By Shareef Mahdavi

You can fix your financial flaws

Of the many positives that came out of the private equity article I wrote last September is that ophthalmologists are beginning to understand the impact that even small changes in net income can have on the value of their practices. (https://tinyurl.com/y82gelmk) The key point was that a $100,000 improvement in profit margin could enhance the value of the practice by anywhere from $400,000 to $1 million in the eyes of a potential buyer who comes from the world of private equity. The higher multiples being paid vs. a traditional buyer have created strong motivation to improve the bottom line, regardless of whether or not the practice is looking to sell.

Most doctors I speak with believe they are operating efficiently and have squeezed out what profit can be had from the expense side of the ledger. Data reviewed over the past several years by SM2 Strategic, however, suggest otherwise; below are five flaws in financial performance that negatively impact many practices, along with the resources to help you fix them.

FLAW 1: HIGH COST OF CAPITAL

Practices with debt from new buildings or practice acquisitions typically take loans from their local bank at interest rates of 5% or higher. Such "commercial" loans also feature terms that require personal guarantees and other forms of collateral that constrain the borrower and make it expensive to grow the practice with outside capital.

Solution: MMC Medical is a private financial boutique that focuses on the needs of doctors and typically structures financing at "wholesale" rates that are 20%-40% below prime (using today's prime rate, loans would be below 3%) by using its team of underwriters and eliminating the middleman (in this case, the bank). In banking, this is known as Capital Markets Structured Financing. Arkansas-based surgeon Steven Vold, MD, used MMC Medical and cut his monthly payment in half even though he significantly increased the debt required to finish the purchase and buildout of an ASC. The company "was able to structure far better terms than anything offered by my local banker," he says.

FLAW 2: COSTS OF EMPTY PATIENT SLOTS

How much is to a practice? Informal surveys say each patient appointment is worth $100 to $250, depending on the type of appointment. Even well-run practices typically only fill 80%-90% of their total appointment slots, and it's not because patient demand isn't growing. The root cause stems from an inefficient means of matching supply with demand, where refilling cancelled appointments involves an urgent triage approach imposed on the schedulers.

While some administrators like to brag about how good their teams are at using phones and text to quickly fill empty slots, objectively speaking, this is a waste of time that pre-empts staff members from working on other more critical tasks. And unrealized revenue from unfilled appointments cannot be made up once the time has passed. Even more painful is the recognition that the revenue that could have been generated yields higher than normal operating margins, regardless of how overhead is allocated.

Solution: Everseat offers a digital wait list that takes a cancellation and automatically notifies patients seeking to get in earlier — no staff required. The software integrates with most of the major practice management systems used for scheduling. It allows practices to determine which appointments to post on their website without the need to enter a patient portal. A new feature enables referring doctors to book their patient's surgical consultations online. Jeff Kissinger, CEO of Clear Choice LASIK in Cleveland, began using Everseat for LASIK last summer. He says the added level of convenience for patients has also

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benefited the practice's telephone team, who now have time for more complicated patient encounters. The practice is expanding use to include all doctors and appointment types.

FLAW 3: OVERPAYING FOR CREDIT CARDS

Very few practices know how to interpret those monthly statements from their credit card processor, and for good reason: They are nearly impossible to decipher. Our review of numerous monthly merchant statements confirms that 80% of medical practices are paying too much in credit card services but lack the time, interest or knowledge to strike a better deal. A practice would need to first be able to decipher the merchant statements, which is a next to impossible task, and also know what other merchants of similar size and transaction patterns are paying, which isn't feasible to learn.

The credit card industry likes it this way and generates exorbitant profits for the multiple parties taking a piece of every credit card payment you accept from a patient. Now that insurance companies are offering payment to you via credit card, the cost to the practice gets even higher. This helps explain why your office tends to get calls on a weekly basis from a vendor promising to lower your rates if you switch to their terminals/system.

Solution: Merchant Advocate provides a free analysis of your statement and will advise if its methods can save money with your current processor. Because fees are collected based solely on performance, Merchant Advocate is quick to indicate if the company cannot help you, so nobody's time is wasted. But if it can, the company shares in the savings with you each month. "I was skeptical until I saw the results of the audit; the two practices I run are now saving [about] $50,000 a year in fees," says Robert Lamont, a veteran administrator running several practices in central Pennsylvania.

FLAW 4: VENDOR PAYMENTS AND CORPORATE CARDS

The typical business has 150 to 200 different vendors it does business with over the course of a year. It uses many methods to pay invoices, ranging from checks to automatic clearinghouse withdrawal to using a corporate credit card such as American Express Gold. Often times, the reason for using an Amex card is to amass points that can be redeemed later for travel, including flights and hotels. If you regularly use those points for travel, then this can work out as a way to reward yourself or staff members.

Industry data, however, indicate that most participants in affinity programs don't use the points as intended and end up converting points to cash, which is a bad deal equating to a 1% redemption value. Because many vendors don't accept Amex as a form of payment, this limits the card's value to serve as an expense-control program for the practice. In a larger practice, this is often a nightmare to track and manage, serving as a distraction from the main event of running a successful practice.

Solution: Practices spending over $1 million per year should skip the points and the headaches — use a corporate credit card that provides a straight cash rebate instead. United Purchasing Card Group specializes in corporate spending analysis and control for medical practices. UPCG analyzes the practice's vendor report and identifies vendors that accept Visa (unlike AMEX, most vendors accept Visa). The company sets up a program that integrates with your accounting software and accounts payable processes, eliminating the need for a separate account or banking relationship. The net effect is improved controls over practice spending and 1.5% back in cash every quarter.

Cincinnati Eye Institute's CFO Rod McKenzie says the program provided "a far greater return than AMEX or any other PCard program in the market, while also providing a high enough credit limit to meet our monthly AP spending needs."

FLAW 5: PATIENT FINANCE COSTS AND MERCHANT DISCOUNT FEES

For years, I have advocated the use of an outside third party to offer financing to patients so they can have procedures offered in your practice. When you boil it all down, 10% of the revenue from patient financing gets paid to the vendor and the practice keeps 90% for the privilege of no risk. This seems okay until you do further analysis and realize that a high percentage of the patient financing is from "no interest" to the patient spread out anywhere from six to 24 months. Further analysis will likely reveal that a high percentage of these patients didn't need financing but simply took advantage of the absence of interest rather than putting it on an affinity card for points (see Flaw 4 above). This means that you gave away revenue and didn't build your business, paying 10% vs. 2%-4% for use of a credit card.

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Beyond your practice, these "no-interest" programs are drawing the ire of consumer-rights groups and attorneys general offices in many states due to the allegedly deceptive nature of the offering by vendors. These loans were designed so that if a patient misses one payment, he or she is forced to pay a 25% (or higher) interest rate retroactive to the first day of the loan. Many borrowers argued that they were not properly informed of this severe penalty during the application process. The Consumer Financial Protection Bureau has levied multiple million dollar fines against consumer-lending banks; the "oral agreement" between highly regulated banks and those representing their offering may prove insufficient in future lending practices.

Solution: Return to a more straightforward form of financing via practice-held installment loans. With the appropriate "back-end" infrastructure handled by a third party to cover applications, credit checks, payments and customer service (similar to what you have today), the practice can recover most of that merchant fee and participate in the interest paid on the loan. In a practice financing $1 million of procedures, this can recapture an extra $50,000 to $100,000 per year of revenue, most of which drops to the bottom line.

Practices have long focused on enhancing profit by growing revenue or cutting costs. Fixing the flaws described here – which usually hide in plain sight – can yield meaningful improvement in net income, a great goal for 2018 and beyond. **OM**

1. MMC Medical: www.mmcmedical.net MMC works on referral only, please note this article when inquiring.

2. Everseat: www.everseat.com

3. Merchant Advocate: www.merchantadvocate.com There is no charge for having an analysis done.

4. United Purchasing Card Group: www.unitedpcgroup.com. Can offer a no-cost analysis of your current vendor report and analysis of A/P workflow.

5. A financing program, slated to begin in 2018, will be announced in SM2 Strategic's *Tee Time* www.sm2strategic.com