Increasing Profit in a Mature Practice

Sometimes merger is a better solution than expansion.

BY JON A. HULTMAN, DPM, MBA

The profitability growth of a business typically follows an S shaped curve (Chart 1). This growth goes through three stages. Successful businesses begin with slow growth followed by a stage of rapid growth. It then tapers off as that business reaches maturity. Managing each of these stages requires its own strategy because each presents different challenges. As a business matures, growth in profitability tends to level off, even though revenue and volume may continue to grow. Because every successful business eventually arrives at this mature stage, it is critical that the business be well managed at this time in order to avoid a dreaded potential fourth stage—decline.

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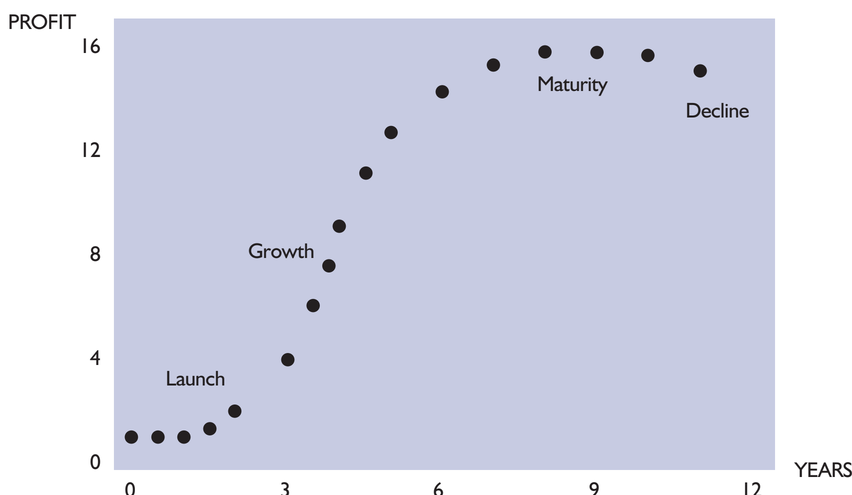

Although the businesses we manage are medical practices, it is helpful to go outside of the healthcare industry, learning from totally different types of businesses that have tackled and solved problems similar to the ones we face. While their unique solutions may not be directly transferrable to our medical practices, the principles behind those solutions generally are transferrable. I have written in the past about the efficiency principles implemented by the automobile industry over the years—ones adopted for the purpose of lowering costs and improving quality. In practice, these same principles are directly applicable to medical practices. Given that many doctors are currently adding locations and merging practices—building larger networks that are capable of better addressing the complexities and capturing the opportunities expected in the future of healthcare—it might be helpful to learn some of the strategies used by other industries that have addressed the issue of profitability once they

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reached maturity. An industry that we will take a look at here is the retail industry.

An article addressing the challenges of growth for mature retail companies appeared in the January-February 2017 issue of the *Harvard Business Review*. It was entitled "Curing the Addiction to Growth," and the leading quote from authors Marshall Fisher, Vishal Gaur, and Herb Kleinberger was, "Retailers often go through a long, painful period of denial before they acknowledge that growth has ended." Successful companies in the retail industry grow quickly in their early years by opening new stores, but once they reach a certain "size," profits tend to level off or even decline. The article's authors studied the method used by mature companies in an attempt to differentiate high performing retailers from the below-average ones. They found that the above-average retailers grew their operating profit 8% a year, compared with 0.9% for the below-average group. The successful retailers accomplished this by leveraging their existing stores rather than by continuing to grow their number of stores.

One example cited in the article was a comparison of the retailer Foot Locker with its rival Finish Line. Between 2011 and 2015, Finish Line grew sales at a 9% annual rate compared with Foot Locker's 8%; however, most of Finish Line's sales increase came from opening new stores while almost all of Foot Locker's growth came from leveraging their existing stores. In spite of the fact that Finish Line grew at a slightly higher rate than Foot Locker, a more significant result was that Foot Locker's operating profit grew at a 23.6% annual rate while Finish Line's actually declined to a 4.6% rate. While the analytics will be different for medical practices than for retail stores, the concept of closing some locations (or not expanding even further) and focusing on the remaining locations to improve their operational efficiency and service, catch up on deferred maintenance, and expand services is a strategy for medical practices to consider when multi-location group practices and networks reach the stage of maturity.

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I first encountered this phenomenon in the medical community 20 years ago. I was working with a podiatric practice consisting of eight locations which was considering a ninth as a means of addressing its declining profitability. An alternative solution resulted in a dramatic increase in profitability. This outcome was ultimately achieved by closing one location, merging two others into existing locations, and improving efficiency at all locations rather than by adding a new location.

This strategy opens a similar opportunity for solo practitioners. If you have a mature solo practice with only one location, you may not want to open a second one to address declining profitability. An alternative strategy likely to achieve the results you want is to identify a nearby solo practice which can be merged with yours into one location. Given the current number of baby boomer DPMs nearing retirement age who are in solo practice, a true win-win opportunity exists to acquire such a practice and merge it with your solo practice. If you have multiple locations, you could merge this practice with one of the less busy locations in your multi-location practice. Ultimately, the goal for a mature practice is to increase revenue at a greater rate than expenses, a dynamic that can be achieved using this type of strategy. **PM**

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