What Went Wrong: Why Our Great Idea Didn’t Work

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By Bhagwan Satiani, MD, MBA [2]

Surgeon Bhagwan Satiani on why his group’s plan to open a satellite office crumbled.

Why did our little two-office practice, which had been doing quite nicely for some two decades, decide to take a big risk by opening a third office focused on cash-only service?

Put simply, we felt left out of the changes that were occurring all around us: Practice consolidations, satellite-office openings, and new investments were common in Columbus, Ohio, where our four-physician surgical group had been operating for 20 years. We thought we could do better and we wanted to preempt the reimbursement crunch we saw barreling down at us.

We wanted to be bold. We decided to merge with six other physicians and expand into a cosmetic vein-care practice that relied on cash payments. We already had two other offices — one downtown and the other in a suburb. The existing suburban office had no space available for our new project, yet the suburbs were home to most of the elective-procedure-seeking patients we wanted to attract.

So we’d need a third location. We hired an experienced business manager to plan and execute the process of starting the new business. Since no one in the group had any previous experience in leasing contracts, renovation of facilities, or pro forma budgets, we relied exclusively on the manager to execute our vision.

We picked a building previously occupied by an insurance company in a northern suburb for the new office. The building required significant renovation to make it suitable for medical purposes. A new office manager for the location was hired to run the office. And away we went.

The next four years were spent figuring out exactly what went wrong. The physicians themselves were all experts in the specialty, and all worked hard. Yet compensation kept declining each year. Bank credit lines were tapped occasionally. Eventually, the group decided to split into two and go separate ways. The cosmetic vein-care practice is now operated by one of the groups and remains successful at a smaller location.

All participants agreed that opening a suburban satellite office was a great idea, yet that decision was probably the single-biggest factor that led to the dissolution of the group. Why? Here’s a list of what we should have done, but didn’t:

- **Agree in advance to lay down and enforce ground rules.** How much independence should the satellite office staff have? There must be a clear expectation that the office manager and on-site staff will be able to act independently. Our business manager was trying to micromanage these workers from afar, which led to conflicts and hesitation by the staff in taking the initiative in many areas. It was “us” (satellite office) against “them” (the rest of the staff). There was no real effort to integrate the satellite office staff into the larger employee pool.

  The lesson: Decide early who is in charge. The politics involving the president of the group and the onsite physician leader must be openly discussed, and a working relationship should be established. In this case, a vacuum existed because of a lack of communication.

- **Name the “sacred cows” and agree on which are up for discussion** and which are not. Every group has its “sacred cows” — things it will not sacrifice or changes it will not make, no matter what — and these should be thoroughly discussed up front. Ideally they should be limited to basic principles of quality patient care and, occasionally, lifestyle issues. All other issues should be moved into the fair-game column.

  For example, our two separate, pre-existing facilities and staff should have been taken off our verboten list. None of the physician groups at the three locations were willing to cut staff or expenses at their particular sites. In essence, each location was operating as an independent entity, not as a single business unit committed to being profitable together.

- **Collect good background information on the future location.** The president of the group and the business manager should appoint a small subgroup to work with a consultant (if the project is large enough) to estimate the needs and cost. A consumer-oriented approach consistent with the...
group’s strategic plan is needed, taking into account market research (actual data and demand for services).

Prior to contemplating a satellite office, the practice must first look at the demographic data in the city it is contemplating. Does the area have enough of the specific target patient population in terms of age, gender, education, ethnic makeup, and income level to be suitable for the specialty location’s success?

For example, suppose you are considering opening a satellite office to provide cosmetic services for a mostly female, educated, high-income patient base. Go to www.factfinder.census.gov, and check the demographics of the relevant ZIP codes. Are there enough of your targeted patients living in the area to support your practice?

Also consider the traffic around your proposed location, visibility of your proposed office from roadways, and highway access. And be sure to evaluate the competition in the area.

**Consider your own resources.** Next, review the practice’s human resources (physicians and office personnel available) and their ability and desire to deliver the proposed service. How will this new office affect your lifestyle and that of your employees and colleagues? How will travel time affect productivity? Are staff prepared to cover for each other as a single unit?

**Find a captain.** It is not enough to hire a good business manager. A single designated physician — not more than one — must be responsible and accountable for the new project. The designee must acquire knowledge about the project, visit similar practices, and seek advice from other professionals independent of the business manager. In our case, no single physician took “ownership” of the project or budget, and several physicians assumed others were involved in assisting the business manager with the budget. It turned out that no one had!

**Develop a pro forma budget based on reasonable data.** The most important part of the decision about whether to start a satellite office is your financial feasibility analysis examining the costs and revenue projections. Based on this analysis, you’ll create a budget that forecasts revenues and projects expenses — a pro forma budget. The budget process, in this case, starts with a “zero base,” meaning that it does not start with the previous year’s expenses as a baseline like in most established-practice budgets. Almost the entire budget process rests on volume projections.

Our manager based her revenue projections on faulty volume projections borrowed from a similar established practice. She spent large sums of money on renovation, furniture, and trimmings. Why was this not evident? Because the expenses were rolled into a bank loan for equipment and other necessary expenses, and since there was no immediate cash outlay, no one asked serious questions until the final bank loan documents were signed.

Banks and lenders are happy to lend money to medical practices because they are exceptionally good credit risks. A look at the balance sheet and income statement will not show the soon-to-arrive tsunami of debt unless you carefully look at the cashflow statement.

**Don’t forget about overhead.** The satellite office should be a separate revenue/cost center from your main office. The expenses should include all salaries and benefits for physicians and staff, all supplies and drugs, all purchased services, professional liability costs, all costs related to the lease and utilities of the satellite facility, cost of borrowing (interest), and other expenses.

The terms and conditions of each lease must be carefully scrutinized. All revenues generated from patients by the satellite facility and all expenses — including all of the physicians’ work, even if generated elsewhere (such as a hospital) — must be assigned to the satellite office in order for the group to evaluate the profitability of that particular location.

Clearly, our biggest error was not paying attention to the increase in overhead that resulted from the additional location with renovations, equipment, and staff. The manager was overly generous in ordering furniture, computers, and supplies, and no single physician was looking over the manager’s shoulder to question her judgment until it was too late. The manager by then had resorted to hiding unpaid bills, fearing the implications of conveying the bad news to the group.

Based on an inaccurate business plan in terms of inflated revenue projections, the error may have been forgivable for a few months. But after six months it was clear that the overhead had become a crushing burden. If we expected the new location to be profitable in the future, then the logical response to the overhead problem would have been to reduce expenses by closing or sharply cutting back one of the two primary offices. But these locations were our sacred cows, and we did not have the stomach to butcher them.

**Limit “jack of all trades” mentality.** A niche area is best served by a limited number of physicians who want to treat patients with that particular problem. We attempted to be “fair” to all by scheduling almost all the physicians to take turns at the location, working half-days each. Bad
idea. Consistent treatment protocols were not met, patients were treated and billed differently, and efficiency and productivity suffered as a result of physicians hurrying to travel to the satellite office and back again. It was chaos.

In this era of super specialization and competitiveness, the “jack of all trades” physician concept simply does not work. Pick the physicians who truly want to work at the new location and are motivated by the challenge of a new service, and make sure patients are dealt with in a consistent manner, regardless of the location of the practice.

Opening a satellite office is a microcosm of the many challenges physicians face in keeping their medical practices viable. In a competitive era with operational and financial challenges facing every medical group practice, nimbleness garners a significant advantage. But making decisions too quickly, without proper discussion of the array of options and consequences, is not being nimble — it’s being sloppy.

Bhagwan Satiani, MD, MBA, FACS, FACHE is a professor of clinical surgery in the division of vascular surgery, and medical director, Non-Invasive Vascular Laboratory at The Ohio State University College of Medicine in Columbus. He is also president of Savvy Medicine (www.savvy-medicine.com), a company geared to provide business education for healthcare professionals, and the author of the three-volume “Smarter Physician Series.”

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