10 Things Every Oncology Practice Should Be Doing—

[But Probably Isn't]

by Ron Howrigon

Unlike David Letterman's "Top 10 List," the following "Top 10 List" is not likely to make you smile. My list is designed to help physicians and their oncology practices succeed by explaining the most important business principles that all large businesses use. I believe that the main reason medical practices have struggled over the last few years, while insurance companies have flourished, is that physicians have focused almost exclusively on the delivery of care while insurance companies have focused on the delivery of profits. Simply put, physicians are getting out-managed, and it's time that we finally put an end to it. The following 10 business practices are steps every practice should be taking—but probably isn't. These crucial steps can help practices better position themselves for success. In these trying economic times, practices that do not heed this advice may find themselves in very tough situations.

1. Develop a Practice Dashboard or Scorecard

Every practice should have a regular monthly report that tracks key management measures that have been defined by the practice. From this report, physicians and administrators should be able to tell at a glance how the practice is doing. This report should be produced each month and monitored closely. You might compare this dashboard to the lab values that a physician follows to assess how a patient is doing. If all the values are good, the patient is doing fine. Similarly, if the dashboard numbers are good, you know your practice is functioning well. If one or more of the numbers start to change, it's an indicator that you may need to take action or ask for more analysis to figure out what is wrong.

Dashboard items will vary from practice to practice but should include those critical measures that give you an indication of how the practice is doing. These include:

- Billing amounts
- Number of RVUs billed
- Cash collections
- Days in AR (accounts receivable)
- Collection rates
- Average wait time for a new patient appointment
- Non-physician cost per patient or per RVU
- Payer mix.

Report these numbers for the month, year-to-date, and the same period in the previous year. Table 1 compares days in accounts receivable in 2008 and 2009. Data show a slight, but not yet significant increase from the previous year. In response, a practice might make a note to monitor this trend and to investigate further if the gap increases. Consider the following scenario. If the June 2009 number was 45 instead of 35, the indicator would be a red flag signaling the need to determine why the increase occurred. Is there a problem with your billing office? Do you have new employees doing the collections? Is there a computer or a system problem? The dashboard may not diagnose the problem, but it can tell you where to look.

Table 1. Days in Accounts Receivable

June 2009	June 2008	Variance	YTD 2009	YTD 2008	Variance
35.6	33.5	2.1	34.0	33.3	.07

2. Conduct a Market Evaluation

Few practices do any kind of formal market evaluation. This evaluation does not have to be an expensive consulting project. A simple review of your group's place in the market, a list of your competitors, and a list of the payers and employers in your market can be an incredibly useful tool. Some inexpensive software programs are available that allow you to plot your locations, compare them to your competitors, and then map them against a wealth of data from the latest census. Figure 1 shows a relatively simple market evaluation, including options for expansion. In this map, the color ranges represent areas of highest market penetration (dark green) to areas of lowest market penetration (light green) for an oncology practice. This type of information reveals geographical regions where the practice is not drawing patients. In this case, the light green areas may be a good place for the oncology practice to open a satellite location.

With a little data support, you can quickly see how your practice is acquiring patients and where they are coming from. You can also identify areas that are underserved and the demographics of those areas. Using these data, your practice can make informed decisions about expansion and where to locate new offices.

3. Review Your Budget Process

The corporate world in every industry has learned that if you do not develop a budget and then monitor your performance against that budget, two actions happen. First, you are vulnerable to cost creep. Not knowing how much you plan to spend, you will be amazed at how fast small, incremental expenditures add up to budget problems. At one company I worked for, the joke was, "A million here, a million there. Eventually it adds up to real money." While most physician practices do not operate in this type of environment, the same principle applies. If your practice spends

Figure 1. Sample Market Evaluation
Dark green represents areas of highest market penetration. Light green represents areas of lowest market penetration.

an extra $10,000 each month, at the end of the year your practice has lost $120,000.

A second consequence is that your practice will not be able to tell where the financial bleeding is occurring. Without a budget you cannot monitor if you are spending too much and, if so, in what areas. This can lead to either inaction or inappropriate action. As my grandfather—who never finished grade school but was one of the smartest people I have known—used to say, "It doesn't do any good to throw water on the kitchen if the living room is on fire."

Now you might see the budget process as basic and critical, but in my experience very few medical groups have formal budgets. Often, the group does not know they have a financial problem until about half way through the year, and then it takes them another six months to figure out what the problem is. This scenario is no way to run an oncology practice.

4. Prepare Five-Year Financial Projections

Long-range financial projections are a critical tool for most businesses. Usually, these data project the business's performance for the next five years. Projections are based on current performance combined with realistic assumptions about cost increases due to factors such as inflation and expansion, and revenue increases due to business growth and price of product increases. By preparing a five-year projection, your practice can see how its business is likely to look over the foreseeable future. Is your business growing and becoming more profitable or is it on a downward cycle?

This tool also helps to identify when strategic changes may need to be made. Many strategic business changes take a year or more to implement and additional time to reap the benefits. Practices need to look several years down the road in order to see the need for change in time *before* the opportunity window closes.

5. Review Your Strategic Plan

Every business should have a strategic plan that is reviewed and updated annually. Strategic plans can be simple. At a minimum your strategic plan should outline what you want your business to be and how you are going to make that happen. For oncology practices, a strategic plan is very important. The plan should deal with such fundamental issues as how big you want the practice to become; services you would like to offer in the future; and whether or not you want to expand geographically. These questions may seem basic, but many practices have not taken the time to discuss and agree upon the strategic direction for the group. One group I worked with found that, when they sat down to answer these questions, three of the senior partners had very different ideas of what the future of the practice should look like.

Once you have created a strategic plan and direction for the practice, the next step is to outline *how* you will accomplish that plan. For example, if your plan is to grow in practice size and locations, then you need to decide how fast to grow, how many locations, how you will finance the expansion, how you will roll it out, and more. Your strategic plan benefits your business because it is a roadmap for the future. As my grandfather was fond of saying, "If you don't know where you want to go, you're not likely to end up in a good place."

6. Diversify Your Revenue

Many of the physicians I work with understand diversification when it comes to their retirement investments. However, when I talk about diversified revenue streams in their practice, their eyes glaze over or they admit that they have not given much thought to the idea. Diversifying means adding related medical services that will produce profit for your practice while diversifying your revenue stream to buffer against major changes in the future.

For example, a large neurology group with whom I work provides general neurology services but has also branched out into imaging with an internal MRI machine, physical therapy, occupational therapy, speech therapy, sleep studies, a pain clinic, infusions in the office, and research. This approach to diversified revenue helps protect the practice against future changes in the same way a diversified investment portfolio does. If Medicare suddenly reduced the reimbursement for EMGs it would hurt the group, but not as much as if they did not have these other services to help offset that reduction. Most oncology practices cannot diversify as much as this group has; however, it is worthwhile to evaluate ancillary revenue streams to determine what might work for *your* practice.

continued on page 38

7. Revisit Your Marketing Efforts

Physicians often have a very negative view of marketing because they equate it with advertising. Marketing is not advertising. Advertising is just one of many tools that can be used to market a product or service; it is not the right tool for every situation. Simply put, marketing is the process of communicating your story. Marketing means telling your customers who you are and what you can do. It's also something that physicians haven't done very well in the past. Marketing can take many forms. The trick is to develop a plan that is right for your practice.

For example, a primary care group might develop a brochure to send to households in the area close to their office. The brochure could highlight their doctors, location, and hours of operation along with any features that make the practice stand out. A specialty group might choose to implement a marketing program that reaches out to area primary care groups to ensure that they know about the services that the specialty group offers.

We recently implemented a physician outreach program for one of our clients. For this program, we had a representative visit every primary care office in a specific area to drop off information about our client, to let them know of some new physicians, and see if they were having any problems that our client could address. This marketing initiative was not costly, and the results were incredible. During these visits we asked each practice if they referred any of their patients to our client. Sixty-two percent of the practices reported that they referred at least some patients to our client group. After the personal visits, we did a follow-up survey of the primary care groups contacted. In this follow-up survey, 81 percent said that they were now referring patients to our client group. This increase demonstrates the effectiveness of well-designed and targeted marketing.

8. Verify Your Fee Schedule

The following statement probably will not come as a surprise—insurance companies make mistakes. What many doctors do not realize is that while insurance companies have pretty good programs in place to catch mistakes that resulted in an over-payment to providers, they do not do anything to correct for under-payments. Every practice should have a formal process to routinely check and ensure that your insurance contracts are paying the correct amount to your practice. This action does not require added staff. It can be something as simple as regular random sample audits. If the audit shows that your practice is being under-paid then you can devote the resources to a full under-payment recovery audit. The point is, *do not assume* the payer is correct. If something is wrong, the mistake is costing your practice money that it cannot afford to lose.

9. Negotiate Your Managed Care Contracts

Physicians function in a bizarre business environment. For most physicians, the largest purchaser of your service is the government. Unlike other government contractors that negotiate "cost plus" contracts or bid on contracts, physicians get paid whatever the government decides—even if it does not cover your costs. The most recent trend has been a basically flat Medicare reimbursement that has not kept up with practice inflation. So you have a business in which your costs are going up with inflation, but your biggest revenue stream is not. Bottom line: unless you get increases from your other revenue streams—the private insurance companies—you will face a business situation with declining profits. For this reason, it is imperative to negotiate your managed care contracts and make sure you are getting the inflationary increases necessary to keep your practice viable. While I understand that contract negotiation is often easier said than done, this step is critical for the survival of your practice.

10. Thin the Herd

Insurance companies for many years have banked on the fact that most physicians do not understand the economics of their practice, and that they will not terminate any carrier because they do not want to lose any patients. This mindset has helped produce the downward spiral for most physicians' salaries.

Let me explain. Let's assume you are a small group practice. Currently, your practice has a four-week wait for new patient appointments. Your practice has several insurance contracts each paying different rates. Let's say company X pays you 20 percent less than the average of your other contracts. Company X makes up 4 percent of your total patient population.

To "thin the herd," you notify Company X that you intend to terminate your contract if the company does not raise its rates to the average of its competitors. If Company X does not agree to a fee increase, you terminate. What happens next? Because your practice has removed an insurance company, you do lose some patients. Next, because your wait time is already four weeks, your appointments stay booked, but your wait time goes down from four weeks to three weeks. This decrease means you are providing your other patients with better service. The patient visits you lost are replaced with visits that pay you on average 20 percent more.

The basic idea is that your oncology practice has a limited number of appointments that each doctor can see in a given day. If the demand for your services is higher than your appointment supply (as evidenced by a wait time for new patient appointments), then you cannot afford to sell one of your limited appointment slots to an insurance carrier for less than what others are willing to pay for it—thus the need to "thin the herd."

The Bottom Line

Things are getting rough out there for physicians and the situation is not likely to get better in the next few years. Now more than ever it's critical to follow these simple but powerful business principles and processes. If your practice does not have the expertise or resources to take these actions, you need to go out and find them because the alternative is not pretty.

Failure to operate your practice like a business and to plan for the future can lead to disaster. Consider how many companies have failed to plan for the future and as a result, failed to survive. Anyone still own General Motors stock?

Ron Howrigon is president and CEO, Fulcrum Strategies, Garner, N.C.