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Many people view each new year as an opportunity to make a fresh start. It's a time to make goals, plan ahead, look back on past triumphs and troubles, and determine a path for the future. Just as you do this for yourself personally, you can do the same for your practice.

In this issue of *VitalSigns*, we provide a few resources to help you start on your plan for the new year. This issue discusses the future of quality measures in practices, how to use your financial statement and financial ratios to evaluate the health of your business, and what defines a successful practice.

We wish you the best in the coming year and hope that 2011 is a successful one for you and your practice.

## Changes are on the horizon ... and they're all about quality

**Quality care. Clinical integration. Outcomes management. Evidence-based medicine. Physicians are constantly being bombarded with the newest buzz terms. You hear them at your practice, at the hospital, in your professional societies, from the government and from insurers. Quality, however, never goes out of style for health care professionals.**

As a scientist interested in helping others, you have been trained to provide good care and learn new techniques that will help your patients. Unfortunately, up until recently, the measurement of outcomes of clinical procedures and protocols has been limited to large physician groups, research organizations and hospital systems that devote resources to defining how well they're performing. But changes are on the horizon.

### Market forces

The reality is that a number of factors — including changes in payment methodologies, clinical data repositories, data analysis methodologies and electronic medical records (EMRs) — are moving us toward a system that can provide outcomes data on physicians, ancillary providers and hospitals.

Many physicians have changed the little things in their practices to increase efficiencies and quality. And the market forces of decreased reimbursement, coupled with new technologies, have improved care. Examples include cataract surgery and outpatient surgeries in ambulatory centers. But the newest trend is to measure whether and how these changes are improving your practice.

Delivering excellent, less costly and effective care by managing outcomes involves a systematic, process-oriented approach to the physician-patient encounter. Improving patient outcomes helps you to reduce risk, increase professional and personal satisfaction in your practice, and positively affect how much you'll be paid in the near future. Most important, improved outcomes are indicators of quality care.

### Core services

To improve outcomes, you must objectively review the core services that you provide through a thoughtful, objective analysis of your practice's culture, philosophy and attitudes.

The most successful practices resolve to never compromise the highest level of care for any reason whatsoever. It's vital that you demand excellence in all aspects of your operations — doing so is just good management. Strive to have standards of care that exceed those of competing practices. Be extraordinary in everything you do.

For example, when welcoming new patients, always take a complete and thorough medical history and customize it for your practice and specialty. Many practices have patients complete the history in advance of their initial visits. Others employ a good EMR system that allows patients to explicate their histories online or at an office terminal. The system then integrates the information into the patient's records.

Once a patient is in the exam room, taking preventive steps helps ensure good outcomes. Always follow a thorough protocol when conducting physical examinations and resist the temptation to rush through the basics. Establish clear, consistent and complete protocols for treatment and make it mandatory for staff to follow them.

Comprehensive protocols decrease risk and provide patients with positive perceptions of your practice. Review yours at least annually to be sure they're up to date with the latest information and procedures. Retrain the staff to make sure they understand the protocols and the importance of following them.

When developing or fine-tuning your protocols, don't be afraid to network. Improving outcomes means learning from the best. For instance, if you travel to a seminar, look for practices in the area that exemplify the type of quality you're trying to achieve and arrange a site visit. Such visits may even be worth missing a meeting or two at the seminar in question. Try and learn at least two new procedures, efficiencies or protocols during your stopover.

### The power of perception

Patients don't have access to all of the health care data that you do, nor do most perform a detailed analysis of practice quality. They have only their perceptions of your practice based on their experiences in your office. Simple things can help patients have a high-quality experience. Things such as:

- A neat, organized exam room,
- Professionally dressed staff,
- An air of efficiency and calm throughout the office,
- Neat bandages or casts, and
- Physically examining (touching) the patient's area of complaint.

Patients who like their physicians have a higher compliance rate with medical instructions than those who are dissatisfied with their doctors. Simple steps can increase your patients' positive perception of the quality you provide.

### Tomorrow's quality measures

What does the future hold for physician practices? You can expect detailed reports and pay-for-performance models based on quality information collected on each physician through billing and coding procedures. Indeed, EMR systems should improve the collection of treatment information and outcomes.

But a patient's perception of quality will still be formed by his or her personal experience in your office. And these perceptions — coupled with published data from agencies such as insurers, the CMS and hospital systems — will determine the success of your practice. Begin preparing now for the quality measures of tomorrow.

# Happy New Year!

## Now it's time to review your financials

You receive your final 2010 financial statements and, just like every year, do a quick review to make sure they match up with your expectations. Then you go to file them away. STOP. This year, don't put them away — use them to manage your practice. Just as lab reports are important indicators of your patients' health, financial statements can tell you more than how much you earned this year (or not).

Moreover, financial statements alone aren't the only important tool for managing your practice. Financial ratios are critical as well. But both are effective only when prepared and used appropriately. An important step in analyzing a medical practice's financial performance is comparing actual results to results of similar practices, as well as to the results of previous years, in an effort to identify trends. If you "listen" to your practice through your financial statements and understand the proper use of financial ratios, you can learn a lot about what's happening while you try to perform your clinical duties.

### 5 helpful tips

There are a wide variety of ways to use financial statements and financial ratios as effective management tools. Consider these five helpful tips:

#### 1. Prepare your financial statements according to your needs and at the level of detail necessary to draw appropriate conclusions.

For example, do not lump all insurances into one category. The type of insurance expense should be easily identified as health, general liability or medical malpractice premiums.

**2. Make sure that your practice's statements use descriptive captions that are consistently used in the classification of expense items.** For example, if pension administration fees are classified as "employee benefits," don't inadvertently classify them as "other miscellaneous office expenses" in subsequent reports. Be consistent so comparative analysis is meaningful.

**3. Identify contractual allowances separately.** Investigate any unexpected trends in contractual allowances as a percentage of gross charges. Note: Many private practices don't report the accounts receivable on their balance sheets, or the gross charges and contractual adjustments on the financial statements. If you and your accountant choose not to include these on your financial statements, be sure that you review them monthly on a separate report and trend the adjustments annually.

**4. Avoid using the "miscellaneous expense" caption or, at the very least, minimize its use.** Often, this classification is used as a catchall for significant items, making analysis difficult.

**5. Differentiate physician expenses from other operating costs.** These include items such as health insurance, pension, vehicle use, and conference and seminar costs. Doing so allows for comparisons to practices in the same specialty. You should be able to easily identify your profits before physician expenses.

### A guide to financial ratios

Ratios can better a practice's financial health by pointing out positive trends, identifying problem areas, warning of potential trends toward bankruptcy, tracking growth and assessing leverage conditions.

In a medical practice, income and expenses are often examined by comparing them to industry standards by specialty. Yet it's also important to analyze the practice's strengths and weaknesses with ratios and compare these results to industry standards. The

Medical Group Management Association (MGMA) publishes an annual survey that provides financial statistics by individual physician practice types and sizes. Specialty societies also provide key performance statistics.

Here's a guide to some common ratios used to analyze a medical practice's financial health as well as average targets relating to each:

#### Liquidity/Solvency

These ratios help paint a picture of a practice's overall financial health.

**Current Ratio:** Measures short-term solvency as:

Current Assets (cash, accounts receivable, inventory)/Current Liabilities

**Quick Ratio:** Measures the practice's ability to pay short-term debt without liquidating inventory (may include accounts receivable) as:

Current Assets – Inventory/Current Liabilities

**Current Liabilities to Net Worth:** Provides a snapshot of the practice's liquidity in terms of security as:

Current Liabilities/Owners Equity

**Overhead Ratio:** Measures the practice's operating expenses as a percentage of its income as:

Overhead Expenses/Net Revenue

**Days Cash on Hand:** Measures the number of days of cash the practice has to cover expenses as:

Cash + Marketable Securities/Total Operating Expenses/365

#### Asset Management

These ratios measure how well a practice uses its assets to generate income.

**Average Collection Period:** Measures the practice's turnaround time to collect its charges as:

Total Accounts Receivable/Average Daily Charges

**AR Per Physician:** Measures the average amount of outstanding receivables per physician as:

Ending A/R/Number of Full-Time Physicians

**Total Assets Utilization:** Measures the use or turnover of all the practice's assets as:

Net Revenue/Total Assets

#### Debt Management

These ratios measure the ability of a medical practice to manage its liabilities or debt.

**Total Debt to Total Assets:** Measures the percentage of total funds provided by creditors as:

Total Debt (current and long-term liabilities)/Total Assets

**Total Liabilities to Net Worth:** Measures the ability of a practice to cover its debt as:

Total Liabilities/Net Worth

#### Profitability

These ratios measure the ability of a practice to generate profit.

**Profit Margin:** Provides a quick measure of profitability as:

Net Income/Net Revenue

**Net Revenue to Full-Time Physician:** Measures the income produced per physician as:

Patient Revenue – Refunds/Full-Time Physicians

**Staff FTEs per Physician:** Measures the amount of support staff per physician (number of FTEs) as:

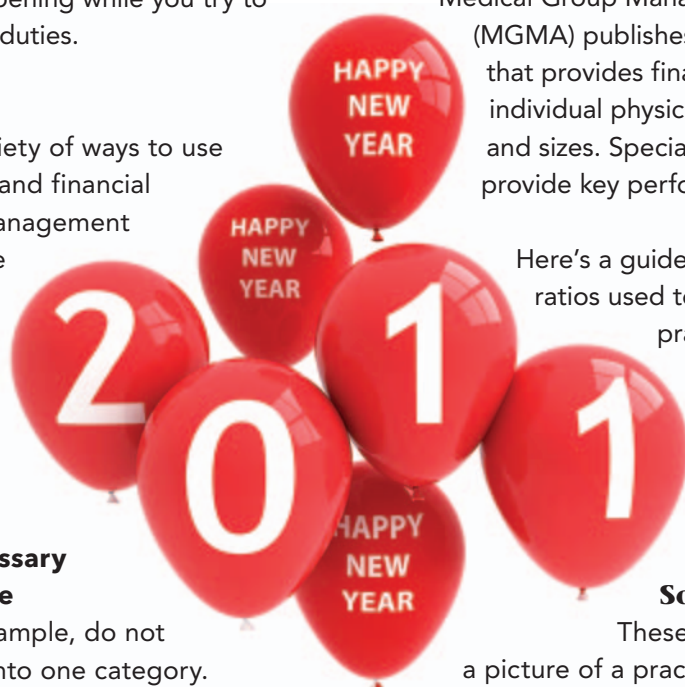
Nonphysicians/Total Number of Full-Time Physicians

Each specialty practice has its own distinctive factors, so consult your financial advisor about which ratios your practice should focus on.

#### Turbulent times

Aggressive financial management is critical during turbulent times. When used appropriately, a careful review of your financial statements and a working knowledge of your practice's pertinent financial ratios are extremely valuable in diagnosing threats to your financial situation and coming up with the proper treatments to enhance revenue and control costs.

We recommend that you meet with your accountant to discuss your financial statements and each of the ratios that apply to your practice. Your goal: Develop a plan for the forthcoming year to achieve the target ratios that will drive your success.



# To be or not to be ... an employee

## Does your practice have what it takes to survive?

These are difficult times for physicians trying to maintain, improve and grow their practices. In fact, many are leaving their private practices to become employees of hospitals and health systems. Health reform, accountable care organizations, medical homes and changes in reimbursement are all driving this change.

In fact, many factors seem to be working against the business of medicine, including rising staff salaries, office expenses and health insurance premiums. Federal rules and regulations are also adding cost and complexity to the day-to-day practice, and reimbursement isn't increasing. Yet, despite the difficult times in which physicians operate, many practices are holding their own and some are even thriving. The definition of a successful practice is one that's financially sound, allows the physician a clinical and personal lifestyle that he or she enjoys and receives regular recognition for providing quality care. Does your practice have what it takes to survive?

### Traits of a successful practice

The decision to continue in a private practice or join an employed model is a difficult one. First, you need to understand the differences between owning a company and working for an organization.

Running any business is difficult, but running one that is as heavily regulated as a physician practice is even more so. The traits typically exhibited in successful practices include:

- Physician owners/partners who are involved in every detail of the business,
- Daily knowledge of cash position and patient volume; physician owners/partners who can control costs,
- A friendly, knowledgeable and motivated staff,
- Physician owners/partners who can act decisively yet change course when necessary,
- Adequate physical space to perform the functions of the business, and
- Physician owners/partners who are willing and able to take reasonable business risks.

These traits aren't exclusive to physician practices. Any successful business requires ownership to work on the business while working at the business. Physician practices that aren't successful typically forget about running the business — they make the

management of the business second to taking care of patients. Taking care of patients is the first responsibility of any practice; but it's the service the business provides — it's not the business. This is a very important distinction. Any physician that's licensed and trained can treat patients, but not every physician can *run a business* that treats patients.

### Details, details

The most successful private practices have physicians who are very involved in the details of the business. No aspect of daily operations, from the decoration of the office to the collection of patient accounts, goes unnoticed. Details such as patient flow, office design, and employee uniforms are very important to owner/physicians.

The task of implementation can and should be delegated, however. Successful physicians review, think about, worry about and approve these details. If you speak to successful business owners in any field, the one trait that many of them share is the constant thinking and worrying about the business. Many of them seemingly trade sleep for ownership.

Ultimate involvement in a business means that all decisions, right or wrong, are consciously made. An owner/partner never says, "I don't know why we did that." When deciding between private practice and employment, ask yourself if you enjoy being responsible for the day-to-day management of the practice. Are you willing to trade sleep for ownership?

### Staffing considerations

Practices with poor or inadequate staff are never successful. And great staffs don't just happen. Physicians must be involved with the hiring, firing and training of staff. Training of staff by physicians is done by setting the parameters of what's acceptable and expected.

An old adage is that staff does what is *inspected*, not expected. Successful practices have great staff who are trained in their duties by physician owners/partners who regularly inspect the office to ensure what's important

to them is what's happening. Ask questions of your front desk staff, such as:

- How long has Mrs. Smith been in the waiting room?
- How far behind are we on inputting charges or patient demographics?
- Which patients did not pay their copay or open balances today?

Staff tends to respond to questions asked by physicians. Successful owners/partners learn which questions to ask to guide staff in the right direction. And successful practices have good managers who are well trained, rewarded and managed by the owners/partners. Do you enjoy the detailed management of staff that it takes to be successful? If you prefer to delegate these duties and be "hands off" with employee issues, you may not be a good candidate for staying in private practice in tough times.

In addition, successful practices aren't afraid to invest in additional staff or upgrade software systems in critical areas such as front desk and billing/collections. For example, by adding a part-time receptionist, charges may be entered more timely or accuracy of demographics may be improved. All of this helps you better manage cash flow.

Too many practices have too little or too much staff. Successful practices seem to have it just right. Knowing how much staff is just right comes from understanding how the business makes money and benchmarking against successful practices. Moreover, successful practices have exceptional financial management systems (software and procedures). In addition, successful practices have advisors such as accountants, attorneys and consultants who understand and specialize in health care — and they aren't afraid to use them. If you're afraid to risk money to make money, is private practice really for you?

### Risk-taking, decision-making

Another aspect of a successful practice is having physician owners/partners bold enough

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**Gene B. Goldin**

*Gene is the managing partner of Roegiers Goldin Chappel Nall & Associates and director of the firm's Health Care Services Group. As such he provides clients with specialized assistance in revenue enhancement services, practice merger/sale planning, income distribution planning, practice management evaluation, accounting and financial management, bill paying and payroll services, personal financial planning, retirement planning, and shareholder agreements.*

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to take reasonable business risks, such as adding a new diagnostic test or service. They also have the ability and knowledge to not take unnecessary risks. These owners/partners follow developed business plans and budgets and aren't distracted by side opportunities or issues that don't align with their strategic goals. If you haven't followed a budget or developed a business plan in the past, and you don't have the energy to start doing so now, business ownership may not be for you.

Still another important trait in successful practices is the ability to make timely decisions. Too many practices frustrate the staff and associates by not making decisions. Practices that defer decisions end up making crisis-driven and not-well-thought-out decisions later. And staff morale is adversely affected by such a lack of decision making.

Keep in mind that the answer to every staff purchase request or procedural change need not be "yes." In fact, successful

managers frequently say "no." Staff respects owners/partners who make decisions — even if they're unpopular decisions. A decision, whether yes or no, allows staff to move on to the next issue. Deferring a decision, on the other hand, stagnates a practice. If you prefer not to make unpopular decisions and don't follow up by inspecting results of decisions made, employment may be the better option for you.

**Attention, please!**

Successful practices recognize that at least one physician owner/partner must be as interested in running the business as he or she is in practicing medicine. Physician practices are,

after all, businesses — and businesses require attention.

As a group, you and your partners need to re-examine the energy and the will of ownership to fight for the practice. Be honest in your assessment of your abilities to manage a business; don't just decide your future based on current revenues or offers. Leaving private practice needs to be a well-thought-out decision. Running a private practice can be exciting and fulfilling for some physicians. How about you?