

# WHAT EVERY RADIOLOGIST SHOULD KNOW



new salary is added, you are not maintaining income levels; rather, you are taking a pay cut. Over time the Marginal Approach can be devastating to your practice.

Exhibit 1 illustrates a typical practice we encounter; the light blue area represents lost revenue.

Experiencing the phenomenon in Exhibit 1 does not mean you need to fire your billing company; that is, unless they cannot explain the shortfall. For example, what if your practice signed a new contract giving deep discounts to your biggest payer. This contract would have a negative affect on revenue and explain the decrease from year to year. Exhibit 2 illustrates how this case is properly analyzed. If the drop in revenue cannot be explained using an analysis like Exhibit 2, then the reduction in practice revenue is most likely due to your billing company applying the Marginal Approach.

When evaluating a radiology practice's accounts receivables, one must take as a given that in today's environment of high managed care, it takes more resources and time (not less) to force managed care to abide by the contracts that they have entered into with your practice. (In other words, it takes more time to get them to pay you appropriately.) This situation means it takes more work for the billing company to collect each dollar of client revenue. The Marginal Approach dictates that these billing companies not pursue the harder-to-collect dollars; the remainder is written off as contractual adjustments. Again, a drop in accounts receivable does not mean the billing company is applying the Marginal Approach. Remember, the cost of carrying accounts receivable is borne by the billing company, not by the practice.

The Macro Approach, used by Advocate, considers the total practice instead of taking a micro view as with the Marginal Approach. The first step in the Macro

In a past issue of *Perspectives* we explained how the “Marginal Approach” to billing has a negative effect on practice revenue. We felt this management philosophy warrants additional attention based on its dangerous consequences.

The Marginal Approach to billing is a term used to describe a management philosophy adopted by many service providers in the billing industry. In this method, profits of the billing company are maximized at the expense of the group's revenue. For example, assume the average payment per procedure for your practice is \$40 and your billing company is charging you 9.5% of net collections. The billing firm wants to achieve a net profit margin of 10%. If they subscribe to the Marginal Approach, the billing company would be willing to spend only \$3.42 ( $\$40 \times 9.5\% \times 90\%$ ) to collect each procedure. They spend only that amount by collecting easily obtained revenue; they do not pursue balances that are costly to collect.

Determining whether your billing company is using the Marginal Approach is relatively straightforward. If your billing company is using this approach, over time you will find that practice procedure volume is increasing at a faster rate than your collections. The assumptions underlying the Marginal Approach are very basic – procedure volume is increasing at a faster rate than collections. This situation means you must read more cases just to maintain current income levels. The growth in your practice volume is masking poor billing performance.

But the Marginal Approach is even more dangerous, because sooner or later you will need an additional partner. Once the

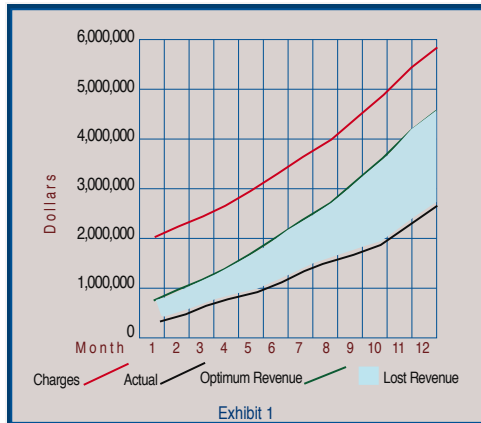


Exhibit 1

Radiology Associates of USA Revenue Shortfall Analysis	
2004 Monthly Revenue	\$ 525,000
Impact of:	
Change Average Charge Per Procedure	\$ 3,400
Change in Procedure Count	\$ 12,340
Change in Average Payer Mix	\$ 3,174
Effect of New Managed Care Contracts	\$(45,000)
Expected 2005 Monthly Revenue	\$ 498,914
Actual 2005 Monthly Revenue	\$468,000
Monthly Revenue Shortfall	\$(30,914)

Exhibit 2

Approach is to determine, based on the mix of procedures and payers, what the practice should generate in total revenue. This revenue number converts to a monthly revenue budget and budgeted revenue per procedure. Based on this expected revenue and the practice specific factors listed previously, a billing company can determine a fee for its services that will ensure the proper collection level for the practice. In this way, a billing company knows that they will remain profitable. With the Macro Approach, there will be some procedures pursued that the billing company will have “lost money” collecting. But taken as a whole, practice revenue is maximized and the billing company maintains a superior reputation in the marketplace. The Macro Approach consistently generates the highest level of collections.



A billing service that uses the Marginal Approach puts its profits before client collections. Clearly over time the Marginal Approach can be devastating to your practice. Determining whether your billing company or in-house billing department is using the Marginal Approach is relatively straightforward. Again, the assumptions underlying the Marginal Approach are very basic – procedure volume is increasing at a faster rate than collections. The Macro Approach, used by Advocate, considers the total practice instead of taking a micro view as with the Marginal Approach. The Macro Approach ensures that practice revenue is maximized; the billing company makes a profit and maintains a superior reputation in the marketplace.

In today's radiology employment market, everything must be done to maintain a competitive compensation package to retain and hire new physicians. In that regard, the Marginal Approach is not a viable long-term strategy for any practice. By leaving “dollars on the table,” the practice loses its competitive edge when it comes to recruitment, retention of physicians, and pursuing other profitable ventures.

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## Tips for Selecting a Billing Company

*A physician's decision to change billing services is never an easy one. Fear of a transition is the main reason most radiologists are unwilling to move to a better billing option. This fear is usually based on the negative experience of a colleague regarding a particular billing service. Advocate has extensive positive experience with the process of transitioning our clients' radiology practices. We have developed many special management tools that have made our transitions smooth and seamless.*

*There are many questions that one should ask a perspective billing service. Once your practice makes the decision to explore other billing options, consider the following:*

1. Not all billing companies provide the same level of service. Make sure you will receive proper management attention and management reporting. Ask for a sample of the management reports that you will receive on a monthly basis.
2. Ask how they quantify and report on claim denials.
3. Ask how they quantify and report whether insurers are paying the proper amounts.
4. Ask them about their management philosophy. Compare their answers to their competitors.
5. Do they bill for one or two specialties? Or are they a data-processing firm, processing claims for many specialties?
6. Beware of the company with very low fees. You will get what you pay for.
7. Beware of companies with multiple products, like software and billing. These are two very different businesses and one area usually gets all the attention, causing the other product line to under-perform.
8. Find out how long the company has been in business. Beware of the new company. A new firm has a lot of glitches to work through, and you do not want to be the guinea pig.
9. Meet their management personnel and ask how the company handles subspecialized management disciplines within their organization. Ask about such topic specialties as information technology, coding, financial analysis, and staff audits.
10. What sort of communication do they plan between your group and their billing company?
11. What is their initial clean claim submission rate and how do they monitor improvements?
12. Do they have the proper bonding and insurance?
13. Try to get a feel about whether they are an innovative, proactive company. You don't want just a data-processing firm. Do they understand their business and yours?
14. Do they routinely audit their personnel?
15. Most important –check their references. References can tell you the real story.