

# What Should You Do at a Time Like This?

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Be thankful you are in a great profession that rewards you well for what you do and that you have patients that continue to need and value your services.

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**Most pundits would agree that the turmoil seen in the world financial markets the last several weeks has been unprecedented.** Consumers and investors are suffering from a crisis in confidence in our financial system. It has become extremely difficult to predict what will happen from one day to the next. In addition, it is very hard to assess what the “downstream effect” will be on different aspects of the economy. Based on our history of financial cycles, I suspect we are in for a longer-than-expected recession.

Sure, the stock, bond, and commodity markets may very well rebound in the weeks and months ahead; however, most people would agree that it could very well take many years to recover the losses incurred in savings and retirement plans over just the past couple of months. Clearly, we are left with more questions than answers.

I thought it might be helpful to provide some answers to the most frequently asked questions we have heard from our clients over the past several weeks. We recognize many of you have other questions and concerns about how these events may impact your practice and personal financial planning. We recommend you consult with your financial advisors to begin to “assess the extent of the damage” and initiate your recovery plan. As always, the ECBA team is available to assist you and your practice in meeting these new and unique challenges.

**Given the current economic climate, what would you recommend for our practice?**

- First of all, your staff needs to hear from you. This is a time where the leaders in any organization need to provide reassurance, clarity, and focus. A calm, even hand is essential.

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- It is important you be honest in your assessment of how the current economic challenges will impact everyone. No one will be immune from the current contraction in business activity.
- This is a time that a practice needs to refocus on the fundamentals of excellent patient care, customer service, and fiscal responsibility.
- From past experience, those practices that maintain their focus and commitment to these values enjoy the greatest success in the recovery.
- Set the tone with staff that we are in for lean times in the foreseeable future and that this presents an opportunity to get better at what we do. More so than ever, the practice will need the dedication and support of each staff member. It is fine to remind staff that, given the present economic climate, they are fortunate to have a good job with a good practice in a part of the service sector that is less prone to the vagaries of declining rates of consumer confidence.
- Re-evaluate your strategic plan. This would include a review of under-performing offices or service lines. This is a time to focus your limited resources where you can expect the greatest return on investment and to eliminate those assets not providing adequate yield or that do not have other strategic significance.

**Are there some specific things we should be doing to safeguard our assets?**

- Make sure your bank deposits are in fully insured accounts. The recent TARP bill provides some short-term relief by temporarily extending insurance coverage to \$250,000 per account category and by providing unlimited FDIC insurance coverage for non-interest-bearing accounts of many small businesses. Be sure to review the FDIC coverage requirements. Don't assume your accounts are insured.
- I recommend you or your financial advisor review the financial statements of your bank. If the bank is a public company, it is easy to obtain current financial statements either by requesting them from the bank or going online and doing a search. In the case of a private institution, request copies of the most recent financial statements. You should be looking for increases in reserves for bad debt as well as non-performing asset categories. Investigate changes in balance sheet values as compared to prior years.

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- In order to provide greater efficiency in managing large account balances, consider setting up an account with a discount broker, e.g., Charles Schwab and Company, where you can purchase individual denomination certificates of deposit (for less than the maximum FDIC insurance limit) or U.S. Treasury instruments. Some banks are now offering similar programs.
- Some commercial banks participate in the Certificate of Deposit Account Registry Services® (CDARS®) program. This program provides depositors with access to up to \$50 million in FDIC-insurance coverage on certificates of deposits. The program is normally available to customers free of charge. In essence, CDARS® provides a customer the ability to spread money across a network of FDIC-insured banks.

**Do you have other suggestions when it comes to managing our financial affairs?**

- If you haven't done so already, scrutinize every line item of expense on your P&L to insure that you are spending funds wisely. Just because you have done things a certain way for years does not mean you should continue this policy. For example, review all of your insurance policies to make sure each is still necessary. In addition, consider putting out for bid all of your policies with several brokers. We have found that it is not unusual to find significant cost savings by shopping your insurance coverage. Another suggestion is to re-assess contractual relations with outside professionals, i.e. legal, accounting, and consulting that serve the practice. Are you using these resources judiciously? Many of the more common questions practices have can be answered by simply searching the archives of Allergan Access®. Another option is to simply submit a new question through the Ask the Expert feature. The bottom line is that you cannot afford to be complacent.
- Increase your level of financial oversight. Many physicians have become complacent, relying on others to assume responsibility for managing their financial affairs. Work within the confines of a budget, and make sure you are getting the right information in order to make better decisions about the business. Hold off on major capital expenditures unless they are absolutely necessary or it is clear you can obtain an excellent return on investment.
- Review your internal controls to insure there is appropriate segregation of duties and minimal risk of embezzlement. Too many practices have suffered losses at the hands of dishonest or

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unscrupulous employees. If an employee gets defensive about implementing safeguards in this area, this might provide a clue toward possible mishandling of funds.

- Carefully monitor your cash flow. It is recommended you more aggressively manage the accounts receivable cycle. Consider having your financial advisor prepare and maintain a three-month cash flow forecast (set up on a weekly basis) so you can avoid any surprises. This report should be updated at the end of each week and reviewed by management and owner physicians.
- Consider not filling any vacant positions. If a staff member leaves the practice, evaluate opportunities to re-allocate that person's responsibilities to other staff members.
- Review all doctor schedules to insure you are maximizing each provider's template. Each provider needs to take ownership of his or her book of business. This starts with developing a business plan for each doctor and should include a forecast of doctor work days, patient visits, procedure goals, and payer mix. This will enable you to more accurately predict practice revenue. This will also allow you to make better decisions about resource requirements necessary to meet your financial goals.

**We've noticed that many of our patients are very anxious about the current state of affairs. What can we do to alleviate their concerns?**

- First of all, it is important to recognize that patients are frightened. This is especially the case with seniors. Many live on a fixed income and are dependent on consistency of cash flow from their investment portfolios. For many, a significant portion of their nest eggs have been depleted over a very short period of time.
- It is most important staff maintain a positive and reassuring attitude and demeanor. Patients will appreciate that there is some degree of security and consistency in their lives. The trip to the doctor will become a bit of a safe haven, if only for a couple of hours.
- It is vital to communicate to each patient a "business as usual" attitude. When appropriate, remind them that we have been through many ups and downs with the economy and that history teaches us we will recover and rebound. However, it is always hard to know when.

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Based on experience, when things seem at their worst, there is generally some ray of hope on the horizon.

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**Many physicians and administrators have lost a significant portion of their net worth in a very short period of time and feel insecure about the future. What advice would you give them?**

- As mentioned, it is important to recognize that the events of the past month are unprecedented. History, however, is a great teacher. Based on experience, when things seem at their worst, there is generally some ray of hope on the horizon. The essential thing is to not lose faith in our system. We are in a serious correction from the excesses of the real estate boom that occurred from 2000 through 2006. Unfortunately, a correction of this nature has far-reaching consequences, and it is difficult to predict how long it will be before we see stability and renewed growth.
- The significant thing is to maintain a positive frame of mind. You cannot allow yourself to be consumed by things outside your control. We should all be thankful we have good jobs and that we work in an industry that is, in some respects, immune from some of the volatility seen in other market sectors. Yes, some may have to defer retirement plans. However, it is critical to recognize that we work in an industry that affords us the opportunity to re-build our net worth.
- Develop a more aggressive plan to retire outstanding indebtedness, both at home and at work. Being debt-free provides the greatest feeling of security and control over one's financial affairs. Don't listen to those so-called experts that preach the fact that leverage is a good thing and that the interest on your home loan is one of the few remaining tax deductions.
- Focus on areas of opportunity to improve practice efficiency. There are always things practices can do to trim costs and make better use of existing resources. Rally the team around opportunities in this regard.

The most important thing at this point in time is to not lose perspective on all the good things going on in your lives. As mentioned, many have experienced significant losses in their investment and retirement plans. Be thankful you are in a great profession that rewards you well for what you do and that you have patients that continue to need and value your services.