BEST PRACTICES: CONVERTING YOUR ADMIN SPACE FROM A COST CENTER TO A REVENUE GENERATOR

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THE VALUE OF SPACE IN THE MEDICAL PRACTICE ENVIRONMENT

Over the past five years, the cost of real estate and rental rates have significantly decreased with the downturn in the economy. Even with this reduction, prime real estate still remains costly and rental costs remain one of a private practice's largest monthly expenses. Most private practices rent or acquire space in high-cost business areas near a hospital or on a hospital campus so they can be close to referring physicians, imaging facilities and other medical services.

Along with location, the type of space is a big variable in the value and cost of real estate. Typically, clinical real estate costs 40 to 50 percent more than standard commercial space. Furthermore, unlike typical commercial space, costs for build-outs of medical practices are six to seven times higher. Data shows the cost to build out commercial space ranges from $10 to $15 per square foot. Space in medical practice facilities will typically cost $35 per square foot for a simple primary care practice space.

The cost of the space build-out is usually amortized over the term of the lease and increases the basic lease cost. Lease rates usually increase annually at a rate of 3 to 5 percent each year and there can be additional costs for building maintenance, repairs, power and janitorial services. It is therefore important to plan the build-out of your space to maximize the ability to generate revenue.

Clinical space in a physician's practice is the only space that generates revenue. The more clinical space you have, the more revenue you can generate.

IS YOUR SPACE A REVENUE GENERATOR OR A COST CENTER?

If your existing practice space prohibits you from seeing your existing panel of patients in a timely manner due to limited patient exam rooms, you should consider converting your administrative space. This space restriction may also be limiting your opportunity to accept new patients or grow your practice.

Shifting this administrative space - including medical records storage, in-house billing, call centers and management offices - to clinical space will allow your practice to increase patient volume, generate additional revenue and increase customer service without increasing fixed overhead.

DO YOU NEED YOUR ADMINISTRATIVE SPACE?

Administrative space can be eliminated in a physician's practice.

- ✓ **Medical records** can be stored offsite or scanned into the practice's EMR system, therefore eliminating the need for file storage space. You can also reduce the cost of staffing as there is no need to manage the onsite medical records.
- ✓ **Billing and collection functions** can be outsourced or relocated to commercial space that usually costs at least 50 percent less than clinical space. With the use of technology, billing and collection functions can be managed and claims can be sent out in real time from any location.
- ✓ **Management functions** can be moved offsite depending on the size of your practice. Larger practices have a central administrative office in a commercial space that houses the administrative staff, call centers and the billing and collection department. Department heads will still remain at the clinical facility to ensure efficient operational and clinical functions of the practice.

HOW CAN YOU TRANSFORM 80 SQUARE FEET OF ADMINISTRATIVE SPACE INTO $300,000 INCREMENTAL REVENUE?

Consider these conservative assumptions:

1. The average patient examination room in a primary care and specialty practice is around 80 square feet (8 foot by 10 foot).
2. Each patient examination room is used only four times a week.
3. The examination room is used 50 weeks per year.
4. The average conservative reimbursement for a family practice physician is $95 per patient visit.
5. Each examination room can turn over 2,500 patient visits per year, which equates to 12.5 patients per day.
6. Total revenue generated per year in every 8 foot by 10 foot examination room is $237,500.

By changing just one of the assumptions to use the patient examination room five days a week instead of four, the patient volume would increase to 3,125 and the associated revenue increases 25 percent to $296,875 per year.

WHAT IF YOUR PATIENT VOLUME DOESN'T SUPPORT ANOTHER EXAM ROOM?

Depending on the type of practice you have, you may not have the patient volume to support an additional patient examination room. In this case, you might consider bringing in additional services to complement your practice and increase your revenue.

For example, if you are an internal medicine, family practice or endocrinologist with a reasonable diabetic population, you might want to consider adding optometry services to your practice. Many of the insurers are paying an additional 20 percent bonus on an evaluation and management (E/M) reimbursement for diabetic retinopathy eye testing and meeting the HEIDIS requirements. The national compliance rate for this test is around 20 percent. Physicians do refer their patients to optometrists for these examinations, but 80 percent of the time the patient does not make the appointment and have the examination. By bringing into your practice an optometrist and adding these services in your additional patient examination room, you not only receive your 20 percent bonus on your E/M code for meeting the HEIDIS requirements, but you can also be reimbursed for the diabetic eye exam, which on average is $225. Clients who have implemented these services in their additional patient examination room have seen a 95 percent compliance rate.

FINAL THOUGHTS

With the continuation of reimbursement reductions, it is imperative that private practices use their real estate wisely to maximize their dollars per square foot. Repurposing existing file room and administrative space to revenue-generating clinical space can increase practice revenues significantly.

Administrative space is an expense and does not generate revenue for the practice. The more administrative space you have in your practice, the more it costs you in fixed expenses.

ABOUT THE AUTHOR

Rochelle Glassman is a passionate advocate for physicians and medical practices, and she has devoted her career to helping doctors get paid. She is the president and CEO of United Physician Services, and is a nationally recognized healthcare consultant known for her candor, tenacity and vision.

Rochelle trained as a registered nurse in her home country of Great Britain and ran two successful medical clinics in Manchester. Relocating to California to further her career, she advanced from back office and nursing positions to top administrative and consulting roles. Especially gifted at new business development and payer contract and payment negotiations, Rochelle has generated millions of dollars in revenue for many national healthcare organizations.

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