

Quality's Impact on Profit



The “tried and true” paths to a successful practice are no longer working.

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Let's face it, medicine is a business, and that business is changing fast—very, very fast. In this competitive climate, lower reimbursement rates and higher costs have combined to reduce profitability as well as the quality of care. Today, the “tried and true” isn't working, and by tomorrow, it could fail completely. To survive, you will need tools that will help you avoid costly mistakes and compete profitably. Unlike those in many other businesses, doctors are often criticized when they complain about declining profitability and seek ways of increasing it. In this environment, critics often opine that doctors should be focused on increasing quality and not on increasing profit. Counterintuitively, perhaps, a focus on quality actually leads to increased profitability.

It is important to understand the interconnection between quality and profit. For example, if I were asked the top five factors that impact “quality,” I would list the following: (1) volume, (2) complexity, (3) variation/errors, (4) time, and (5) capacity. If asked what factors have the greatest impact on “profitability,” my list of the top five would be exactly the same as those impacting quality. To increase quality, one must focus on efficiency improvements. That same focus on efficiency improves profit by increasing productivity and lowering costs. In other words, a practice focused on quality also produces increased profitability as a byproduct.

Let us take a closer look at these five factors that impact quality, and hence, profitability:

1) Volume: The category “volume” includes the number of patient visits, the number of services provided, and the number of business transactions generated. I once estimated there were at least 300 process steps involved in each patient visit. Practice transactions include the steps required to schedule appointments, take histories, exam-

which we are trying to prevent traffic flow from coming to a complete standstill.

2) Complexity: There is no question that patient care and billing have become far more complex than in past decades. The trend towards group practices has added even greater complexity. Complexity, along with volume and the four other factors discussed here, combine to create inefficiencies that lower quality and profitability. Managed care ushered in an era

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ine patients, provide treatment and follow-up care, complete medical records, code the services provided, submit charges to third-party carriers, and finally, receive and process the payments for those services. It is no wonder that a large percentage of staff of the typical medical practice have been transitioned from treatment to business areas. Below a certain level of volume, efficiency has little impact, but similar to what we see on roadways: when we go beyond a certain volume of cars, efficiency matters. We are suddenly faced with a situation created by excessive volume in

of high volume, lower fees, and greater complexity. As the practice of medicine and the entire health-care industry transforms, the skills that have worked so well for doctors in the past must be augmented with business skills designed to improve efficiency, increase quality, and lower costs. The same sound business practices employed by those who succeeded in the corporate arena (especially manufacturers who looked to industrial engineers for help on creating more efficient workflows) need to be adopted to function in medical practices.

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3) **Variation/Errors:** Variation from the norm in any process step exaggerates the impact created by both volume and complexity. It adds wasted time to any physician or staff task. An error made in just one of the 300+ process steps in a patient visit can lower quality. Up to 40% of staff's available time can be required just to find and fix one error. The end result is a "triple whammy": (1) service quality is lower, (2) costs increase because of the staff time involved, and (3) the collection ratio can be lowered, further reducing profit.

4) **Time:** Doctors and staff have only so much time to complete tasks during office hours. Anything that requires them to spend their time on unnecessary tasks will lower quality of service by keeping patients waiting longer and/or requiring doctors to reduce the time they spend with each patient. A focus on efficiency looks to reduce these unnecessary tasks and always includes

greater the need for increased capacity. The employment of technology is an essential tool. When used effectively, it enables an increase in the number of patients who can be treated. On the other hand, a shortage of clinical staff or treatment rooms limits the number of patients who can be seen effectively.

One of the comments that Jim Collins made in his book *Good to Great*

problems in these large groups are high overheads related to inefficient processes, longer waits, and lower quality. Most industries in price-competitive markets have dealt with these types of challenges necessitating quality improvement. Those that increased profitability did so by implementing production and business processes designed in ways that followed the laws of physics.

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is that "While the practices of engineering continually evolve, the laws of physics remain relatively fixed." In most medical practices, technology is often being employed in ways that defy the physics of workflow. Technology has the ability to make a medical practice far more efficient. It can be strategically employed to provide parallel op-

A re-engineering example in my first book described a problem faced by Ford Motor Company in the early 1980s. Ford was employing more than 500 people in its accounts payable department and realized that it needed to cut costs in this department in order to better compete with foreign imports.

To address this inefficient process, Ford planned installation of a new computer system. Their hope was to reduce their accounts payable head count by 20 per cent. Compare Ford's "hoped for" outcome to the reality of Mazda's accounts payable department which, throughout this same time period, employed only five people! Obviously, Mazda's accounts payable process was not simply an improved version of Ford's; it was an entirely different "animal;" and they had accomplished this through workflow analysis and process re-engineering. Given the fact that all value delivered by medicine is achieved through some type of "process," similar opportunity for improving quality, lowering costs, and improving productivity is substantial through employment of efficient workflow processes. **PM**

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a focus on prevention of errors. The causes of errors need to be identified. This requires a mindset of making error prevention a priority rather than accepting the idea that errors "just happen." Whenever I think about the high cost of errors and the time required to find and fix them, it reminds me of a motto that one of my classmates at UCLA Business School often quoted. He said that engineers where he worked (Hughes Aircraft) often stated that, "There is never enough time to do it right, but there is always time to do it over."

5) **Capacity:** Measures of a practice's capacity include the number of staff, the number of treatment rooms, and the degree to which effective technology is being utilized. The greater the volume of patients and services, the

tions to any process, thereby enabling staff to by-pass any step in a process that is "backing up." To take full advantage of technology, staff need to be cross-trained and empowered. The reality is that most practices have employed technology in ways that, rather than "streamlining" them, have made them even less efficient than before computerization was even possible. They have simply entered old, inefficient processes into their "new" computer system. As H. James Harrington said in his book *Business Process Improvement*, "Automating a bad process not only ensures that we can do a bad job every time but that we can do it faster and with less effort than before."

Podiatry has been evolving towards larger group practices. The primary



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