

BUSINESS OF MEDICAL PRACTICE

(Advanced Profit Maximization Techniques for Savvy Doctors)

2nd Edition



About the Editor

Dr. David Edward Marcinko is a healthcare economist, adjunctive clinical professor and former private practitioner from Temple University, in Philadelphia. In the past, he edited two practice management textbooks, three medical texts, and four personal financial planning books for physicians and healthcare professionals. His clinical publications are archived in the Library of Congress, and the Library of Medicine at the National Institute of Health. His economic thought leadership essays have been referenced by Investment Advisor Magazine, Medical Group Management Association (MGMA), American College of Medical Practice Executives (ACMPE), American College of Physician Executives (ACPE), JAMA.ama-assn.org, Healthcare Management Associates (HMA), CFP[®] Biz (Journal of Financial Planning), and the Financial Planner's Online Library with CD-ROM, among others. A favorite on the lecture circuit, Dr. Marcinko speaks frequently to medical societies and financial institutions throughout the country, in an entertaining and witty fashion.

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The Advanced Business of Medical Practice
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DEDICATION

It is an incredible privilege to edit the second edition of: **THE BUSINESS OF MEDICAL PRACTICE** (*Advanced Profit Maximization Techniques for Savvy Doctors*). One of the most rewarding aspects of my career has been the personal and professional growth acquired from interacting with business, accounting, technology, legal and financial professionals of all stripes. The mutual sharing and exchange of practice management ideas stimulates the mind and fosters advancement at many levels.

Creating this text was a significant effort that involved all members of our firm. Over the past year we interfaced with numerous outside private and public companies to discuss its contents. Although impossible to list every person or company that played a role in its production, there are several people we wish to thank for their extraordinary assistance: Robert J. Cimasi, ASA and Timothy Alexander, MLS of Health Capital Consultants, LLC, St. Louis, MO; Dr. Richard J. Mata, MS-MI, MS-CIS, healthcare informaticist from San Antonio, Texas; Dr. Peter R.

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Of course, this second edition would not have been possible without the support of my wife Hope and daughter Mackenzie, whose daily advocacy encouraged me to completion.

It is also dedicated to the contributing authors who crashed the development life cycle in order to produce time-sensitive material in an expedient manner. The satisfaction I enjoyed from working with them is immeasurable.

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FOREWORD

It's never been easy to be a physician, and in many ways the pressures on practitioners are only getting worse. This is why I've been a longtime admirer of what David Edward Marcinko does with his writing and knowledge of medicine and medical practice. Dr. Marcinko's books provide guidance for physicians – helping them to survive organizationally, administratively, and financially so that they can continue to serve their patients.

Helping fellow physicians in one way or another often figures into the motivations of those who have left the joys of a medical practice to pursue healthcare from a different vector. Some are called into research, giving up the rewards of helping individuals with the hope that they might contribute insights that can lead to the helping of many.

After medical school, my own path took me to the University of Pittsburgh and a doctorate in medical informatics, with visions of helping physicians help their patients through better management of data. Fortunately, I see that vision coming true, especially as I work with my colleagues at Microsoft to create a secure informational infrastructure that gives physicians the information they need at any time, and at any place – including over a wireless device as they attend to a patient at bed side. We call this initiative to provide seamless, yet secure, access to data on an anytime, anywhere, basis *Healthcare Without Boundaries*.

Though we are proud of our proud of our work, the great wonders, come from what we see after we release our products, as physicians do things with our software that we never envisioned. Physicians, by nature – or through selection and training – have a scientific mind and a driving

curiosity. Over and over again my colleagues and I are dazzled by what physicians are creating by using our technology in unexpected ways. And, it is often the work done by private practitioners looking for ways to create their own solution, because they either couldn't afford a pre-packaged one, or couldn't find a solution that answered their creative visions.

Physicians, especially those in private or small group practice, are under great stress today. But they are buoyed by a passion for their work and dedication to their patients, and they are extremely resourceful with the brilliance and ingenuity that comes from the curiosity of the scientific mind.

Medical Economics magazine recently ran a story about Robert Novich, a New Rochelle, New York internist who needed an electronic medical records system for his solo practice. Suffering from sticker shock and the inflexibility of the commercial EMRs he looked at, he decided to create his own – using Microsoft® Word and a fax machine. Lab reports and other documents received by fax are directly imported into the computer for digital storage. Working with his son Jeff, who was a college student at the time, Dr. Novich created a system that uses Word templates to simplify creation of medical records; and Explorer to provide instant file access; slashing time from pulling information out of file cabinets. The system also creates and manages electronic prescriptions.

The results? Dr. Novich said, “I feel like a brand new doctor.”

This book is filled with a wealth of information on how to survive the financial, administrative, and regulatory pressures that could otherwise draw down on the time you want to spend with your patients. Dr. Marcinko and his contributors cover the spectrum from developing a medical office business plan for the new practitioner, to placing a value on a practice for the retiring physician preparing to sell. A sampling of topics includes: human resource management and physician recruitment, marketing, insurance coding and health-law compliance, process improvement and medical care outcomes tracking, cash flow analysis, office expense modeling, cost accounting, practice benchmarking, financial and ratio analysis, ROI calculations, CRM, six sigma initiatives, concierge medicine and medical ethics.

Throughout this book a common denominator is the need for acquiring and managing information. Fortunately we live in a time when information technology is providing ever more benefits with an ever lower threshold – both financially and technically.

For less than \$500 you can buy a computer today that has a more powerful central processing unit and more memory than the multi-million dollar mainframes and super computers that were enshrined in regional banks and university research centers in the 1980s. And the advent of point-and-click interfaces and drag-and-drop development environments mean that everyday doctors can do extraordinary things.

Microsoft recently sponsored a contest looking for innovative ways in which our Office suite of applications had been used by healthcare workers. The response was overwhelming -- not because

of the technology, but because of the innovative ways it was being deployed to solve real-world problems.

Cecil Lynch, an M.D. and medical informaticist who teaches at the University of California at Davis is using Microsoft Access to help the U.S. Center for Disease Control (CDC) enhance the efficiency of its disease surveillance system.

Dr. Duke Cameron of the Division of Cardiac Surgery, Johns Hopkins Hospital, came up with the idea of using the Outlook® Calendar to schedule operating rooms, to help assure the OR is properly setup with specific implant devices and other special equipment or supplies before the surgical team arrives.

Nick Hoda, a psychologist-in-training at Mississippi State University, uses Microsoft Excel charts and graphs to show his elementary school clients coping with learning and behavioral problems – that their behavior really is getting better. He uses the same charts with teachers and administrators to win his young clients another chance at the classroom.

My favorite story, came from Dr. Thomas Schwieterman, a fourth-generation physician working in the same medical office his great grandfather established in 1896 in the town of Mariastein, Ohio. From those same historic environs, Schwieterman has used Microsoft Access to create his own physician assistant application.

The Schwieterman Family Physicians practice kept him so busy that he was wondering how he could keep up with his patient caseload. Schwieterman wanted a faster way to handle prescriptions, provide medical information, and record data for his patient records.

He walked into a MacDonald's restaurant one day and had an idea.

“I ordered a cheeseburger and fries and watched the person at the counter touch the screen of the cash register a few times, and realized the order was getting transferred back to the food preparation area, and that by the time I paid, my order was ready,” he said. “I thought to myself: ‘That’s what I need!’”

He searched for commercially available solutions, but when he couldn't find an exact match for his needs, and when he found prices steep for a small private practice, he decided to create his own – using Access. He also called upon a friend with a Master's Degree in electrical engineering to help on the coding. His creation boosted his income by 20 percent – “Which was important because we pay more than \$60,000 a year for malpractice insurance even though our clinic has never been sued since it was founded 107 years ago.”

What my friends at Microsoft especially like about this story is that when Dr. Schwieterman's colleagues tried his program, liked it, and suggested he try to sell it, he put together a PowerPoint® presentation – and landed a partnership agreement with a major healthcare supply and services corporation to market his ChartScribe solution.

So, the pressures facing physicians are great, but so are their resources. Information technology is one resource, this book is another, but the greatest of all is the innate curiosity and drive to discover and create that seems to be so much a part of those who are drawn to this noble profession.

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THE BUSINESS OF MEDICAL PRACTICE

2nd Edition

(*Advanced Profit Maximization Techniques for Savvy Doctors*)

PREFACE

In the current managed care milieu, **THE BUSINESS OF MEDICAL PRACTICE** (*Advanced Profit Maximization Techniques for Savvy Doctors*) is a textbook of specific value to all medical professionals, as declining payments, increasing expenses, onerous federal regulations, and the shenanigans of Wall Street raise havoc with physician autonomy, income and patient care. Contrary to conventional wisdom, we do not believe that draconian free market competition in the present guise of managed care will dramatically reduce healthcare costs, for seven reasons:

- First, it is difficult to define medical quality.
- Second, a perfectly competitive marketplace does not exist.
- Third, the consumer has a voracious appetite for medical care, regardless of accountability or self-restraint.
- Fourth, the demographic economics are against it.
- Fifth, the push for continuous research and development is in the DNA of human beings.
- Sixth, abandoning non-profitable specialty lines, or cutting edge treatments is anathema to medical practitioners.
- Seventh, "above all else", medicine is a uniquely personal experience, and American society is not ready for the brutal and rational efficiencies of the business world

Nevertheless, one in three physicians declined to offer patients "useful" medical services because they were not covered under health insurance benefits, according to a 2003 study published in *Health Affairs*. This means some physicians may be violating ethical codes that discourage doctors from withholding information because of coverage restrictions. Furthermore, 35% of doctors feel placed in this position more frequently in the past five years. Of course, interpretation of the small survey varies, but failing to inform patients about useful treatments denies them the opportunity to challenge insurance restrictions

On the other hand, we are pragmatic and realize that practicing healthcare providers of all independent degree designations (allopathic, osteopathic and podiatric physicians, dentists, optometrists, chiropractors, psychologists, and nurse practitioners), must learn to better compete in the next decade. Ultimately, practitioners who are clinically *and* economically responsible are the wave of future. It is the physician-executive, with professional managerial training who can best direct future systems of autonomous care, with improved outcomes for patient, payer and doctors alike.

The information in this text will help achieve this goal and is most applicable to the solo, small or medium group practice; or for those physicians who aspire to be decision makers and administrators. For the employed physician or resident, it will also serve as a blueprint for what can still be achieved. And, for the practice administrators, it will serve as a guide to the next generation of medical networks or more complex large group management endeavors.

THE BUSINESS OF MEDICAL PRACTICE (*Advanced Profit Maximization Techniques for Savvy Doctors*) is written in prose form, using non-technical jargon, without the need to document every statement with a citation from the literature. This allows a large amount of information to be condensed into a single and practical volume. It also allows the reader to comprehend important concepts in a single reading session, with a deliberate effort to include germane examples. The interested reader is then able to research selected topics. Overlap of material has also been reduced, but important concepts are reviewed for increased understanding.

The textbook itself is divided into major three major sections, written by 20 contributing authors, and with the concepts developed in **Section II (quantitative)** and **Section III (contemporary)**, building on those of **Section I (qualitative)**. Each section is then divided into multiple parts, for a total of 32 logically progressive, yet stand-alone, chapters.

Chapter 1 briefly reviews the history of healthcare economics in the United States; from the days of private pay, to indemnity insurance and the “golden era of medicine”, to contemporary managed care, offering several ideas for recreation and re-tooling. Chapter 2 and 3 are new to this edition and discuss how to write a medical office business plan to obtain office capital, and create a strategic plan to run back office operations. Chapter 4 is also new and discusses medical office relationships, partners and personalities, while Chapters 5 and 6 explain compliance methods, risks and programs, and the insurance CPT coding issues that are increasingly arcane in a skeptical payer climate. **Section I** concludes with three entirely new Chapters: 7, 8 and 9 respectively, on six-sigma initiatives, quality and medical processes improvement and the use of futuristic information technology to track clinical outcomes, treatment results and medical care.

Section II begins the quantitative aspects of the book, as Chapter 10 presents a fresh look at capitation econometrics, as Chapter 11 documents the perils of indiscriminate cash flow control in rising, declining and neutral growth environments. Chapter 12 presents basic economic concepts of fixed and variable office cost behavior and expense modeling, while Chapter 13 and Chapter 14 explore the disciplines of mixed cost analysis, linear regression analysis and activity based cost management (ABCM), a watershed concept to most physicians that has become the costing method of choice in the hyper competitive environment. Chapter 15 explores financial ratio analysis and benchmarking, and

surveys the typical office for lost sources of additional profit or burdensome expenses. Chapter 16 demonstrates how to calculate and augment return on office investment, resulting residual income and the advantages/disadvantages of the novel meter of Medical Enterprise Value Added (MEVA). Chapter 17 explains the elusive concept of business value, and the philosophy required to create real practice equity in an era of healthcare mergers and acquisitions, while Chapter 18 on practice valuation techniques, concludes the section with an emphasis on Uniform Standards of Professional Appraisal Practice (USPAP) protocols, and discounted cash flow analysis, as office bricks and mortar are becoming increasingly worth less. It is an important chapter for the new practitioner seeking to purchase an existing practice, or the retiring practitioner in the quest for proper payoff after years of hard work.

Section III, of the book, begins with Chapter 19 and a comprehensive look at the Health Insurance Portability and Accountability Act (HIPAA) and the information systems and medical office business equipment required for its full understanding and implementation, in an increasing unwired, unsecured and mobile WiFi world. Chapter 20 presents updates to the outsource versus in-house dilemma of human resource management, in an attempt to reduce risk, while the contentious issue of restrictive covenants and practice non-competes agreements is reviewed in Chapter 21. Chapter 22 on physician recruitment is new, as is the case for concierge medical practice outlined in Chapter 23. Customer (Patient) Relationship Management (CRM) is extensively detailed in Chapter 24, and represents a controversial concept to traditionally educated physicians. Chapter 25 opines on the ethical and moral issues of managed medical care. Chapter 26 dissects the civil battleground of a medical malpractice trial with its myriad legal tactics, maneuvers and machinations. Finally, Chapter 27 rightly concludes the third section, and book, with a discussion on choosing the business management advisor that represents the best fit for both office environment and individual physician.

In conclusion, as you read, study and reflect on this challenging textbook, remember the guiding philosophy of Eric Hoffer: *“In a time of drastic change; it is the learners who will inherit the future. The learned find themselves equipped to live in a world that no long exists”*.

INSTRUCTIONS FOR CONDENSED READING AND REVIEW

To the new physician, mid-career practitioner or seasoned healthcare provider, or to those practice managers and administrators who find that mastering business topics is a difficult endeavor, this book is a useful source of information even if you recoil at the thought of cost-volume profit analysis or contribution margins in conjunction with a medical practice.

If you are of this ilk, I urge you to begin your reading with Chapters 1, 2, 3, and 6, that will encourage you to learn the basics of management theory and insurance as it relates to the practice of medicine, today. Then, after reading this much of the book, you are sure to find enough business material communicated in *Section I*, that you will want to give the mathematical portions of the book another try. All theories are explained in plain language with easily understood spreadsheet calculations and tables to reinforce vital concepts, in *Section II*. Chapters 12, 13, 14 and 15 are the most difficult of the book, but they are also the most worthwhile, especially to larger group practices. Moreover, Chapters 19, 20, 23 and 24, of *Section III*, offer the modern IT and human resource guidelines, concierge

practice philosophy and the CRM issues of an economically driven society. Beware, Chapter 26 is mentally caustic, so take your time and read slowly to consider and digest the chilling material thoroughly.

Finally, study and enjoy the remaining chapters of the book at your leisure. There is something in it for all medical professionals; regardless of specialty or degree designation.. The effort will be well rewarded with enhanced revenue, decreased personal stress and improved patient care, the ultimate goal of any contemporary Healthcare reform or futuristic medical business model.

Your thoughts, suggestions and opinions after reading **THE BUSINESS OF MEDICAL PRACTICE** (*Advanced Profit Maximization Techniques for Savvy Doctors*) are most appreciated and welcomed.

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Table of Contents

SECTION ONE: QUALITATIVE ASPECTS OF MEDICAL PRACTICE

1. HEALTHCARE ECONOMICS IN MEDICAL PRACTICE

David Edward Marcinko
Hope Rachel Hetico
Rachel Pentin-Maki

2. MEDICAL OFFICE BUSINESS PLAN

David Edward Marcinko
Hope Rachel Hetico
Rachel Pentin-Maki

3. MEDICAL PRACTICE STRATEGIC OPERATING PLAN

David Edward Marcinko
Hope Rachel Hetico
Rachel Pentin-Maki

4. ESTABLISHING HEALTHY MEDICAL PARTNER RELATIONSHIPS

Carolyn Merriman
Kriss Barlow

5. COMPLIANCE PROGRAMS FOR MEDICAL PRACTICE HEALTH

Patricia A. Trites

6. INSURANCE CODING GUIDELINES

Patricia A. Trites

7. SIX-SIGMA PRIMER FOR HEALTHCARE PROVIDERS

Daniel L. Gee

8. PROCESS IMPROVEMENT FOR PHYSICIANS AND HEALTH PLANS

Brent A. Metfessel

9. USING IT SYSTEMS TO TRACK MEDICAL CARE

Brent A. Metfessel

SECTION TWO: QUANTITATIVE ASPECTS OF MEDICAL PRACTICE

10. CAPITATION ECONOMICS REVISED

Jeanne Hogan

Allan Gordon

Angela Herron

11. CASH FLOW ANALYSIS AND MANAGEMENT

David Edward Marcinko

12. MEDICAL OFFICE EXPENSE MODELING

David Edward Marcinko

13. ACCOUNTING FOR MIXED PRACTICE COSTS

David Edward Marcinko

14. MEDICAL ACTIVITY BASED COST MANAGEMENT

David Edward Marcinko

15. MEDICAL PRACTICE FINANCIAL BENCHMARKING

Gary L. Bode

16. RETURN ON MEDICAL PRACTICE INVESTMENT CALCULATIONS

David Edward Marcinko

17. CREATING PRACTICE EQUITY VALUE

David Edward Marcinko

Charles F. Fenton, III

18. THE SCIENCE AND ART OF MEDICAL PRACTICE VALUATION

David Edward Marcinko

SECTION THREE: CONTEMPORARY ASPECTS OF MEDICAL PRACTICE

19. MEDICAL INFORMATION SYSTEMS AND OFFICE BUSINESS EQUIPMENT

Carol S. Miller

20. HUMAN RESOURCE OUTSOURCING FOR THE PHYSICIAN EXECUTIVE

Eric Galtress

21. MEDICAL PRACTICE NON COMPETE AGREEMENTS

Frederick William LaCava

22. PHYSICIAN RECRUITMENT

Allison McCarthy

23. THE CASE FOR CONCIERGE MEDICINE

Allison McCarthy

24. CUSTOMER (PATIENT) RELATIONS MANAGEMENT FOR PHYSICIANS AND HEALTHCARE ORGANIZATIONS

Dee Vee Devarakonda

25. ETHICAL ISSUES IN MODERN MEDICAL PRACTICE

Render S. Davis

26. DISSECTING A MEDICAL MALPRACTICE TRIAL

Daniel J. Buba

27. SELECTING PRACTICE MANAGEMENT ADVISORS WISELY

Hope Rachel Heticco

Rachel Pentin-Maki

Appendix A: Physician Practice Management Systems

Appendix B: Medical Practice Management Service Agreement

Appendix C: Medical Unions, Public Sympathy and Physician Salaries

AFTERWORD

In his dictionary, Webster defines the word visionary as, “one who is able to see into the future”. Unlike some pundits, prescience is not a quality we claim to possess. To the purveyors of healthcare gloom and doom however, the future for physicians is a bleak fate accompli. If you were of this same philosophical ilk prior to reading this book, we hope that you now realize the bulk of medical management activity for physicians, payers and patients may take place at the physician-executive level, as doctors take back their place as maestro of the medical care symphony.

In the future, this doctor-manager dichotomy will blur as physicians control their professional and economic lives, leave tightly controlled HMOs and form Medical Provider Service Networks or other delivery models, to obviate the need for broker-middlemen-agents sucking huge profits out of the system at the expense of all concerned. By other delivery model, we mean a medical care organization run by physician executives who contract directly with employers, rather than managed care intermediaries.

For this physician driven healthcare migration to occur, providers will need to consider the example of our contributing authors and graduate from business school and law school; or take management or technology courses to re-engineer their practices with the needed organizational tools of this Millennium. Hopefully, **THE BUSINESS OF MEDICAL PRACTICE** (*Advanced Profit Maximization Techniques for Savvy Doctors*) will prove useful in this regard and serve as a valuable resource for every medical, business and graduate school library in the country.

Do not be complacent, for as onerous as it seems, we may not survive autonomously as a profession without utilizing this sort of information, because the bar to a new level of medical care has been raised in this decade. Although we still need actuarial and accounting data, working capital, marketing techniques and correct product pricing, we believe that all physicians will look back on the Year 2005-06 and recognize it as the turning point in the current healthcare imbroglio. Already there are growing signs of this sea change as indicated by recent settlements of class action lawsuits against giants Cigna and Aetna Healthcare.

And, the growth of new healthcare technology and distribution models, bodes well for future practitioners and patients, through:

- e-Healthcare technology, connectivity, eMRs, and Computer Physician Order Entry (CPOE) systems
- Medical practice outsourcing
- Global managed healthcare
- Biotechnology, human genomics and prospective healthcare

Therefore, as medical professionals, please realize the experts of *iMBA* all face the same managed care issues as you. And, although the multi-degreed experts of this textbook may have a particular business expertise, we should never lose sight of the fact that, *above all else*, medical care should be delivered in a personal and humane manner, with patient interest, rather than self interest, as our guiding standard. *Omnia pro aegroto*, or "all for the patient."

Good medicine, Good business, Good day!

Fraternally,

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