

A Deep Dive into the Decision to Outsource

Outsourcing can help your practice reap financial rewards.

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As economic pressures grip medical practices and stress their resources, addressing the concept of outsourcing becomes instrumental. Outsourcing is a business practice in which services or job functions are performed by a third party on a contract or ongoing basis. More specifically, business process outsourcing (BPO) is a term used for outsourcing a specific business process task, such as payroll, billing, credentialing, administrative tasks, marketing, etc.

Many practices struggle with making decisions to outsource or perform a task in-house. While there are certainly advantages to outsourcing that go beyond the economics of the decision, the economics can also be easily defined.

Advantages of Outsourcing

Labor costs might be reduced, and therefore outsourcing can reduce your payroll. Contractors don't require a desk or office space, and they generally do not receive additional employee benefits. Outsourcing might also expedite training and onboarding since contractors are typically hired for specific roles or purposes and already have expertise. For example, an effective outside billing service often has experienced revenue cycle management experts that may help increase your practice's collections

and reduce its accounts receivable. The marginal increase in revenue that your practice generates from more effective billing and follow-up may easily exceed the direct cost increase of an outside billing service.

Outsourcing also allows you to keep your focus on your core business—patient care. By outsourcing time-consuming, non-core areas of

and conducting regular audits can reduce this risk. Choosing the right partner and having ongoing communication between the teams mitigates many of these concerns.

What About the Economics?

According to a Deloitte Survey, 59% of respondents outsource to reduce costs, and 57% outsource to

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the practice, like revenue cycle management, IT, or administration, you can concentrate on more meaningful work that will significantly impact your practice operations.

Finally, when you outsource a task, absenteeism has less of an effect on your practice.

Some of the concerns over outsourcing are related to loss of control, confidentiality, and quality. When outsourcing, safeguarding patient data is crucial. Healthcare providers must ensure outsourcing partners comply with all HIPAA regulations. Outsourcing might also risk quality consistency. Establishing clear communication, setting performance metrics (key performance indicators),

focus on core business. Almost 80% of survey participants felt positive about their respective outsourcing relationships.

While predicting the economic impact of outsourcing might seem elusive or complex, a principle of economics can help us understand the financials behind the decision to outsource. The "Indifference Point", as the word suggests, is the point at which two different alternatives are equal. The indifference point could be for anything involving two alternatives, such as investments, production methods, and decisions related to outsourcing. When discussing the indifference point related to outsourcing,

Continued on page 40

Deep Dive (from page 39)

we generally refer to the “cost indifference point”. It is the point of practice revenue at which the total cost and the profits are the same under the two alternatives of either outsourcing or performing the task in-house.

Practical Use of the Economic Indifference Point

In the two options in the Hypothetical Example box at right, the indifference point is the collection of the practice at which the cost of each alternative is the same (indifferent). It's computed by dividing the fixed rate cost (\$36,000) by the differential in the variable rate between the 2 options (2%).

$$\frac{\$36,000}{(6\% - 4\%)} = \frac{\$36,000}{.02} = \$1,800,000$$

Outsourcing may also seem counterproductive at first, but once you get the right vendor in place, you'll see the benefits.

\$1,800,000 is the indifference point in this proposal. At \$1,800,000 in annual revenue, the practice would owe EHR 1:

$$\$1,800,000 \times .04 = \$72,000 + \$36,000 = \mathbf{\$108,000}$$

For the alternative vendor, the practice would owe the same amount:

$$\$1,800,000 \times .06 = \mathbf{\$108,000}$$

The significance of the indifference point (\$1,800,000 in this example) is the fact that at any collection amount GREATER than the indifference point, the practice would save money with the EHR 1 proposal, even though “on the surface” their proposal sounds more expensive. Given that this practice collects \$2,500,000 annually (above the \$1,800,000 indifference point), they will ultimately save \$14,000 each year:

$$\text{EHR 1: } \$2,500,000 \times .04 = \$100,000 + \$36,000 \text{ tech fee} = \$136,000$$

$$\text{EHR 2: } \$2,500,000 \times .06 = \$150,000$$

As the practice grows in revenues beyond the indifference point,

Hypothetical Example

Practice: 3 DPMs

Annual Collections: \$2,500,000

Monthly Cost of EHR #1:
\$1,000 per provider/month (\$36,000 per year) + 4% of collections

Monthly Cost of Alternative EHR #2:
No Tech fee + 6% of collections

the savings also grow exponentially. But keep in mind that if this practice should fall BELOW the indifference point of \$1,800,000 annual collections, then the alternative vendor becomes more attractive.

If, for example, the practice rev-

whether each vendor has lived up to their SLA and if they have a history of communicating effectively.

- Verify the vendor is knowledgeable about relevant healthcare laws and regulations
- Ask about the company's internal security standards and HIPAA compliance methods.
- Inquire about whether the company returns phone calls and emails in a timely fashion. Does it keep scheduled meetings with the customer?

Evaluating the financial impact of outsourcing might seem complex at first but the indifference point formula can help make it more predictable. Outsourcing may also seem counterproductive at first, but once you get the right vendor in place, you'll see the benefits. It will free up your practice's superstars to do their jobs better and will allow your practice to grow. Don't waste time and talent on menial tasks. Outsourcing can help your practice reap financial rewards. **PM**

enue falls to \$1,500,000 in annual collections, the financial advantage of outsourcing to EHR 1 is lost to the alternative, since the alternative will be \$6,000 less:

$$\text{EHR 1: } \$1,500,000 \times .04 = \$100,000 + \$36,000 \text{ tech fee} = \$96,000$$

$$\text{EHR 2: } \$1,500,000 \times .06 = \$90,000$$

Tips for Successful Outsourcing

Due diligence is required when you decide to outsource. Make sure your Service Level Agreement (SLA) spells out all details and is exactly what you want at the price you're willing to pay. Avoid making assumptions. In addition, you should:

- First identify which non-clinical functions in your practice are best suited for outsourcing, such as medical billing, coding, data entry, appointment scheduling, appointment confirmation, etc., and then research and select a reputable vendor.

- Request at least 3-5 references. Speak to each person about his or her relationship with the vendor. Find out



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