Which Group Are You?

This article contrasts the true story of Delta's work with two eerily similar groups -- same specialty, same size, same number of offices, same regulatory environment -- but, as you will see, with very different results.

The difference was the willingness to take risk in the execution of basic strategies pertinent to their specialty.

Nothing in this article should be construed as a castigation of the business practices of any of our valued clients. The evolution of any physician group is a function of complex issues and personalities, and hindsight is always 20/20.

Rather, we hope the reader will appreciate the dramatic contrast between these two situations, and recognize that being first, or being the best, doesn't always equate with success. Success is what we wish for all of our clients.

Delta Health Care regularly facilitates strategic planning retreats for physician groups. In fact, we are regularly given the ultimate compliment of being asked back for a repeat performance. Often we are proud of what groups accomplish between retreats - gratified by the passion that arises and the focus group management develops as a result of the retreat experience.

Sometimes, our experiences provide such a dramatic contrast in the evolution of similar groups. That contrast is the topic of this article. As always, the names, specialty, services and locations have been changed or left vague deliberately to ensure confidentiality.

Pioneers
Group A's founder was a pioneer in developing a diagnostic procedure unique to his specialty. He taught the procedure at residency programs in the area and was selective in recruiting only the "best trained" physicians.

Over the years the group grew to eight physicians and opened a second office. The group thought of themselves as the premier physicians in their specialty and felt secure that their reputation and training would equate to continued success.

The group spent massive amounts of time and energy in a tug of war over centralized management vs. decentralized management. When significant reimbursement reductions for the procedure they had pioneered hit their specialty, they obsessed that one office sub-divided income differently than the other. They focused on expense control, and as such were too "efficient" to hire a professional manager to oversee ever-declining collections. While they continued to rely on their reputations, other "less qualified" physicians entered the market and developed the capability to do what had by now become a common procedure in a facility they owned adjacent to their office.

Walking the Walk
Group B, located in a different, but still highly unregulated market, developed to the same size. They too opened a satellite office -- a part-time office in a town 50 miles away that lacked the services of their specialty. The commute was long and growth was slow. Eventually they took the risk and hired two new physicians to cover this satellite location.

When they outgrew the facility at their main location, they borrowed several million dollars and built a new facility, which included an attached procedure suite. Soon after, they developed a similar outpatient procedure facility in leased space adjacent to their satellite office.

Group B also faced issues of autonomy and income distribution at their separate locations. They made the decision to decentralize and stay out of each other's business whenever possible.

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The two offices also divided income differently, and the decision to develop and capitalize the adjacent facility was left to the physicians in that office. **The risk and reward were theirs.**

Eventually, Group B's satellite office had profits from their adjacent procedure facility double that of the older, more established location. Even this did not create dissention in the group, after all, they reasoned, the satellite physicians took the risk so they should be allowed the benefit.

Implosion or Explosion?
Meanwhile, Group A continued to try to centralize. A new manager was brought in and policies were developed to try to bring consistency and uniformity to the two offices. The satellite office's different division of income among its physicians than those in the main office became more and more contentious. Attempts to standardize office hours and day-to-day operational issues took more and more time.

By the time Delta was called in to do the retreat, it was obvious that the resentments between the two offices had created a chasm that could not be bridged. We attempted to fashion a solution by examining a revised governance system and granting as much autonomy as possible, while still maintaining the benefits of a larger group from business and strategic standpoints.

Resentments of the past, coupled with the drastic income reductions and mania about overhead led Group A to the point where the two factions were unable to reconcile their differences, and the group subsequently broke up.

The irony about the breakup is that it resulted in increased overhead (and decreased incomes) for both factions, and left neither with the resources or strength necessary to develop the outpatient procedure facility so obviously missing from their business strategy.

Group B's retreat focused on their future growth and the organizational structure that would be required to support it. They decided to construct a new facility, owned by the entire group, in their satellite location. They decided to continue to expand to another area, an additional 20 miles from their satellite (and 70 miles from their main office). They decided to invest in hiring two new physicians to staff this location, with the goal of creating a barrier to entry for other physicians in their specialty that would likely lock up this new and growing market for years to come.

Lessons Learned:
1) Size Does Not Equal Success
While these two groups were the same size and had the same number of offices, the vastly superior **success of Group B did not stem from its size, but from its willingness to take financial risk and leverage that risk into strength.**

2) Strategic Growth Isn't Easy - That's Why it's Called Strategic
Group B, by its willingness to travel 50 miles each way to establish a satellite office at a time when business was slow, proved to be a good long-term investment. **But it didn't seem that way when the Group B physicians were driving 50 miles each way in a less-than-certain attempt to establish their remote satellite.** It was worth it in the long run. Now they have relationships with referring physicians and a size and strength that will make it very difficult for others to enter that market area.

3) Reputation Only Goes So Far -- You Have to Walk the Walk
There are always excuses not to act. Group A had many of them, and they hung their hat on their well-deserved reputation. While the consequences of their indecision are obvious to outsiders now, the group is still in denial about dropping the ball on development of an outpatient facility where they could complete their procedures.

Group B? Well, the profit from their outpatient procedure facilities is several hundred thousand dollars per physician per year - and it is also more efficient for their patients (and less costly too). A win / win in any book.