time, focus on improving efficiency in your oncology practice. Consider ways to lower your operating costs and improve operations. If you have not already done so, develop managerial accounting capability so you can truly understand your costs, particularly as they relate to reimbursement.

Finally, while you are juggling your operational and reimbursement roles, do not lose sight of your most important function—providing quality care to your patients with cancer. Patients still have a choice of where they want to receive care. A successful oncology practice knows and understands its customers (patients) and makes customer satisfaction a priority.

With the drug margins gone, many oncology practices are exploring alternative revenue streams. Before you consider adding new lines of business to your practice, however, be certain that you understand the reimbursement environment and are operating efficiently.

How efficient *is* your practice? The first step to answering this question is a thorough analysis of your practice's expenses. Your goal is to understand the largest areas



of expense in your practice. For most medical oncology practices, the largest expense area is drugs and supplies, frequently referred to as “cost of goods sold.”

According to a recent MGMA cost survey for oncology practices, the cost of goods sold represents about 62 percent of practice expenses.<sup>2</sup> Physician compensation and benefits comprised the second largest expense area at 26 percent, and staff salary and benefits was third at 12 percent.<sup>2</sup> Analyzing expenses in your practice will help you prioritize your approach to improving practice efficiency.

### *Know Your Costs: Pharmaceutical Purchasing and Management*

Start with the practice’s largest expense area. As mentioned above, this will likely be the area of pharmaceutical purchasing and management. Consider all the components of this area and evaluate your practice’s approach to each. Think about the processes that exist in your practice and ask why they are in place. Encourage your staff to question the status quo as well. Specifically, assess the following:

**Contracts.** Practices that do not fully understand the terms of their contracts will not survive under ASP. Your practice must aggressively negotiate your drug contracts, which means getting the best available price for every drug you purchase. At minimum, you must know if your practice is purchasing drugs for less than ASP. This answer is particularly important for smaller practices. By definition, ASP means that some practices are paying more than ASP for their drugs, while others are paying less. Practices cannot afford to pay more for anti-cancer drugs than the amount they are being reimbursed.

Take a look at how often your practice is renegotiating its drug contracts. Most practices understand the importance of negotiating drug contracts on an annual basis. Under ASP, however, reimbursement amounts change every quarter. This change mandates an adjustment in your practice. To ensure the best price for drugs, review your contracts on a quarterly basis. Depending on ASP and the fluctuation in drugs costs, you may need to negotiate your drug contracts more than once a year. In fact, you may want to consider assigning a staff person—administrator, nurse, pharmacist—to shop for best drug prices each week. (For more on this topic, see “Understanding and Negotiating Pricing with Your Pharmaceutical Representative,” *Oncology Issues*, January/February 2005.)

**Inventory management** is critical to practice efficiency. Take a look at how much inventory is on your shelf. Is any of the inventory outdated? Most practices can get any drug they need delivered in 24 hours. If your wholesaler offers this service, it’s time to tighten your inventory and keep fewer drugs in stock.

Inventory shrinkage—the unexplained diminishing of inventory—must be controlled. Some causes of shrinkage include physical loss, undocumented waste, and charge capture loss. Put daily processes in place to minimize shrinkage.

To ensure that your practice bills for everything it purchases, you must analyze your inventory, purchases, and billed units every month. You may want to consider using a pharmacy inventory cabinet or other technology to help in this area. Only by knowing your true costs and revenue will your practice be able to run a tighter financial ship and improve practice efficiency.

**Adding new drugs to your practice formulary.** Gone are the days when physicians could order any FDA-approved drug for any patient with little regard for how much or even if the drug would be reimbursed by payers. Today’s oncology practices simply cannot afford to operate in this manner.

With the sheer number of anticancer drugs in the pipeline, your practice should assess the way it adds new drugs to its office formulary. If the process is ad hoc, take steps to put a methodical process in place. This process should, of course, begin with clinical discussions, but it should also include financial analysis. Before bringing a new drug into the practice, know your cost, the reimbursement and coverage policy for Medicare and other major payers, and the codes necessary to bill for the drug. The decision to add new drugs must be made only after considering all this information.

**Standardizing pharmacy practices** can be a very effective tool to improve efficiency in the pharmacy and nursing area. Both drug costs and staff time should be considered as you review this area of your practice. Start by answering some simple questions. Are all your patients treated the same way? Does your practice use the same antiemetic regimens and hydration regimens for all patients? Finally, does your practice use the most cost-effective regimens?

**Chemotherapy mixing.** When analyzing pharmacy issues in your practice, you need to look at who is mixing your drugs. Practice size clearly plays a role in this issue. Smaller practices with lower treatment volumes generally have nurses mix chemotherapy. Larger practices with larger treatment volumes may employ pharmacists or pharmacy technicians to prepare chemotherapy. A 2001 survey by the Oncology Nursing Society found that 39 percent of survey respondents said chemotherapy was mixed by registered nurses and 55 percent said chemotherapy was mixed by pharmacists.<sup>3</sup> Well-trained pharmacy technicians can be a very cost-effective option, but state regulations vary significantly. Your oncology practice must thoroughly investigate your state’s

requirements before adding a pharmacy technician to your practice.

**Preparing for CAP in 2006.** To make an educated decision about participating in Medicare's Competitive Acquisition Program, you need to understand *all* of the costs associated with the pharmacy component of your business. If you analyze these costs and your practice can provide pharmacy services at less than ASP +6 percent, you may choose to continue with the ASP +6 percent reimbursement model. If, on the other hand, you are losing money at ASP +6 percent, the CAP program may be your best choice. Understanding your costs is the key to making an informed decision.

### Physician Efficiency

For most oncology practices, physician salary and benefits represent the second largest expense area. To help your physicians work more efficiently, look at those physician activities that drive practice growth. Two key drivers of practice growth are seeing new patients in a timely fashion and communicating promptly with referring physicians.

Consider how your practice might provide more time for its physicians to see new patients. To help in this process, assess your physicians' schedules and answer the following questions:

- Are your physicians seeing all routine follow-up patients?
- Are your physicians providing routine patient education?
- Are your physicians completing disability forms or tumor registry forms?
- Are your physicians returning routine patient phone calls?

If the answer is *yes* to any or all of these questions, consider what other staff might perform these routine activities. Freeing up your physicians to see new cancer patients may help grow your practice.

Your practice should also take a look at how the office supports each physician's activities. For example, ensure that you have ample exam rooms for each physician, particularly if you are looking to bring in new patients. Perhaps your practice could improve its use of existing exam rooms. These should be consistently and appropriately stocked so physicians can quickly and easily find what they need. Patient charts should be kept up-to-date, so physicians do not waste time looking for information such as test results.

Your practice should conduct a careful review of patient scheduling. Are patients scheduled realistically for each physician? While a one-size-fits-all approach

## Practice Efficiency

### Checklist

- ✓ Review your drug contracts quarterly
- ✓ Analyze ASP drug prices quarterly
- ✓ Conduct monthly drug review of inventory, purchases, and billed units
- ✓ Analyze the cost and reimbursement of all new drugs prior to adding them to the formulary
- ✓ Assess physician schedules and productivity
- ✓ Flowchart your operational and clinical processes
- ✓ Monitor your laboratory costs
- ✓ Track your charge capture data
- ✓ Perform regular patient chart audits
- ✓ Measure patient, staff, and referring physician satisfaction

to scheduling may work better for staff, individual physician needs should drive the schedule. Build schedules that maximize each physician's efficiency, ensuring that physicians start clinics on time and see each patient for the time needed. Physician efficiency will improve and both physicians and patients will be more satisfied. (For more on how physician scheduling can affect practice productivity, see "Measuring Physician Productivity," *Oncology Issues*, January/February 2005.)

Assess whether your practice might benefit from adding physician extenders. Nurse practitioners and physician assistants can greatly enhance physician efficiency in the office and in the hospital. Physician extenders can see routine follow-up patients in the office and stable inpatients in the hospital, creating more time for physicians to see new patients and consultations. Physician extenders can also supervise chemotherapy in the office in the absence of a physician, allowing a more efficient use of all practice resources. Physician extenders may allow your practice to increase overall patient volume at significantly less expense than adding another physician.

### Staff, Laboratory, and Billing Efficiency

Look at your practice's staff and day-to-day operational efficiency. Remember to question the status quo.

Evaluate the role of nurses in your practice. Are your nurses nursing? Nursing efforts should focus on direct patient care, including administering (and possibly mixing) chemotherapy, providing patient education, performing telephone triage, and counseling patients as appropriate. Of course nurses also need to document their patient care and participate in the charge capture process, but nurses should *not* be filing, obtaining routine pre-authorizations, or scheduling appointments.



### What Not to Do:

#### *Symptoms of Poor Customer Service*

- ✗ Busy signals for incoming patient calls
- ✗ Using the answering service during the day
- ✗ Overflowing patient waiting rooms
- ✗ Consistently late running appointments
- ✗ Messy or disorganized front desk areas
- ✗ Long lead times to schedule patient appointments
- ✗ Increasing requests for chart transfers
- ✗ Unhappy staff and physicians

Take a careful look at your office's workflow. Which staff person puts patients into examining rooms and checks patients' vital signs? Who gives injections? If a nurse is currently providing such services to your patients, consider whether your practice should add a nurse's aide or medical assistant. Once you fully understand the way your practice does business, you can identify steps to improve and streamline how your practice provides its services.

Look at how laboratory services are provided in your practice. Determine if your staffing mix is correct and know whether your laboratory is a profit center or a cost center. If your laboratory has become a cost center, consider other ways to provide laboratory services to your patients. In many parts of the country, medical oncology practices have outsourced laboratory services to one of the major national laboratories. Before your practice makes such a decision, know the bottom line for your laboratory.

Take a hard look at your practice's billing processes. Efficient billing practices are in everyone's best interest—patients, practice, and staff. Cash flow in your practice is dependent on tight, accurate billing processes. These five steps can help fine-tune your office's billing procedures:

1. Know who is responsible for charge capture in your practice. Several staff members may be involved in this process. You should be tracking how quickly the charge capture process is completed and how quickly charges are submitted to your payers.
2. Submit your claims electronically.
3. Ensure that your staff is trained on the most recent rules and regulations.
4. Determine what percentage of your claims are clean claims in the first submission. Your practice's goal should be to submit a clean claim the first time.
5. Perform regular chart audits to ensure that chart documentation supports charges posted and that all services are being billed.

Teamwork is essential. Ensure that your clinical and billing staff is working collaboratively on the billing process. Put tools and processes in place to make charge capture and data entry as easy and accurate as possible for all staff. Update your tools (e.g., charge tickets and fee schedules) annually or as often as changes mandate.

Take a realistic look at how technology is integrated

into your practice. Is your practice management system a help or a hindrance? Your practice may be using or may want to consider using a computerized physician order entry (CPOE) system or an electronic medical record (EMR). When revenue is down, investing in new technology may seem like an unaffordable luxury—but *now* is the time to consider all of the tools available to enhance your efficiency. Perform a cost/benefit analysis to replace your practice management system or add a CPOE system—you may be surprised at the short time needed to achieve a return on your investment.

### *Customer Satisfaction*

Effective and successful oncology practices do not allow the complex legislative and regulatory environment to steer them away from their mission and their patients. Especially in challenging times, your practice must ensure its customers (patients and their families, referring physicians, and your staff) are satisfied. Customer satisfaction is an integral way to maintain and grow your practice.

New patients are the lifeblood of your practice. To provide excellent customer service, your staff needs to understand what your patients need and want. To help with this process, take a fresh look at your practice routines from a customer service perspective. For example, consider if appointment times are convenient for patients and their caregivers, or are waiting times too long? Is your office easy to find? Is your reception area warm and inviting? Do patients feel welcome?

Take a look at how your practice uses voice mail. Is it easy for your patients to reach a live person? Improving customer service may be as simple as answering the phone during the lunch hour or as complex as adding a part-time financial counselor or offering specialty services such as meals to go.

Regularly measure patient satisfaction both formally (with surveys) and informally (by talking to your patients). Train your staff in customer service and help them meet your patients' needs. Set the tone for customer service and your staff will follow.

Referring physicians are another important customer base for oncology practices. In fact, referring physicians are as essential to your practice as your patients. To ensure that your referring physicians remain satisfied, view these referral relationships from a customer satisfaction perspective. For example, ensure that you are seeing their patients promptly and providing the referring phy-

## Benchmarking

### A Tool for Oncology Practices

**B**enchmarking is the process of establishing a standard of excellence and comparing a business function or activity with that standard. Increasingly, benchmarking is being used in health-care to reduce expenses and improve service quality.<sup>1</sup> In your quest to improve practice efficiency, benchmarking can be a valuable tool and can help lower the cost of operations, improve inventory control, and streamline work flow.

Informal benchmarking happens all the time. You talk to colleagues about how they conduct business or perhaps visit other practices. Take a best practices approach to informal benchmarking and put the best ideas in place in your practice. Be willing to share your knowledge with others as well. More formal benchmarking occurs when you use a published standard and compare your practice to that standard. The MGMA *Cost Survey* is one tool frequently used as a benchmarking standard.

Just as important as benchmarking against recognized standards, is benchmarking your practice against itself. Identify problems in your practice and establish criteria to measure. For example, you might benchmark the number of new patients in a year or your collection percentage. Set realistic goals for improvement, and then establish an action plan to reach these goals. At the end of a pre-determined time period, measure again. In this way, you establish a continuous improvement process—measuring your practice against itself over time, which may be the most valuable form of benchmarking of all. 📌

#### References

<sup>1</sup>Benson JR. An introduction to benchmarking in health-care. *Radiol Manage*. 1994;16(4):35-39. Available online at: [www.ncbi.nlm.nih.gov/entrez/query.fcgi?cmd=Retrieve&db=PubMed&list\\_uids=10139084&dopt=Abstract](http://www.ncbi.nlm.nih.gov/entrez/query.fcgi?cmd=Retrieve&db=PubMed&list_uids=10139084&dopt=Abstract). Accessed Mar. 7, 2005.

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#### References

<sup>1</sup>U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services. 42 CFR Part 414, [CMS-13325-P], RIN 0938-AN58, Medicare Program; *Competitive Acquisition of Outpatient Drugs and Biologicals Under Part B*. Available at <http://www.cms.hhs.gov/providers/drugs/compbid/cms-1325.pdf>. Accessed Mar. 14, 2005.

<sup>2</sup>MGMA's Cost Survey Report for Hematology/Oncology Practices: 2003 Report Based on 2002 Data.

<sup>3</sup>Ireland, Anne M, et al. "The Oncology Nursing Society Ambulatory Office Nurse Survey." *Oncology Nursing Forum* 31.6 (2001). 02 Feb 2005 <http://www.ons.org/publications/journals/ONF/Volume31/Issue6/3106147.asp>

sician with a written report of your findings and recommendations. Assess whether patients are being sent back to the referring physicians appropriately. At minimum, ask your referring physicians if they are satisfied with the service you provide to their patients.

While ensuring satisfaction among your patients and referring physicians, you should also ensure that your practice staff is satisfied. Staff turnover is expensive both financially and in terms of overall staff morale. Staff satisfaction surveys are one way to learn what your employees want. An approachable administration is important, too. However, communication is the key. You can never provide too much education and information, especially during periods of rapid change. Educate your staff so that they understand the issues that confront your practice. In turn, your staff will become your biggest champions.

#### *The Future is Now*

Many practices are looking at ways to grow by adding new product and service lines. If your practice understands its costs, is providing good customer service to ensure a continued flow of new patients into the practice, and is prepared to invest capital, new services lines are an effective tool for practice growth. New product and service lines include screening services like genetic testing and virtual colonoscopy, new medical therapies such as gene therapy, diagnostic imaging services, and/or radiation therapy.

Many practices look at these services and say "yes, but... my practice is in a CON state," or "the hospital already has that service," or "it is too expensive," or "it isn't covered in my area." But if you have the patients and the service line is important to your community, you can find the partner you need; you can find the capital you need; and you can find the win-win solution for your community.

Oncology practices face turbulent times today and for well into the foreseeable future. We can expect new regulations, continued efforts to decrease reimbursement, and increased scrutiny from the federal government and private payers. Strong leadership is essential to survive these challenging times. A strong leader has many roles. The leader shapes a vision for the practice. The leader drives efficiencies, analyzes new opportunities, sets goals, and develops action plans. The leader creates systems to monitor results and provides stability, especially in times of change. But most importantly, the leader ensures his or her practice can continue to provide the best care possible for the cancer patients. If your practice is to survive and thrive, it must do so by keeping abreast of legislative and reimbursement changes, improving efficiency and the way it conducts its business, and exploring growth opportunities. 📌