

The Future of Physician Group Practice

I've been thinking about this topic a lot lately after a recent interview by Nancy Collins, publisher of *The Journal of Medical Practice Management*. (A podcast of the interview is available at www.soundpractice.net.)

Nancy asked, "What is the current state of small, independent physician groups?" I had to answer that, based on Delta Health Care's experiences anyway, in many cases it isn't very good. I recounted to Nancy how we routinely see physicians earning less than \$100,000 per year. They describe how the payor environment beats them down while costs keep rising.

It's Easy to Blame Others

In a late November interview for "Physician's Small Practice Survival Guide" being published by *Doctor's Digest* sometime during 2008, I made the point that small practices still can and do survive and even thrive. It's easy to blame economic woes on outside forces such as "evil payors," but the reality is that physicians have to learn to be more proactive.

We still come across practices that are lax about collecting co-payments and past-due balances from patients. Having increased over the past few years, the co-payment with many insurance plans can amount to half or more of what a physician is going to be paid for an office visit. And if a practice continues to provide service to those who choose to ignore old balances, it only creates the patient perception that the practice doesn't really expect payment.

It's easy to blame the front desk staff, but collecting money from patients who are seeking medical care is not the easiest job in the world. Practices love to create a collection policy but often lack the fortitude to stick to it. Many tend to cave in quickly in the face of even a small handful of patient complaints.

There are a series of things that need to happen for a change in collection policy to be effective and "stick." They include communication with patients in advance, providing the staff with tools and training, a policy for allowing exceptions, enforcement, and monitoring of compliance. You have to be willing to adjust a policy that's not working rather than give up.

Those "Evil" Payors

Another easy target are the payors. Many payment rates and payor policies seem to be designed to systematically delay or deny payment. While these tactics are loathsome, physician practices have a role in this as well.

Many practices' billing functions are disorganized at best. If you don't know what the contracted fee schedule is, how can you have a clue if you are being paid correctly?

Smaller (and even larger) practices tell us they have no 'leverage' with payors. In many cases that isn't true – they are simply not skilled at playing the game.

Last month at the 2007 Medical Group Management Association annual meeting, Randy Cook, a senior medical practice consultant with State Volunteer Mutual Insurance Company in Brentwood, Tennessee, aptly stated that "increasing leverage can be accomplished by any practice."

He went on to note that "improving market power is a strategic issue – it is not a task that can be completed a few days before the big meeting." His observations are right on. It's easy to say "Woe is me," but doing something about it takes planning and effort.

The Hospital Saves the Day?

We predicted in this newsletter two years ago a "huge acceleration" of hospital acquisitions of physician practices. That trend continues. For all the reasons stated above, physicians are approaching hospitals in record numbers.

They seek the security of a decent salary and a measure of protection. But, like most easy solutions, this isn't a panacea either. Many hospitals are ill-equipped to operate and manage physician practices. And who gets blamed when the losses mount?

Hospitals can be a good choice for physicians, but they have to understand the tradeoffs and be realistic about expectations.

Storm clouds are already on the horizon. As the competition heats up between hospitals for the high-performing practices, there is the prospect that history will repeat. The debacle of hospitals acquiring practices in the 90's didn't work out too well for either the hospitals or the physicians.

In our work with both physician groups and hospitals, we continue to urge sound underlying economics, an underlying strategic plan and a sound practice management infrastructure.

Back to the Future of Group Practice

Group practice isn't dead. Many physician groups are wildly successful; some are groups Delta Health Care formed through mergers. These groups are successful, because they executed their business plans well and didn't fold their hand at the first sign of adversity.

Successful group practices have more going for them than size and centralized ancillary services. Successful groups attract top recruits, pay the top salaries, hire the best management talent and do exert leverage with payors. Perhaps even more importantly, top-tier groups can be more flexible in meeting the work/life balance needs of today's generation-x physicians.

Successful groups also can offer an upside to becoming a partner in the business which, according to a recent article in *Medical Economics*, many young physicians are increasingly disinterested in attaining.

Merger activity, especially in single-specialty groups, continues to accelerate, but barriers to merging still loom large. Physicians want guarantees of decreased overhead, increased revenue and leverage with the payors. Many also want no capital investment and no risk. But, nobody in their right mind can guarantee anything in health care these days.

Physicians love their autonomy and use that as an excuse to avoid merging. But the trade-off for the safe haven of hospital employment is usually giving up some of that autonomy anyway.

Facing the Future in the New Year

Who can predict the political climate and its impact on healthcare over the next few years? What about genetic testing? What about the now-retiring baby-boomers and the tremendous health care costs this aging generation will place on the system?

Starting salaries in some specialties have reached the point where they vastly exceed what many established partners are earning.

Specialists in areas such as gastroenterology and cardiology face real potential paradigm shifts in their practices over the next 3-5 years.

Facing the New Year with a Plan

This New Year, take the time to step back and take an objective look at what's going on in your business. Act now to develop and execute a strategic business plan to face these realities.

Our colleague Leif Beck likes to say: "Retreat can mean moving ahead." Plan a retreat or simply take some time on a Saturday morning to sit down with your partners and figure out what you need to do outside the boundaries of day-to-day operational problems and issues.

Identify your weaknesses and threats. Nobody has a crystal ball but, as I tell groups in the midst of strategic planning, weaknesses and threats create opportunities. Opportunities are where our futures lie.