Physicians as Business Owners
Agenda

I. Business 101

II. Thinking outside the box, inside the box, on the side of the box, under the box…(hint: know the box)

III. Future : What you make of it and what others will make of it (you did listen to my presentation earlier, right?)

IV. Brief Discussion and Questions
Business 101
Anybody ever seen one of these shows?
What is a business?

Organization that provides goods or services to earn profits.
Mission, Vision and Values

- **Mission Statement:**
  - Who we are
  - What we value
  - What we want to become

- **Vision Statement:**
  - How we will achieve our vision

- **Strategy:**
  - How we will achieve our degree of success

- **Goals & Objectives:**
  - How we gauge our degree of success

**Core Elements**
- **Values**
  - Ethics
  - Principles
  - Beliefs

- **Vision**
  - Why are we here?
  - If the market changed, what would we still be doing that we're doing now?
  - How does this work fulfill our core values and ethics?

- **Mission**
  - What do we do?
  - What do we want to accomplish?

- **Strategic Goals**
  - How can we change our world/industry/community?

- **Tactics**
  - When do we do it?
  - How do we get there?
Revenue = Price * Volume
Expense = (Variable Costs * Volume) + Fixed Costs
Profit

- Revenue
- Expenses
Profit (Loss)
Ever seen one of these?
Profit Loss Statement

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th># Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>4,078,901</td>
<td>3,874,956</td>
<td>(203,945)</td>
<td>-5%</td>
</tr>
<tr>
<td><strong>Staff Salaries/Benefits</strong></td>
<td>1,467,163</td>
<td>1,496,507</td>
<td>29,343</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Building</strong></td>
<td>324,584</td>
<td>326,207</td>
<td>1,623</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Medical Supplies</strong></td>
<td>318,754</td>
<td>326,723</td>
<td>7,969</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Administrative expenses</strong></td>
<td>194,652</td>
<td>184,920</td>
<td>(9,733)</td>
<td>-5%</td>
</tr>
<tr>
<td><strong>Equipment-Non-medical</strong></td>
<td>193,617</td>
<td>189,744</td>
<td>(3,872)</td>
<td>-2%</td>
</tr>
<tr>
<td><strong>Equipment-Medical</strong></td>
<td>137,205</td>
<td>141,321</td>
<td>4,116</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Malpractice Insurance</strong></td>
<td>105,383</td>
<td>103,276</td>
<td>(2,108)</td>
<td>-2%</td>
</tr>
<tr>
<td><strong>Utilities</strong></td>
<td>48,294</td>
<td>47,811</td>
<td>(483)</td>
<td>-1%</td>
</tr>
<tr>
<td><strong>Interest</strong></td>
<td>20,186</td>
<td>19,782</td>
<td>(404)</td>
<td>-2%</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td>49,653</td>
<td>50,646</td>
<td>993</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total Expenses</strong></td>
<td>2,859,491</td>
<td>2,886,936</td>
<td>27,445</td>
<td>1%</td>
</tr>
<tr>
<td><strong>Profit</strong></td>
<td>1,219,410</td>
<td>988,020</td>
<td>(231,390)</td>
<td>-19%</td>
</tr>
</tbody>
</table>
Other Accounting Terms

• Opportunity Costs
• Sunk Costs
• Return on Investment
Marketing Terms

• Market – A collection of buyers

• Needs, wants and demands

• Customer

• Channels
Other Business Functions

• Human Resources

• Organizational Structure

• Information Management/Technology

• Legal
The box and where to think
Expense by any other name...

Main Entry:

expense [ik-spens]

Part of Speech:
noun

Definition:
cost, payment

Synonyms:
amount, assessment, bite, bottom line, budget, charge, consumption, debit, debt, decrement, deprivation, disbursement, duty, expenditure, forfeit, forfeiture, insurance, investment, liability, loan, loss, mortgage, obligation, out of pocket, outdo, outlay, output, overhead, payroll, price, price tag, rate, responsibility, risk, sacrifice, spending, sum, surcharge, tariff, toll, upkeep, use, value, worth
Where am I?

Benchmarks Per FTE Physician

<table>
<thead>
<tr>
<th></th>
<th>Total Medical Revenue</th>
<th>Total Support-Staff Cost</th>
<th>Total Operating Cost</th>
<th>Total Medical Revenue after</th>
</tr>
</thead>
<tbody>
<tr>
<td>Practice</td>
<td>477,708</td>
<td>165,262</td>
<td>333,799</td>
<td>143,909</td>
</tr>
<tr>
<td>Better Performing</td>
<td>723,588</td>
<td>203,539</td>
<td>380,975</td>
<td>314,712</td>
</tr>
<tr>
<td>Other</td>
<td>630,938</td>
<td>189,725</td>
<td>381,593</td>
<td>237,017</td>
</tr>
</tbody>
</table>
What am I?
Expenses

Staff Salaries, 52%
Equipment, 12%
Building, 11%
Supplies, 11%
Malpractice, 4%
Other, 11%
Expense Demominators

- Work rvu’s
- Categories
- CPT
- Locations
OVERHEAD
Would you invest in this…

• A stock that returns $.10 for every dollar invested.

• A mutual fund that consistently returns 5% to 7% each year.

• A company that quarterly pays out dividends based on positive retained earnings.
One last comment about overhead...

How many folks in the room asked to see what the overhead was for all of the various stocks of companies in your 401-K plan?

Not saying it’s not important to know expenses...
Classic Expense Reduction

• Appropriate mix of staff

• Efficient use of staff

• Equipment purchase vs lease

• Multi-year vendor contracts

• Constant evaluation of costs and service
Expenses...looked at a little differently

THIS

NOT

THAT
Do More with Less or the Same with Less…everybody else is…
It’s not just for airlines and gas pumps anymore…
Technology and the Consumer

Camera window lets you see what’s in front of you while texting.
Embrace Technology
#1 Expense = Labor

- Online scheduling
- Online communication
- Online bill pay
- eStatements
- Telehealth
- E-prescribing
Can you do this?
Tablet Kiosk
Technology – going for a win-win

When you have a cold, it’s common to have a sore throat, runny or stuffy nose, itchy eyes, and sinus pain or pressure. Coughing and sneezing is also common. If you have the flu, you may also have body aches and a fever.

Learn how we can help
Revenue by any other name…is truly the rose!

<table>
<thead>
<tr>
<th>Main Entry:</th>
<th>revenue [rev-uhn-yoo, -uh-noo]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Part of Speech:</td>
<td>noun</td>
</tr>
<tr>
<td>Definition:</td>
<td>income, profit</td>
</tr>
<tr>
<td>Synonyms:</td>
<td>acquirement, annuity, bottom line, cash flow, credit, dividend, earnings, emolument, fruits, fund, gain, gate*, get*, gravy, handle*, interest, means, net, pay, payoff, perquisite, proceeds, receipt, resources, return, reward, salary, split*, stock, strength, take*, takings, wages, wealth, yield</td>
</tr>
</tbody>
</table>
Classic Revenue Focus

- Providers
- Volumes
- Service Mix
- Payer Mix
- Reimbursement Rates
- Accuracy and Efficiency of Processes
## Providers and Volume

### Revenue by Doctor and Quarter

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Dr. A</th>
<th>Dr. B</th>
<th>Dr. C</th>
<th>Dr. D</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-Mar</td>
<td>150,000</td>
<td>100,000</td>
<td>125,000</td>
<td>150,000</td>
</tr>
<tr>
<td>Apr-May</td>
<td>140,000</td>
<td>120,000</td>
<td>130,000</td>
<td>120,000</td>
</tr>
<tr>
<td>Jun-Sep</td>
<td>50,000</td>
<td>125,000</td>
<td>120,000</td>
<td>140,000</td>
</tr>
<tr>
<td>Oct-Dec</td>
<td>75,000</td>
<td>130,000</td>
<td>125,000</td>
<td>150,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>415,000</strong></td>
<td><strong>475,000</strong></td>
<td><strong>500,000</strong></td>
<td><strong>560,000</strong></td>
</tr>
</tbody>
</table>

### Volumes

<table>
<thead>
<tr>
<th>Year</th>
<th>Visits</th>
<th>Gl Proc</th>
<th>Cd Proc</th>
<th>Dexa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>26,200</td>
<td>2,400</td>
<td>1,250</td>
<td>500</td>
</tr>
<tr>
<td>Year 2</td>
<td>26,500</td>
<td>2,000</td>
<td>1,200</td>
<td>600</td>
</tr>
<tr>
<td>Change</td>
<td>300</td>
<td>(400)</td>
<td>(50)</td>
<td>100</td>
</tr>
<tr>
<td>% Change</td>
<td>1%</td>
<td>-17%</td>
<td>-4%</td>
<td>20%</td>
</tr>
</tbody>
</table>
Mix of Services

Avg Revenue/Service:
- Office Visit: $50
- Labs: $18
- Procedures: $250

Monthly Revenue:
- Int Med: $40,400
- Op Card: $62,700
- GI: $69,300
## Payer Mix (Charges)

<table>
<thead>
<tr>
<th></th>
<th>Year 1</th>
<th>Year 2</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare</td>
<td>3,428,571</td>
<td>3,492,040</td>
<td>63,469</td>
<td>2%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>166,667</td>
<td>170,303</td>
<td>3,636</td>
<td>2%</td>
</tr>
<tr>
<td>BCBS</td>
<td>2,727,273</td>
<td>2,403,948</td>
<td>(323,325)</td>
<td>-12%</td>
</tr>
<tr>
<td>United</td>
<td>1,562,500</td>
<td>1,482,930</td>
<td>(79,570)</td>
<td>-5%</td>
</tr>
<tr>
<td>Cigna</td>
<td>1,000,000</td>
<td>950,293</td>
<td>(49,707)</td>
<td>-5%</td>
</tr>
<tr>
<td>Other</td>
<td>98,039</td>
<td>94,203</td>
<td>(3,836)</td>
<td>-4%</td>
</tr>
<tr>
<td>Self-Pay</td>
<td>125,000</td>
<td>127,000</td>
<td>2,000</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>9,108,050</strong></td>
<td><strong>8,720,717</strong></td>
<td><strong>(387,333)</strong></td>
<td><strong>-4%</strong></td>
</tr>
</tbody>
</table>
# Reimbursement Rates

<table>
<thead>
<tr>
<th>CPT</th>
<th>Description</th>
<th>Charges</th>
<th>Medicare</th>
<th>Payer 1</th>
<th>Payer 2</th>
<th>Payer 3</th>
<th>Payer 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>99214</td>
<td>Est Detailed OV</td>
<td>$ 130.00</td>
<td>86.39</td>
<td>106.27</td>
<td>98.40</td>
<td>90.53</td>
<td>86.91</td>
</tr>
<tr>
<td>80061</td>
<td>Lipid panel</td>
<td>$ 51.00</td>
<td>18.72</td>
<td>12.17</td>
<td>6.00</td>
<td>9.36</td>
<td>14.02</td>
</tr>
<tr>
<td>93350</td>
<td>Stress Echo</td>
<td>$ 263.00</td>
<td>160.57</td>
<td>189.06</td>
<td>175.08</td>
<td>86.86</td>
<td>156.35</td>
</tr>
<tr>
<td>45385</td>
<td>Colon w/ Snare</td>
<td>$ 1,435.00</td>
<td>468.23</td>
<td>870.99</td>
<td>597.55</td>
<td>946.00</td>
<td>788.00</td>
</tr>
</tbody>
</table>
Impact of Various Rates

Share of Charges (Volumes)

Cigna 11%
Medicare 38%
United 17%
BCBS 30%
Medicaid 2%

Share of Revenue

Cigna 12%
Medicare 29%
United 18%
Medicaid 1%
BCBS 38%
Revenue Sources

Direct
• Standard services
• Ancillary services
• “Convenience” services
• Online services

Tangential
• Clinical trial participation
• Speaking presentations
• Educational sessions
Simple revenue leaks…

- Coding – This area should be reviewed regularly…
- Collecting before the patient leaves
- Annual managed care contract reviews
- Credentialing properly
- Financial audit of payments (variance analysis)
Oh yeah baby...
What do physicians owners usually do with profit…

Three choices but the first two don’t count…
Making money isn’t evil…

• Business owners deserve the “reward” of success

• Action is appropriate given ownership strategy for future
What to do with Profit?

- Take it out as bonus/dividend
- Create a savings account/investment account (rainy day fund)
- Invest in the organization
What to do with a loss?

• Run screaming into the night.

• Review both revenue activity and expense activity.

• Understand what occurred and begin corrections/enhancements…
Does the patient know they need us?

Practices must begin to understand how to grow the revenue of the practice. Relying on the model of waiting for referrals or simple word of mouth is becoming much more difficult to sustain…

What does the patient need…AND…what does the patient want?
Facilitative Model of Care

The patient is now a vital part of the care team.
Age of the Internet

• One to One Marketing
• Recovery Act Broadband Initiatives – Pushing the internet to rural communities
• More Internet Users since the 90’s – Proliferation of the Cloud
• Changing system from paternalistic model to a facilitative model of physician/patient interaction
• Still very much in its infancy…
Mobile Health

- Actively engages patients in health care
- Connect physicians to information
- Telepresence technology
- Consistency in communication
- Data Analytics

ECG signals wirelessly transmitted to an Android mobile phone via a low-power interface. (Credit: Image courtesy of Interuniversity Microelectronics Centre (IMEC))
Social Media….here to stay

- Facebook
- Blogging
- YouTube
- Twitter
The Future
Why do I need to know this…

• New payment models

• New benefit programs/structures

• Restructuring practice models (independence AND employed)

• New organizational structures
Simply put…

- Businesses are dynamic, not static.
- Businesses require investments of time, money and thought to continue to thrive.
- It is yours…to succeed or to fail. There really are no other options.