On the Edge: Examining industry trends

Rightsizing — don’t downsize

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The economic difficulties brought about by increasing operating costs and reduced levels of reimbursement worry most medical group practices. In the past 15 years, total operating cost per full-time-equivalent (FTE) physician has increased 103.3 percent, from $154,884 to $314,808. In this same time period, the consumer price index increased by 61.2 percent. Medical group operating expenses are clearly rising at a rate that exceeds the general expense upsurge in other areas.

Cut with a scalpel, not a cleaver

With costs increasing, medical group administrators are closely examining where their practices can save. They often scrutinize employee salaries and benefits first — the largest portion of expenses. Unfortunately, practices may reduce staff without anticipating the consequences of having too few employees or the wrong mix of employees. Cutting staff without recognizing a potential toxic effect on practice operations is like performing surgery with a cleaver: The incision may be too deep or in the wrong place.

Rightsizing

Instead of making staff reductions across the board or downsizing administrative and clinical employees, administrators should use the concepts of rightsizing to determine staffing levels.
Rightsizing is the systematic process of reviewing employee numbers, tasks and work processes to determine the appropriate number and mix of staff needed to meet medical practice goals. Rightsizing involves quantitative and qualitative analyses to answer two key questions: Do you have the right staff? Are they doing the right things?

When it comes to staffing, medical groups operate at various levels. The table on the previous page illustrates the staffing profile, measured in percentages, for multispecialty groups and for family practice, orthopedic surgery and cardiology single-specialty groups, as reported in the Medical Group Management Association (MGMA) Cost Survey: 2002 Report Based on 2001 Data. The number of FTE employees per FTE physician varied from a low of fewer than 1.5 to as many as 11.4.

Many factors affect staffing, such as the types of professional and ancillary services, the relative complexity of patient services provided and physician preference. Knowing that various levels of staffing exist helps the practice administrator understand that there is no one right answer and that there are many potential answers to the question, "How many employees are enough?"

**Impact of staffing on profitability**

The table "How medical groups staff and how staffing affects financial performance" also tells another story. At the lowest and often at the highest levels of staffing, medical practices have decreased financial performance. The table "How staffing levels affect financial performance" displays the impact of different staffing levels on median total medical revenue per FTE physician, median total operating cost per FTE physician and median total medical revenue after operating cost per FTE physician for multispecialty groups. The graph illustrates that except for the highest staffing level, median total medical revenue per FTE physician increases as the number of FTE employees per FTE physician increase.

At the same time as revenue increases, operating costs rise as payroll expenses and occupancy costs swell. The cumulative effect of the changes in revenue and expense is revealed in the third line of the graph. Total revenue after operating cost per FTE physician reaches a peak when staffing is 6.5 to 7.4 FTE employees per FTE physician and then declines. Note that only 7.6 percent of the medical groups staff at this level and that 85.7 percent of the medical groups have lower levels of
staffing, often with lower net income.

The right staff doing the right things

Unfortunately, just having more staff is not the correct answer. Rightsizing studies the functions of the practice as well as the staff levels. Rightsizing focuses on increasing profitability — not by having more staff but by having the right staff. In fact, the concept of rightsizing can be summarized in a few words: The right number of staff, in the right place, with the right skills, at the right cost, with the right behavior, the right rewards and the right outcomes — no more, no less.
How staffing levels affect financial performance
All multispecialty groups

Full-time equivalent

Employees per physician