

Top 5 objectives for independently-owned medical practices in 2016

A CITIZENS BANK PERSPECTIVE



Despite all the issues facing doctors today, some 18,000 eager students still graduate from medical school every year – undeterred by the time, money and sweat equity required.¹ Whatever their motivations, a desire to help others, a passion for science, or both, those who go on to become independent practitioners must realize they are also running a business – and learn to manage it accordingly.

To stay on top of key industry trends and concerns, Citizens commissioned the 2016 Healthcare Practice Outlook. Based on a survey of more than 250 privately-held practices with fewer than ten physicians, the report offers an inside look on smaller practices. Most importantly, it identifies the top five business objectives that practice leaders will prioritize in the year ahead.

1. GROW REVENUE

Medicine should be a booming business given the nation’s aging population and dwindling numbers of uninsured. In reality, a third of the medical practices we surveyed anticipate a decrease in revenues over the next five years. Fighting that trend has understandably become a top priority among smaller practices. Since few small practices have the inclination to pursue practice acquisition opportunities, increasing the number of patients is seen as the most effective way to boost revenue, followed by providing more specialized services. Although a seemingly simple solution, many doctors are ambivalent about seeing more patients, since it decreases time spent with each patient and threatens to diminish the quality of care.

2. IMPROVE PROFIT MARGINS AND BOOST OPERATIONAL EFFICIENCIES

Revenue growth isn’t enough: profit margins also need to improve. Half of our respondents anticipate a decrease in profitability over the next five years, and expect tighter margins to force hard decisions about managing their practices. Two-thirds attribute their margin challenges to the shift to cheaper insurance plans by employers and patients, leading to lower reimbursements and an increase in procedures deemed not reimbursable. Though Washington temporarily fixed Medicare’s troubled physician payment formula,² reimbursement challenges will continue. As a result, any lasting fix to tight margins will likely involve cutting costs.

But streamlining operations is a big job – for example, practices must ensure they are staffed prudently and have sufficient inventory to support the services they provide. It remains to be seen how effectively they will be able to manage this task.

3. STAY IN BUSINESS

Our most revealing finding: 46% of respondents named “staying in business” as one of their top three objectives for 2016. This sentiment was especially strong among practices with four or more physicians, as well as those that have been in business for over 30 years. How can so many longstanding members of a revered profession worry about staying in business? Practices cite a variety of external factors – from government mandates such as electronic records and ICD-10 to shrinking reimbursements.

In the short run, practices may be getting a temporary reprieve from some of the threats they face; for example, Congress voted to delay the scheduled 21% decrease in Medicare reimbursements.³ However, these short-term fixes still leave many doctors wondering about the future long-term sustainability of their practices.

4. ACQUIRE NEW PATIENTS

Forty-two percent of respondents said patient acquisition was one of their top objectives for 2016. Adding patients is important for any practice looking to grow revenue, but it's especially critical for smaller and newer groups. Interestingly, almost 60% of practices are confident that their acquisition efforts will succeed. It's not entirely clear, however, whether that confidence is justified since few medical practices surveyed have extensive marketing experience.

Almost all medical practices still market themselves primarily through old-fashioned word of mouth. Only half have a website, and merely a quarter are using social media. About one-third also employ traditional media to build awareness, like advertising in local publications and participating in community events. Nonetheless, there's still plenty of skepticism about the value of marketing. Forty-five percent of respondents don't believe it's a worthwhile effort, despite the fact that many new patients who are part of the Millennial generation rely upon websites and social media to seek out their healthcare providers.

5. RECRUIT NEW STAFF

Rounding out the top five business objectives for small practices in 2016 is staff recruitment. Practices are looking to hire to support patient growth, but to also meet the expanding list of regulatory obligations. The job market was robust in 2015 and demand for talent will continue to rise in outpatient facilities, as delivery of care continues to shift away from hospitals and inpatient settings.⁴ Hiring is not an easy task, and it's the area where medical practices say they'll need the greatest support moving forward.

Smaller medical practices are operating in a tough environment. Some will struggle to stay in business, but there is opportunity ahead as well – if practice leaders are willing to identify and invest in their critical priorities. Navigating these decisions can be difficult and tedious but fortunately, small practices don't have to traverse these challenges alone. By developing partnerships with financial services firms and investing more in 2016, a small medical practice can put itself in a better position to earn more and spend more time with patients.

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¹ Kaiser Family Foundation, 2014

² Reuters, 2015

³ Medscape, 2015

⁴ Modern Healthcare, 2015