Optimizing Practice Volume

Sometimes less is more.

BY JON A. HULTMAN, DPM, MBA

We are all familiar with the advertising claims of sales people who boast that even with their ridiculously low prices, they are able to make up the difference with higher volume. Similarly, today's doctors joke about payers asking them to treat patients at a loss in exchange for the "exciting" promise of higher volume. The problem with adopting this "volume at all costs" strategy is that there are limits to the amount of volume each doctor can manage, and having too large a volume at the lowest margin becomes a constraint to maintaining a viable practice.

A good example of a significant failure using this volume-focused strategy was the era of Physician Practice Management Companies (PPMCs) in which numbers of physician practices were bought with the aim of gaining market share. Following purchase of the practices, the companies further sought to increase market share by accepting low paying contracts in exchange for increased patient volume. One of the reasons most frequently cited for the ultimate failure of these companies was that management focused almost exclusively on market share, paying little attention to any potential impact on profit.

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In 1998, MedPartners, a PPMC that was acquiring and managing medical practices, also acquired Caremark—a drug benefit company. Following this acquisition, managers found that while almost two-thirds of MedPartners' revenue came from its PPMC, this segment of their business accounted for only one-third of the company's profit. Conversely, while Caremark only accounted for one third of total company revenue, it delivered two-thirds of the profit. As company-wide profit continued to drop, MedPartners divested its PPMC business in order to focus on the more profitable drug benefit business.

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While it would seem that this decision was a "no brainer," not all such connections between volume and profit can be easily identified.

Most doctors say they need to "grow" their practices to improve profitability, but their greatest restraint is that they already feel they have "maxed out" in terms of patient volume and do not have the time to treat any more patients. A strategy to consider for addressing this dilemma is one that some consultants use when they want to grow their practices. An axiom commonly accepted among consultants is that if one wants to grow his/her business, eliminating the bottom 10% of that business is a proven way to accomplish this goal. S/he might refer this 10% of clients to another consultant or s/he might hire another consultant to come into the practice and handle this portion of the business.

How can we compare this to the business of healthcare? The bottom paying 10% of a medical practice may be represented by a poorly paying health plan, specific low margin ser-

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vices, or patients who could be seen by some type of physician-extender—under the doctor's supervision. In most cases, similar to the MedPartners example above, the lowest paying 10% of a medical practice consumes significantly more than 10% of the time of the doctor and staff.

When this portion of the business is "eliminated," the time previously spent attending to it can be redirected to more productive areas—such as allowing the doctor more time to listen to patients' secondary complaints—something often ignored when s/he is overworked and rushing between patients. This should help "grow" a practice in a direction that creates greater value for patients and a more satisfying work experience for both the doctor and staff.

If one wants to grow his/her business, eliminating the bottom 10% of that business is a proven way to accomplish this goal.

Doctors complain that it is impossible to negotiate payer contracts. Actually, this is often not true—especially if the doctor has high patient satisfaction ratings and is willing to walk away from a contract if a payer continues to significantly undervalue his/her services, or if a contract provides more aggravation than benefit for the doctor and staff. If a practitioner can identify a health plan that pays in the lowest 10% of all his/her plans and finds that s/he and staff are spending far more than 10% of their time treating those patients, there is nothing to lose in entering negotiations for a better rate and better terms. If successful, the doctor will increase both the enjoyment and profitability of his/her practice at the same patient volume. If the doctor's offer is rejected and s/he chooses to "walk away" from that contract, s/he has probably removed one of the biggest constraints to growth in practice areas that s/he enjoys most. **PM**

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