Business Strategies Applied to an Integrative Medicine Practice: A Case Study on Sustainability

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Abstract

This case study demonstrates the application of practical business principles to an integrative medicine clinic in northeastern Pennsylvania and measures the effectiveness of those applications in terms of profitability and operational indicators. This article provides strategies and recommendations for clinicians, practice managers, and researchers to advance the integration of integrative medicine into the US health care system. Methods for sustaining financially viable, quality-driven integrative medicine clinics are suggested.

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Northeastern Pennsylvania is primarily rural, with 2 midsize cities, Scranton and Wilkes Barre, in close proximity. As of the 2000 US Census, Scranton had 76,415 residents (20% were 65 years of age or older and 24% were younger than 18 years); Wilkes Barre had 43,123 residents (21% were 65 years of age or older and 20% were younger than 18 years). Major employers in this area are government, manufacturing, retail trade and service, health care, legal, and education sectors.

An alternative medicine clinic, the Inner Harmony Wellness Center (IHWC), opened in Scranton in 1997 to provide complementary and alternative medicine (CAM) to the community. To better meet the needs and wants of the consumers and to achieve financial stability in an insurance-based model, IHWC’s business model was revised in 2000 and the clinic was relaunched as the Center for Integrative Medicine at Inner Harmony (CIM). IHWC now serves as the management service organization for CIM and houses community outreach programs, wellness workshops, and other educational seminars.

The founder of IHWC had 2 major goals: to provide wholeperson, patient-centered care grounded in the principles of wellness and prevention; and to develop a new model of care to address the rapidly increasing cost of health care in the United States. To date, there is no other clinic using the integrative medicine model in the greater northeastern Pennsylvania area.

Service Model Components

The foundation of CIM’s integrative medicine clinic model is built on 2 core components: the patient-flow process and the clinical teamwork process. The service model experiences patient volume from 3 entry points, listed in the order of most open to CAM to least open to CAM: the first comprises patients who schedule a specific CAM modality for a condition such as lower back pain; the second includes patients who request a comprehensive health assessment by an integrative physician or nurse practitioner; and the third group is patients currently receiving allopathic treatment within the clinic who are educated by practitioners and assisted in a transition to a more integrative approach to care.

In regard to the third entry point, after the practitioner has engaged the patient in a discussion of integrative medicine, the patient is offered the opportunity to schedule a 40-minute appointment for a comprehensive health assessment or to schedule an appointment for a specific modality depending on the treatment plan. In our experience, not all patients schedule an appointment immediately.

In about 99% of the comprehensive visits, payment comes from insurance reimbursement using the Current Procedural Terminology (CPT) code for traditional evaluation and management, and this financial consideration helps patients in their decision to book the visit.

Objective

This report reviews the 11-year experience of CIM. The purpose of this qualitative case study is to demonstrate practice growth and to identify effective business processes and work systems for maintaining a self-sustaining integrative medicine practice.

Methods

Primary data were collected from observation and employee feedback; supporting data were collected from secondary operational reports.
CIM currently has 17 full-time staff members with a mean tenure of 6 years and 1 month, comprising 3 administrative and 4 support staff and 10 practitioners. Practitioners include the medical director/physician, family physician, 2 certified nurse practitioners, 2 massage therapists, and a chiropractor, acupuncturist, colon hydrotherapist, and electro-lymphatic therapist.

For the purposes of this article, 30-minute interviews were conducted with each staff member during a 1-week period. Qualitative data were collected by one-on-one interviews with the staff. The data were grouped by common themes presented by the staff to help address the questions in this paper. Responses were recorded manually by the interviewer. The transcripts were then shared with the participants to verify accuracy of the responses.

Practice records and financial reports were reviewed for an 11-year period starting from January 1, 1998, through the end of 2008 to determine number of encounters, total number of encounters per modality, total bill charges for patient visits and procedures, average receipt per encounter, and net receipts from the MEDENT physician billing and scheduling system. Information extracted from the financial statements includes net profit/loss, gross and net revenue, debt and equity used for financing, and cash flow. Variable cost rates per visit and fixed cost allocation rates were calculated from cost reports.

Findings and Discussion
The qualitative findings in this paper are intended to provide researchers and practitioners with strategies to sustain business operations. The exploratory findings can be used as the basis to conduct future research studies on sustainable business practices in integrative medicine clinics.

Practice Volume
At CIM in 2008, the average number of patient encounters on a daily basis was 52. Approximately 85% of visits involved patients with acute and/or chronic illnesses, and the remaining 15% involved patients without acute and/or chronic illnesses who were seeking a wellness service.

Operating Costs and Profitability
For the first 7 years (2 years as an alternative medicine clinic and 5 years as an integrative medicine clinic), operating costs were funded with private equity from the owner, with the total cost exceeding $5 million. For the calendar year 2005, operating costs matched revenue, and CIM achieved the cash breakeven point. For 2006, CIM experienced its first year of profitability, with a 4% total cash profit margin. CIM experienced a 2% total cash profit margin in 2007, a 1% margin in 2008, and is currently holding at a 1% margin. The drop in total cash margin is attributed to expenses associated with increased marketing activities and recruitment and practice development for 2 physicians added to the staff (the current family practice and board-certified family practice members).

Critical Factors for Financial Success
Four factors were critical to achieving financial success using the integrative medicine clinic model: 1) recruitment and development of a committed staff, 2) maintenance and growth of the client base, 3) establishment and application of the integrative medicine clinic model, and 4) leadership of a physician champion for the integrative medicine clinic model.

Factor #1, Good employees: The first critical factor for the financial success of the integrative medicine clinic is acquiring good employees. According to 1 writer of a training-development manual, employees experience experience disconnection and misalignment without a commitment to live and be the medicine. Ongoing integral change through personal growth is needed to facilitate the emergence of new leaders and team members. Shared vision and commitment to positive change creates a strong, positive work culture, which leads to higher productivity and a friendly work environment.

Factor #2, A solid client base: The second factor is maintaining current clients and expanding the client base. Goals can be set for the number of new patients per week by modality and practitioner, and the total number of new patients can be tracked. Referrals from area hospitals and providers for case management are a useful source for new patients. Internal and external marketing activities must be tracked and recorded for each new patient as well as for current patients. Reasons for attrition must be identified and corrective action plans should be developed. Our experience has shown that a staff member’s lack of commitment to personal growth leads to incongruent culture and communication with patients and fellow workers. Personality conflicts among staff and unwillingness to participate in stress reduction also create an environment ripe for patient attrition.

Factor #3, Applying the integrative model: The third factor is the establishment and execution of the integrative model through the use of clinical protocols. We have found that monthly clinical staff meetings to discuss complex cases help the practitioners understand the integration process. Daily encounter forms and schedules can be tracked to monitor each practitioner’s level of participation in the integrative model.

Factor #4, Leadership: The final factor crucial to the financial success of the integrative medicine clinic is the presence of a physician champion, such as the medical director or another staff physician or naturopath. This person must be the visionary, have passion for the integrative model, inspire the other practitioners to commit to the integrative protocols, and reach out to external stakeholders. Lack of commitment by the physician leader can be the main factor in fragmentation and lower profits for the integrative medicine clinic.

Financial Assessment
It is difficult for practice administrators to precisely anticipate exact volume and future growth. These indicators are influenced by quality of care, marketing efforts, and word of mouth. However, administrators must properly manage the variances in budget projections with actual results to ensure return on investment and profit.

The return on investment (ROI) for each of the items discussed below is based on the average net receipt of $56 per visit. This average net receipt is a mixture of insurance and self-pay
reimbursement for the various services. Approximately 50% of the visits in a given year are visits to the integrative physicians and nurse practitioners, and 50% are visits for modalities such as chiropractic treatment, massage, acupuncture, colon hydrotherapy, coaching, nutrition, and natural hormone replacement. For visits to the physicians and nurse practitioners, approximately 90% of the reimbursement comes from insurance; for visits for the other modalities, approximately 65% of the reimbursement comes from insurance with the remainder coming from self-pay (CIM MEDENT billing reports, 2008).

Ten Strategies for Growing Practice Volume

Several successful strategies were identified for growing practice volume and advancing the mission of an integrative medicine clinic.

**Strategy #1, Referrals:** The first strategy for growing the practice volume is building partnerships with outside allopathic providers to establish a steady stream of referrals for modalities treating specific diseases or ailments. For example, orthopedic specialists refer patients to the chiropractor, gastrointestinal specialists refer patients to the colon hydrotherapists, rheumatologists refer patients to the acupuncturist, and so forth. Review of the encounter forms shows that an average of 3.2 referrals result from a meeting of a staff member from the integrative medicine clinic with an allopathic physician external to the practice and his/her staff.

Based on the average receipt, the clinic expects to receive $179.20 from an average 1-hour meeting with the physician and staff per CPT code. Retention of patients from these referrals is approximately 60%. Therefore, as a whole, long-term ROI from direct marketing to outside physicians has net revenues beyond just the initial patient visits due to retention of those patients, making it a profitable undertaking.

The average net receipt of $56 per visit is the mean score of all patient net receipts. This includes different levels of coding, procedures, and the various modalities that are provided. Therefore, average total cost (including direct and indirect cost) must be below the $56 per visit to achieve profitability.

**Strategy #2, Integration:** The second strategy is the integration of alternative services into the mainstream health system. Working within the existing health structure is preferable to building a system that cannot change without major policy reform in the United States. Within the community, we often encounter both alternative therapists who do not believe in or support allopathic medicine and allopathic providers who do not support alternative practices. In our practice, we have had practitioners who did not support the use of allopathic means for patient care and were truly alternative practitioners and not integrative practitioners. Although we cannot measure the financial impact this attitude had on overall profitability, the cost associated with personnel recruitment and turnover is substantial.

**Strategy #3, The operational plan:** A third strategy is developing and executing a sound operational plan with goals, objectives, action steps, and timelines. At CIM, we measured performance with operating and financial indicators and compared our results with standards set by the Medical Group Management Association (MGMA) and with regional data in the service area. Average wait time for patients at the clinic is 2.8 minutes. The average collection rate over the period of this study was 97%. The rate dropped to 93% in 2008 (CIM MEDENT billing report, 2008) due to delayed payment from 2 large workers’ compensation claims that had not been resolved. The average number of visits per day was 24 for physicians/nurse practitioners and 8 for non-physician practitioners. For optimal performance, proper systems must be in place for scheduling and rescheduling appointments, phone systems must be maintained, fixed costs must be allocated to revenue centers, and fair and equitable cost drivers must be used to assign these costs to practitioners.

Historically, the family practice comparison is not favorable compared with MGMA standards and other regional providers because our physicians and physician extenders spend 15 to 20 minutes with each follow-up visit.

**Strategy #4, Payor relationships:** A fourth strategy that integrative centers should incorporate into the planning process is to determine business relationships with payors, including the private insurance industry, patients, and employer groups (when dealing with corporate initiatives). CIM is a member of an independent physician association (IPA) that represents approximately 150 practitioners in negotiating reimbursement rates with commercial insurers in the area. Participation in this IPA has given the integrative medicine clinic the necessary leverage to increase the reimbursement rates per procedure.

The medical biller must fully understand the CPT codes and the medical record documentation process to maximize reimbursement for covered services. The biller also needs to know commonwealth-specific covered modalities because insurance coverage for services such as acupuncture and chiropractic treatment varies by state.

**Strategy #5, Partnerships:** A fifth strategy that can have the most immediate impact on revenue is entering into partnership with solo practitioners who have an existing holistic practice in the community. Solo practitioners often are willing to relieve themselves of administrative burdens—such as answering phones, scheduling appointments, sending and paying bills—and financial burdens, such as paying monthly rent. Before entering into such a partnership, one must understand the intricacies of the practice to determine the demand it will place on current structure, space, culture, and support staff at the integrative medicine clinic. For example, a practitioner who has a cash practice will be less burdensome on billing, collections, and existing fixed infrastructure than a practitioner who sees many insurance patients.

**Strategy #6, Acquisitions:** A sixth strategy is acquisition of a solo practice that can generate additional cash flow and aggregate profit. The purchase amount, however, is based on present value analysis and business valuation, will vary according to type of practitioner and contract. Acquisitions of nonphysician practitioners with a busy practice who do not demand a purchase price have had little cost to CIM, with the exception of absorbing fixed costs. For example, after the acquisition of a chiropractor office in 2008, CIM had an annual average of $34,400 in additional cash flow, a net profit of approximately $13,778,
and a $3444 contribution to fixed costs of the clinic.

On average, investment to acquire and integrate a practice for start-up is approximately $1200 in staff time and an additional $1500 in marketing activities (data from CIM payroll and financial reports, 2008). Acquisitions of solo practices in our case study are from nonphysician practitioners. CIM did acquire a physician practice in 2003.

**Strategy #7, Marketing:** A seventh strategy is market development and market penetration. For CIM, forming partnerships with entities serving the interests of similar holistic clientele—such as fitness centers and health food stores—has helped to create a venue for increased referrals to the integrative medicine clinic. Providing free community talks and onsite demonstrations at the holistic clientele’s home location often return benefits to those entities as well as to the clinic. According to the CIM marketing director, these activities result in an average of 3 visits to the clinic. Given the average net receipt of $56, the clinic generates $168 in net revenue from a 1-hour talk. This amount does not include the revenue generated by retention of these clients and the long-term return on investment. In many cases, a practitioner will volunteer time to present on his or her area of expertise as an opportunity to grow the practice. In cases where the practitioners are paid and marketing personnel are required, however, the average cost to the clinic is $61.50 (data from CIM payroll and financial reports, 2008).

According to Berkowitz, a key distinction must be made between the business concepts of market development and market penetration. Berkowitz defines market development as establishing new customers in the service area. Most likely, the service area has limited competition for integrative medicine. Therefore, market development provides great opportunity for practice growth. Market penetration focuses on gaining market share of existing customers using integrative services from a competitor. As mentioned, in most cases, an integrative medicine clinic will be in an underdeveloped market, and market penetration must come from substitutes, such as conventional medicine practices or alternative medicine practices. The prime target strategy for CIM is market development. Approximately 94% of new patients (147 for a 12-month period) were added from efforts in market penetration and 6% (9 for a 12-month period) were added from efforts in market penetration.

**Strategy #8, Patient management:** The eighth strategy is achieving positive patient experiences with both high clinical quality and perceived quality leading to patient retention. Research shows that integrative care planning and team-based clinical evaluation increases the likelihood of positive patient outcomes, both clinically and qualitatively. From the perspective of a business practice, poor clinical outcomes lead to adverse word-of-mouth communication among friends, family, and referring practitioners. Along with the marketing mentioned in strategy #6, word-of-mouth referrals are key ingredients to a successful integrative medicine practice. Another equally important component is the nonclinical aspects of the patient experience, including the initial phone call, registration with the front staff, scheduling of the next appointment, and closing with a pleasant goodbye from the front staff person.

Creating a positive patient experience will also increase word-of-mouth referrals and reduce the need for monetary expenditures on marketing. Monetary expenditures are not necessarily needed to grow a health care business, and marketing dollars are often a wasteful use of limited resources according to A. Minor, DBA, JD, a former hospital executive in Scranton. However, limited advertising can increase community awareness of the integrative medicine clinic. Research suggests that a majority of the allocated marketing budget be spent for practitioners, group education and training, and relationship building.

Patient retention and recruitment also depend on outreach, education, and emphasis on added value to the patient via integrative medicine. Patient retention is defined as maintaining business with an individual with an active medical record who continues to schedule appointments. Based on the clinic retention rates, the administrative staff has found that the average patient will schedule an appointment 3.6 times per year; nonphysician practitioners average 5.2 visits per year per patient; and physicians and nurse practitioners average 2.4 visits per year per patient (data from CIM MEDENT billing reports, 2008). Applying the average receipt per visit ($56) to the average number of annual appointments per retained patient, then multiplying average retention by the average number of new clients per year (60% retention rate x 240 new patients) equals a financial value to the clinic of about $29,030 dollars in new client retention each operating year. The calculated retention rate takes into account patients who have returned to health through treatment with integrative medicine and have not rescheduled appointments as well as clients who were unable to shift from strictly allopathic medicine after experiencing integrative medicine services and remain with the original primary care physician.

**Strategy #9, What you see is what you get:** Another key determinant to both patient retention and effective marketing is to ensure that what is marketed is delivered. This means alignment of marketing activities with practitioner behavior once the patient is seen. During the quality improvement process, we identified instances of prior practitioners who acted as sole practitioners and did not educate patients on other modalities offered and did not educate on the value of integrative medicine practices. Patient feedback in many cases was that this type of care did not match what was sold to them nor was it the type of care they desired. Staff commitment to comprehending, enacting, and aligning with the mission and vision is essential.

**Strategy #10, Employee care:** The tenth and final strategy in creating a healing environment is promoting employee health and well-being. Staff observations of characteristics that create a healing work and patient environment are identified below.

- Efficient and effective processes and systems
- Low rates of staff absenteeism and turnover
- Few staff grievances and disciplinary actions
- High, positive, and creative energy of employees
- Existence of high worker accountability, empowerment, responsibility, and authority
- Collaboration
• Employee and team synergy
• Jobs that stretch and test worker abilities
• Conflicts that are over interests, not personalities
• Participatory democracy
• Worker enthusiasm
• Positive communication
• A tolerant, respectful culture
• High productivity
• Negotiation
• Trust

Conclusion

Like CIM, many integrative medicine clinics across the nation have struggled over the past decades to reach the cash breakeven point and achieve profitability. Based on the lessons learned at CIM, the findings, strategies, and processes disclosed in this article offer guidance to entrepreneurs, clinical administrators, and practitioners. Core business practices, operational planning, marketing activities, and clear strategic direction need to be applied to the clinical practice of integrative medicine to achieve financial success. Applying the strategies and critical factors for financial success described here enabled CIM to transition from large capital losses to small profit margins.

Employee and practitioner commitment to the mission are crucial to the success of the integrative medicine clinic. Matching new hires with the work culture and facilitating group sharing, communication, and transparency lead to a strong work culture that supports a positive patient experience. The group's cohesiveness and consciousness mirror the culture of the clinic and this enhances the qualitative, non-clinical experience of the patients.

From a clinical perspective, team-based planning of whole-person, patient-centered care using integrative protocols is essential. Practitioners must buy into the mission, respect different practitioner disciplines, and participate in constructive learning dialogues. Personal growth and self-reflection assist in this process.

Employers and practitioners must remember to take small steps with patients, meet them where they are, educate them about the integrative approach to care planning and wellness, and slowly help them transition toward a more holistic health plan as they gradually become more comfortable. Integrative medicine clinics must focus on what the patient needs and wants, not what the clinician(s) think the patient needs.

Sustaining a viable integrative medicine clinic without ongoing philanthropy or subsidization by a parent hospital or similar entity is considered a success. Initial philanthropy by the founder allowed CIM to modify its business model based on lessons learned since inception. Other integrative medicine clinics can customize the current business model according to the demographics of a particular geographic region to achieve profitability. As in an allopathic practice, however, capital is required to start up an integrative medicine clinic. Potential sources of capital include private equity, credit from a lending institution, and grants from institutions that support small business development.

References