

# DIAGNOSTIC IMAGING

## RADIOLOGY PRACTICE

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### **Marginal approach can marginalize revenue**

#### **Common billing strategy relegates radiology group's well-being to second place**

**T**he marginal approach to billing can have a dramatic affect on your radiology practice. Marginal approach is a term used to describe a management philosophy adopted by many service providers in the billing industry. It warrants attention because of its dangerous consequences and prevalence in the industry.

The marginal approach maximizes billing company profits at the expense of the group's revenue. Assume, for example, the average payment per procedure for your practice is \$40, and your billing company is charging you 9.5% of net collections and wants to achieve a net profit margin of 10%. If the billing company subscribes to the marginal approach, then it would be willing to spend only \$3.42 ( $\$40 \times 9.5\% \times 90\%$ ) to

collect on each procedure. It would accomplish this profit margin by collecting easily obtained revenue and not pursuing balances that are costly to collect.

There are two ways to determine whether your billing company is using the marginal approach. If your practice is growing each year, you can test for both. If your practice volume is constant from year to year, the accounts receivable evaluation discussed below will be the only indication.

The first indication that your billing company uses the marginal

approach is if the percentage growth in procedure volume, from year to year, is increasing at a faster rate than collections. This means you are reading more cases just to maintain income levels. The growth in practice volume is thus masking poor billing performance.

The second indication is a low accounts receivable turnover ratio. In a typical radiology practice, with a financial class makeup similar to that in the table, the accounts receivable turnover ratio should not be less than 60 days—without some very convincing explanation. When evaluating the practice's accounts receivables, it is a given that, in today's environment of high managed-care penetration, 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 means it takes more work for the billing company to collect each dollar of client revenue.

The marginal approach dictates that billing companies not pursue the hard-to-collect dollars. Whatever is not collected is written off as contractual adjustments. The acceptable accounts receiv-

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#### **TYPICAL PAYER MIX**

Payclass	% of practice
Self-pay	7.0%
Blue Shield	12.0%
Commercial	10.0%
Managed care	30.0%
Medicare	33.0%
Medicaid	8.0%

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able turnover will vary for an imaging center or a practice with a financial class makeup different from that in the table.

## **FIRE YOUR BILLING COMPANY?**

Detecting these indications of the marginal approach does not mean you need to fire your billing company, unless it cannot explain the shortfall. What if, for example, the Blue Shield percentage of your practice doubled? Since Blue Shield is generally a quick payer, this would have a lowering affect on collections and explain the decrease from one year to the next. Again, a drop in accounts receivable turnover ratio does not mean the billing company is applying the marginal approach, unless the shortfall cannot be explained by some logical event such as the loss of a site of service. Remember, the cost of carrying accounts receivable is borne by the billing company, not by the practice.

The alternative to the marginal approach is the macro approach. The

macro approach considers the total practice instead of taking a micro view, as with the marginal approach. The first step in the macro 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, you can determine what level of collections the practice should generate.

With the macro approach, some procedures will be pursued that the billing company has lost money collecting. But taken as a whole, practice revenue is maximized, and the billing company maintains a superior reputation in the marketplace. This approach has consistently generated the highest level of collections.

A billing service that uses the marginal approach puts its profits before client collections. 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. The assumptions underlying it are very basic: Procedure volume is increasing at a faster rate than collections, and the accounts receivable turnover ratio is too low. Application of the macro approach ensures that, in the end, practice revenue is maximized and 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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