MANAGING YOUR DERMATOLOGY PRACTICE

Can You Afford to Hire an Associate?

A lot of questions are coming in concerning the financial considerations involved in bringing a new physician into a private practice.

Having decided that an associate is needed, many doctors are concerned about the expense. Disposable funds are scarce these days. They ask how to realistically predict the costs involved in finding their new doctor, then supporting him or her until income outstrips expenditures.

BY JOSEPH S. EASTERN, M.D.

Every medical practice is different, so generalizations are difficult. It may behoove you to hire a practice consultant to sort out the unique aspects of your particular situation.

That said, many of the expenses involved are foreseeable and calculable. You probably already know how much you plan to pay the new associate. If not, find out what nearby practices are paying their recruits and ask applicants themselves how much they expect to be paid. Remember to include payroll taxes, liability insurance, health insurance, retirement plan costs, dues and memberships, and other fringe benefits your practice provides.

Then estimate the costs of additional staff members, supplies, and other items that will be needed to support the new physician. If additional office space, furnishings, and equipment will be needed, factor that in, too. There also will be legal costs, and possibly marketing costs, if the newly hired physician will be providing new, specialized services that need to be announced to the community.

Next, look at what it will cost you to do the actual recruiting. Some practices may find all the prospects they need by running a few classified ads in specialty journals; others will have to hire a recruitment firm. You should factor in the time you will spend interviewing, conducting reference checks, negotiating, and meeting with attorneys and others—time that must be taken away from seeing patients.

Now, you will need to determine when the new doctor will become self-sufficient by estimating how many patients he or she realistically will see from the first day in the practice, and how rapidly that census will increase.

You should first calculate an average fee per patient collected by your practice, along with average time elapsed until insurance payments are received. Your accountant can help with this.

Once you have that data, you can begin forecasting revenues. If you figure that 10 patients per day is a realistic starting point for your new physician, and your average revenue is $100 per patient received an average of 30 days after the visit, you can anticipate that additional revenues of $1,000 per day will begin arriving about a month after the new doctor begins working.

As time progresses, the number of patients will hopefully increase, with a corresponding increase in revenues. Many practices tend to be overly optimistic in predicting practice growth, but since this is the point at which cash flow will be tightest, prudence dictates that you err on the side of underestimating your revenue projections and overestimating expense projections.

At this point, you need a clear, overall view of those revenue and expense estimates over time. This can be obtained by preparing a spreadsheet-type schedule and recording all the estimates on a month-by-month basis over the time period necessary to assimilate the new doctor, say 2 years.

Remember to begin with the first month you plan to incur an expense—probably when you start recruiting. Not only is this necessary for an accurate assessment of total expenses, but it will remind you that expenses begin to accrue long before the physician starts working.

As you decide when each expense will start, list it in the corresponding monthly column along with the estimated amount. Do the same with projected revenues. Your accountant can help you with this schedule, too. He or she should also calculate other essential projections, such as rent and overhead increases, debt service on any loans to finance the project, inflation, and tax effects.

When you have finished, you will have a summary of all estimated expenses and revenues, by month, that are associated with hiring the new physician. You will have a good idea of how much cash will go out before patients are even seen and how long it will take before revenues surpass expenses. This serves not only to solidify the plan in your own mind, but to illustrate your plans in graphic form for your banker, should you need a loan to finance the project.

All this may seem like a lot of work, but without it you won't have a realistic picture of the costs incurred in adding a physician, and you won't be able to make well-informed decisions on how much of the startup costs the practice can afford to finance and how much may have to be financed through your bank. ■

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Infusion Practices Can Become More Profitable Despite Low Medicare Rates

WASHINGTON — In spite of poor Medicare reimbursement, physicians who use infusion therapy can take steps to make their practices more profitable, Steven M. Coplon said at a conference sponsored by Elsevier Oncology.

Under Medicare's system for reimbursing infusion drugs, "essential services are underreimbursed or not reimbursed at all," said Mr. Coplon, chief executive officer of the West Clinic, a Memphis, Tenn., oncology practice. "But the cost of drugs, staff, facilities, and malpractice insurance all continue to increase."

To stay in business, practices have to look more closely at the revenue that they are getting for their services. For example, "on one drug regimen [given frequently to Medicare patients], we're making $24 on $7,061 worth of investment," he noted.

One way to increase revenue is to increase the amount the practice brings in from private payers, he continued.

"Negotiate it to the best of your ability; go for every code you can possibly think of. Get creative," he advised. "If they're willing to say yes, you can make up for a lot of these margins you're losing on the Medicare book of business."

Another way to increase revenue is to diversify, Mr. Coplon said.

Instead of just providing drug, chemotherapy, administrative, and laboratory services at an oncology practice, how about adding radiology, pain management, palliative care, gynecologic oncology, and hospitalist care? he asked.

Roberta L. Buell, vice president of provider services and reimbursement at P4 Healthcare, Sausalito, Calif., said practices should also consider whether their billing procedures are "optimal." In an optimal practice, "80% of receivables should be less than 90 days overdue," said Ms. Buell. "And if your practice is more than 50% Medicare, you should be doing much better than that."

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—Joyce Frieden