

# Optimization Versus Maximization

Sometimes more can be less.

BY JON A. HULTMAN, DPM, MBA

When making decisions for your practice that involve “how many to see,” or “how much to do,” the ideal is to determine the optimum number. The difficulty is that determining “optimum” is elusive because this value varies from person to person, company to company, and situation to situation. For example, a medication that is poisonous at one dosage may be a life saver at another. Even water—a necessity of life—can be deadly at a high enough “dosage.” To maintain good health, each person requires his or her own optimum amount of water, food, exercise, and sleep. Too little, or too much, of any one thing can be unhealthy, and the optimums vary from individual to individual. The same holds true for businesses, and this includes our medical practices. Similar to the story of Goldilocks in which each of the three bears has a “just the right size” bed, and “just the right temperature” porridge, there is an optimum number of patients and services for each practice.

“Growth” is a stated goal for most businesses—including medical practices. While growth is important, many doctors have no idea just how much growth will be ideal for their situations. When asked about future goals, many reply with the vague an-

swer, “to do more than this year,” with most seeking to increase both the patient volumes and the number of services they provide each year. Let us take a look at why this may not always be the ideal course of action.

We can compare our practices to factories, realizing that doctors and staff are processing patients, paper,

and profit. To avoid these undesired outcomes, “managers” need to understand the difference between “maximization” and “optimization.” What has been learned in manufacturing is that, rather than attempting to produce the maximum possible, companies should seek to produce the optimum—the level that results in the

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information, and services, and we can learn from the experiences of this other type of business. Manufacturers learned long ago that as their factories neared capacity, the quality of products and services declined and costs escalated. This happened because inefficiencies developed as the level of production increased towards maximum. The phenomenon known as “diminishing marginal returns”—a slow, gradual decline in marginal profit for each additional item produced—sets in. This spiral produces a “double whammy”—negative impacts on both customer satisfaction

highest quality product at the greatest profit. Similarly, a medical practice should seek to provide the optimum number of services to the optimum number of patients. This will result in the highest quality of care and the highest level of patient satisfaction along with the attainment of the greatest profit for the practice. Simply recognizing and understanding the difference between “maximizing” and “optimizing” will help a practitioner achieve this goal.

The typical “more” in the “doing more than last year” usually includes:

*Continued on page 146*



## Optimization (from page 145)

new patients, return visits, provided services, and revenue. The question most doctors fail to ask is, “At what point might any one of these increases exceed optimum—the point after which more will actually become less?” While the volumes at which practice optimums will be reached vary significantly from practice to practice (depending on management skills, practice processes, efficiency, productivity, staffing ratios, number of treatment rooms, and office policies), a point exists for each practice at which “adding more” actually lowers patient satisfaction, decreases the quality of care, and reduces profit.

Determining optimums is not an easy task. One tool to help you anticipate the point at which your practice volume might begin to exceed its optimum is continuous monitoring of your revenue-per-visit, cost-per-visit, and collection ratio trends (adjusting for fee changes). Note: it is expected that your total costs will increase along with volume due to the concurrent increases in supplies and staff, but unless the practice develops significant inefficiencies as a practice grows, *the cost, per patient, should ideally decrease*. While it is a “no brainer” to recognize that you have a problem when increases in volume and revenue parallel a decline in profit, it is difficult to recognize that a problem exists when, even though volume, revenue, and profit are all increasing,

your profit increase, relative to your workload increase, is becoming smaller. When this is happening, you are working harder and harder for less and less gain.

Once a practice has grown to a point at which it is busy, but manageable, and volume increases are not impacting fixed costs, the practice is at an ideal level. When increases in volume reach the point at which a decision needs to be made regarding a change in your fixed costs, i.e., the addition of more staff or space (a decision that will

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initially increase the cost-per-patient and, possibly, have a negative impact on every process from scheduling to billing), a practice will have reached the point at which the doctors need to consider whether they should be striving for optimization rather than maximization.

Strategies exist for those who are looking to optimize. One such strategy relies on recognizing that a solution to profitability problems is not always to “do more” and that, sometimes, one needs to “cut back.” A good place to begin deciding where you should “cut back” is to examine your existing contracts. The goal here is to determine which ones create the greatest amount of aggravation and/or are paying at the lowest levels. Successful businesses that have grown to a point beyond optimal volume have discovered that to continue growing profitably, without hurting quality, they sometimes need to walk away from the bottom ten percent of their business. Doctors, too, can do this. I have yet to see an example in medicine where a practice with volume nearing capacity has failed to benefit when the doctor walked away from his/her worst contract. Not only does this action result in a more productive practice and more satisfied patients, but the doctor’s enjoyment of practice also increases. For every practice, there is an optimum number of patient visits and services which achieve the highest quality and profit—a point of optimization rather than one of maximization. This is what you want to strive for when you realize that you are working more and more for less and less. **PM**



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