Beyond Reform

Following the passage of sweeping health care legislation, radiology facilities must adopt bold survival strategies. Learn how to prepare for an uncertain future. By Steven R. Renard, MBA, CHE

I can attest to the fact that the radiology professionals who work with my consultancy company truly enjoy what they do. Their elevated levels of discontent can’t be attributed to a lack of passion or even a lack of business. Rather, they’re a response to recent reports of failing trends within—and forecasted changes to—the health care industry. The Deficit Reduction Act of 2005 (DRA), the punishing recession and, most recently and perhaps most significantly, the March passage of federal health care reform legislation are changing the face of medical imaging.

Hope does exist, however—in the form of proactive opportunity searches that incorporate reorganization models, third-party expertise and even joint ventures or partnerships. But before examining these opportunities, we need to address the underlying dilemmas facing radiology professionals.

Where we’re at

Although radiology and oncology have arguably experienced a recent surge in business, many imaging facilities are tapping consultants to obtain survival strategies and remain in business. Some engagements are what we refer to as “tune-ups and general cleanups,” while others mimic train wrecks that could have been averted by involving experts sooner. “We never imagined it would be this bad,” says Emanuel Shaoularian, MD, co-founder of Pacific Coast Imaging in Newport Beach, Calif. “We felt we could manage our way just fine by trimming costs, reorganizing debt and curtailing expenses.”

The carnage evident in many outpatient centers is spilling over into other radiology groups and departments. The reason: Many departments that survived the first round of Medicare cuts contained within the DRA have since succumbed to consolidation, closures and bankruptcy due to depreciated practices and poor strategic planning.

Centers that closed, sold interest and/or forged joint ventures could have benefited from economies of scale, PACS/radiology information system (RIS) integration, and exiting from loan guarantees and capital shortages. Survivors then could have piggybacked off the failure benchmarks and rethought their strategies without relying on a patient-by-patient approach.

What’s ahead

Unfortunately, the industry faces still more daunting challenges. “Even the strongest providers are [only] cautiously optimistic,” says Fred Gaschen, CEO of Radiology Associates of Sacramento (Calif). “If we didn’t continue to recreate ourselves, we would be dead.” Gaschen’s sentiment is largely a reaction to the recently passed federal health care reform package, which will challenge imaging centers on multiple levels. For example, private payers are indicating that in light of the projected 21 percent cut in Medicare reimbursement, they’ll adjust…
their reimbursement levels accordingly. These forecasted cuts have unnerved many struggling operators, who are months behind on equipment payments and more focused on cash flow statements than patient care.

“The trend in reimbursement compression and general uncertainties facing health care providers is of obvious concern,” says Jerry Sturz, CEO of Kern Radiology in Bakersfield, Calif. “However, these same trends and uncertainties also create interesting symbiotic opportunities for most segments of health care, if we accept that health care must be delivered in an altogether different manner.” Even the strongest operators are joining their mid-sized counterparts in examining further cuts that will allow only those with the strongest balance sheets to survive possible consolidations through 2014. These consolidations may become rampant, with buyers setting the market pricing at points not advantageous to sellers.

How to survive
Future success hinges on a willingness to seek new opportunities and take humbling hits along the way. First and foremost, providers must examine or design alternative delivery models and work cooperatively. Through strategic alignments, hospitals, medical practices and payers can stabilize and deliver truly integrated patient care. Former fierce competitors are joining forces, either via supergroups that hold just the radiology contracts or their respective radiology and oncology outpatient businesses, or by creating entities that remain with their existing tax IDs.

While this formula requires skilled legal professionals to create the structure, it enables groups to protect one another as well as to cut expenses. “Our practice has seen substantial gains in revenue by changing the structure, joining forces and paying close attention to contracting and the revenue cycle,” says Wayne Baldwin, CEO of Pueblo Radiology in Santa Barbara, Calif., who combined Pueblo Radiology Medical Group and Radiology Associates of San Luis Obispo, Calif. “Once radiology groups get past lack of trust and turf protection … the mutual benefits can be realized.”

Another alternative strategy is provided at the facility management level. The new health care environment has pushed many operators to cut staff and other variable expenses. Many have attempted reinvention by adding services such as women’s health, but easier and more cost-effective methods merit consideration. Operators have found income and maximized bottom lines with these restructuring methods:
- Eliminating schedule overlap (professional and nonprofessional);
- Managing workflow (technologists checking in and bringing back patients);
- Avoiding duplication of services, tasks and duties;
- Moving from original equipment manufacturer (OEM) to non-OEM service coverage;
- Expanding teleradiology services (increasing professional income and offsetting technical income loss);

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**SURVIVAL TIPS**
To ensure an imaging center’s viability, staff can:
- Go the extra mile regarding patient care.
- Recognize that marketing is everyone’s responsibility. Radiologists and front desk personnel can market their expertise and sell themselves as well as the center.
- Cross-train on modalities (CT/MR).
- Pick up the phone if the front desk is slammed with calls and you’re between patients.
- Meet bimonthly to review areas for improvement.
- Refrain from hiding behind reports. Radiologists should use them to build relationships with referring physicians.
- Tout yourself. Peer review can differentiate you from competitors.

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Frank Cerrone BS, RT(R)(MR); project manager at ICON Medical Imaging in Warrington, Pa., offers advice for increasing efficiency in imaging departments. Visit the Features section of www.advanceweb.com/imaging to read “Rolling Up Your Sleeves” after Aug. 24.
- Extending cash pay practices and payment programs to high deductibles;
- Adding new service lines (interventional radiology suites, etc.);
- Integrating various lines of service and specialties into one supergroup (e.g., radiology/oncology, hem/oncology, radiation therapy);
- Redesigning protocol exams with all involved physicians, RNs, technologists and schedulers to increase throughput; and
- Breaking away from the independent diagnostic testing facilities' (IDTF's) model, many operators seem to be migrating toward a structure where operators can lease the center to the radiology group as a way to use the group's tax IDs. This model allows IDTF operators to obtain better pricing from both payer and vendor. Consult a qualified health care attorney to set up the agreements in accordance with state and federal guidelines.

Unfortunately, adding services and paying attorneys becomes more difficult when cash is tight and lending is scarce or fraught with high interest rates and personal guarantees.

Facilities facing such a financial crunch should precede any strategy with a feasibility study. Conducted by outside companies that generally maintain more credibility with lenders, this industry/marketing analysis allows for greater trust in a deal, as well as creative structuring of personal guarantees and interest rates.

Still, many facilities can't afford to expand service lines. They have few options beyond raising private monies, or selling all or part of their practice. Other options include syndication deals where investors and physicians invest at a fixed rate of return and take a risk on all of the real estate and equipment. A separate operating company will cover the notes and lease payments. The entities also must comply with state antikickback regulations.

A final strategy that includes a reorganization option is "try and buy." For example, a facility leases equipment costing $55,000 a month. The new operating company and the old operators forge a managing agreement to lease the gear at a fixed price for a year. The new company may need to be in the facility's geographic area for contracting purposes. It also may possess a stronger balance sheet but not the stomach for long-term commitment. This model allows the new operator to try its luck in a market. The benefit:

The old company continues to make payments and avoids major tax implications, earning a 7 percent return.

These strategies and reorganization models have risks and require an initial $5,000 to $7,000 minimum investment in a health care attorney who knows these structures as well as state and federal regulations. While some circles may regard these solutions as defeatist, they offer chances for survival and opportunities to evaluate options.

New ways of thinking
Trimming costs and increasing billing efficiencies is no longer enough. Operators must embrace more creative and strategic thinking to ensure short- and long-term survival. With the right partner, structure, strategy and team all rowing in the same direction, your facility will be able to tread water during the choppy years ahead.

Steven R. Renard, MBA, CHE, is chairman, president and CEO of Diagnostic Radiology & Oncology Services Inc., a Roseville, Calif-based development, management and consulting firm.

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