



## **Strategic Planning Considerations and the Deficit Reduction Act of 2005**

The implementation of the Deficit Reduction Act for 2005 (DRA) and the final phase of the CMS Multiple Procedure Discount (MPD) will have far reaching consequences for free standing imaging center operators next year. The best way to meet the threat of these reimbursement reductions is to develop and implement a strategic plan that gives your imaging business a clear path to maintain or maximize your profitability next year and in future years. The obvious blanket advice that an imaging center can follow is to increase revenue and/or decrease costs to meet the impending challenge. But how do you determine the best course action for your business? A well thought out strategic plan that addresses your specific needs is the best approach under the current circumstances.

For most free standing imaging centers Medicare payments represent about 30% of their revenue. At this payor mix the reduction in revenue anticipated for the average center in 2007 would be about 10%. With average center profitability generally reported at between 8% and 10% it is clear that these reimbursement changes will reduce many imaging centers to a breakeven or loss position unless they develop programs to offset this revenue shift. This potential reduction does not include any other factors such as private payor initiatives to reduce spending on radiology services.

The implementation of the DRA and the final phase of the MPD on January 1, 2007 is one of the most critical market issues that imaging centers have ever had to face. It strongly suggests that its time to expand and formalize your strategic planning process if you have not already done so. Because all independent imaging centers face essentially the same set of reimbursement challenges driven by these Medicare reimbursement changes, medical imaging companies are actually in a strategic planning competition. Those imaging centers that develop and implement the best strategic plans have the best chance of meeting the new reimbursement challenges.

It's important to keep the planning process as simple as possible. It really has three main components:

1. Planning to Plan
2. The Planning Exercise
3. Follow-up and Follow Through

## Planning to Plan

Prior to conducting the planning exercise it's important to think through several aspects of the planning effort. You need to consider the following questions:

- What are your goals for this effort?
- What are you willing to spend to support the planning process?
- Who will attend? Who are the stakeholders in your organization that can make a positive contribution to the planning process?
- What are the main threats to your business brought on by the DRA and MPD that your organization needs to address?
- Do you have the basic business information that your planning team will need to think about during the planning exercise?
- Does someone in your organization have the skills to help organize and facilitate your planning process? Should you bring in a strategic planning consultant?
- Will you plan at your location or at an offsite location?
- What will your planning agenda include? Will it include team building activities? How will you stimulate the planning discussion?
- How will you measure the outcome of the process?

## The Planning Exercise

Once you have considered all of the pre-planning questions and you have set your planning agenda its time to move forward with your planning exercise. At this point you will have selected the planning team. You have provided them with the basic business information that is critical to your company for them to review before the meeting begins. All of the attendees will have received the agenda for the meeting and they understand what is expected of them. With these critical steps completed, its time to begin the planning exercise.

The planning session has two main functions: A focused brainstorming session to develop ideas to address the specific threats to your business is the key to a successful strategic planning meeting. It provides the opportunity to have critical discussions of the potential solutions to the specific threats that you have identified. It is important to stimulate the planning team to contribute all of the ideas that they can come up with to address the specific concerns that you have about the threats to your organization. No idea is too small and all ideas no matter how unusual they might initially sound need to be accepted. One of the proven ways to stimulate the creative process and the open ended discussion that is essential is to have the planning team develop a SWOTS (Strengths, Weaknesses, Opportunities and Threats) Analysis interactively on key issues that face your organization. Inclusion of this activity in your planning exercise can help to focus the team on the issues that should be included in your discussion.

As a part of this planning exercise, if you do not already have them, you may want to develop mission and value statements about your imaging business. Well crafted mission and value statements are excellent tools to communicate goals and strategies to the rest of your organization.

The second part of the planning exercise is equally important. Through discussion and debate you and your strategic planning team need to select the best three to five ideas to consider for implementation. It is important to come to a consensus with your planning team. The group needs to agree on the final ideas selected for further consideration and implementation. If they do not come to consensus implementation will be difficult at best. Once you have a consensus on how to proceed, you and the team must also make an honest assessment of your imaging center's ability to deliver these important new ideas in a timely manner. An honest assessment of the potential projects for implementation may reduce the final ideas selected even further. This should help to improve your center's focus on the things that need to be done to prepare for the impact of the new regulations.

#### Meeting Follow-Up and Follow Through

It is well known that in the past, many companies have invested in the development of outstanding strategic planning documents that clearly focused them on their needs to change their specific businesses. However when the planning exercise was completed there was no commitment to follow through. Follow up and follow through are the most important parts of the process and potentially the most difficult parts to complete. Making the ideas developed during the process into a real part of your daily activity requires a commitment to change.

Many times the threats that are discussed in a strategic plan are perceived threats that address market changes that could occur in the future and probably should be addressed at some time. The threats may be real but the timing of their impact on the business is not precise. For free standing imaging centers, the threats are very real and the timing is well known. The only possibility for change is regulatory relief which may occur but is something that you can count on at this time. This is why imaging centers are in a strategic planning contest. This is why it is extremely important to implement the product of your planning process in an effective way.

The ideas that are identified by your planning process will be the basis for the changes that are needed in your organization to actually survive and grow after the DRA and final phase of the MPD are applied to reimbursement. Their implementation needs to be supported by your management, embraced by your employees and assigned to members of the organization who are capable of delivering them on a timely basis. Logically these project leaders should have been a part of the planning team that generated these valuable ideas. They need to be given responsibility for the projects, accountability for their implementation and rewards for their successful completion.

If these projects do not get both the priority and the attention that they need your 2007 operations will be business as usual with a significant reduction in your revenue and no completed offsetting programs to address the problems created for you by the reductions in Medicare reimbursement.

It is time to develop plans and strategies that will help you to address the reimbursement changes that will go into effect in 2007. You can have continued success if you take the time and commit the resources necessary to meet the challenges posed by the DRA and the MPD.

Good Luck and Good Planning!

A handwritten signature in black ink, appearing to read "Ed Eichhorn". The signature is fluid and cursive, with a long horizontal stroke at the end.

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