

## A Turnaround Tale

by David Stern, MD

This is the story of a practice whose financial health and business operations have been on a rollercoaster ride of ups and downs — and how the physicians at the front of the ride learned how important it is to keep a firm grip to avoid losing everything.

In 2000, five physicians I know joined together to purchase a three-clinic, primary-care practice in Omaha, Neb. Their senior partner had built the practice from scratch, made it work for nine years, and then sold it at a big profit to a hospital system. But the losses not uncommon in hospital-owned practices began to mount quickly. Eventually the partners bought back the practices at a deep discount. They felt sure they could heal the ailing financials. After all, they were doctors; they wouldn't make the mistakes of a big health system, right? Well, here are a few ways they proved themselves wrong.

**Weak leadership.** With no business experience, the partners simply worked their shifts and collected their pay checks. They let the senior partner and a minimally-qualified office manager run the practice. They thought they didn't need to get involved in the day-to-day or long-term business and financials.

**Stagnant staffing.** After buying back the practice, the physicians simply kept all the existing staff, with their hospital-sized salaries and benefits — even though patient volume was declining. The key to their success (or so they thought) would be to avoid upsetting anyone with cuts in personnel

or benefits, even if they'd lead to a more efficient operation.

**Neglectful coding.** These physicians didn't need to waste time learning silly government regulations or fretting over how many bullets they had documented. As physicians, their only concern was to practice good medicine.

But by early 2003, unpaid vendors were refusing to send supplies. The practice had maxed out its \$500,000 line of credit. They held an emergency board meeting and faced the truth: they were on the verge of bankruptcy.

### Changing direction

Here are some turnaround tactics this practice learned that may keep your practice off the downhill track.

**The right leadership.** Every partner got involved in the business of the practice. They had hired a crackerjack administrator who wouldn't just take orders from the partners; she would stare them down if they were wrong. She helped them perform a business analysis and formulate a business plan, including specific goals for payroll, revenue growth, marketing, and daily transmission of billing.

**The right staffing.** This practice had been borrowing \$18,000 just to meet each payroll — a sure sign of financial failure. Salaries made up 75 percent of revenue. They needed that number under 50 percent — stat. One Friday (they call it Black Friday<sup>TM</sup>), they let nearly one-third of the staff go. They shed tears, but they had to face reality.

**The right coding.** A coding audit found two serious deficiencies: under documentation and undercoding. The first one could send them to jail; the second was sending them to the poor house. They needed help — now.

They found an electronic solution that selected the appropriate code based on what had been documented. Because the templates sped up their charting, the physicians took to the system immediately.

Within two short weeks, they were on board with electronic charting. The happy results? Increased net revenue by over 10 percent and 100 percent E&M coding compliance on an audit three months later.

Since Black Friday this practice hasn't borrowed to meet payroll, they have upgraded their IT infrastructure, and they are paying down their line of credit. I hope you and your partners never find yourselves on the same bumpy ride, but if you do, follow this practice's example: Take hold of the practice finances, set your staffing on the right course, and develop an up close, hands-on approach to coding and documentation.

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