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What is the future of the small medical practice?

With the enactment of President Obama's health care reform, the Patient Protection and Affordable Care Act (ACA), there is much speculation that small medical groups or sole practitioners will go the way of the buggy whip. Dr. Ezekiel Emmanuel, one of the Washington architects of reform, contends that in order for American health care to fulfill its promise, larger groups will be imperative in order to reduce costs and increase positive outcomes for patients. The large 100+ physician groups will ensure continuity of care and increase communication among the primary care physician, specialist, and hospital. Empirical studies demonstrate that an integrated delivery model perhaps can achieve these desired results.

What this does not contemplate, however, is a significant reduction in competition

In normal functioning markets, competition leads to improvements in quality and cost. Therefore, is it correct to presuppose that competition increases the efficacy of health care? Nicholas Bloom of Stanford believes so. In The Impact of Competition on Management Practices in Public Hospitals, Bloom posits that hospitals with higher numbers of local competing hospitals have better management practices. Martin Gaynor of Carnegie Mellon University discovers in What Do We Know About Competition and Quality in Health Care Markets? that Medicare patients show a positive impact of competition on quality. In his recent economic research, Gaynor and Carol Propper review approximately 13 million admissions at the National Health Service in the United Kingdom. The authors find that hospitals located in areas where patients were provided more choice received higher clinical quality as measured by duration of hospital stay and lower death rates following admissions.

McKinsey & Co. recently published a paper, When and How Provider Competition Can Improve Health Care Delivery. The authors theorize that the strongest argument in favor of competition is that it can be designed and deployed to create potent incentives that encourage providers to innovate so that they can deliver higher quality at lower cost.

What is the correlation between competition and a fragmented physician base?

One theory suggests that if there are fewer practices, competition will decrease, thus raising prices. Many experts believe, however, that health care demand is fairly inelastic meaning that one consumes a good or service regardless of an increase in price. For example, if you are sick, you will not be very price sensitive.

There are exceptions, of course, to this rule e.g. elective surgery and the purchase of eyeglasses. Yet, Amanda Kowalski of Yale University argues that health care may, in fact, be elastic. Dr. Kowalski uses the most recent wave of cost control initiatives in the medical community to demonstrate consumer responsiveness to price. As an example, the Medicare Modernization Act of 2003 established tax-advantaged health savings accounts as an incentive to encourage price responsiveness for individuals who enroll in high deductible health insurance plans. Kowalski concludes that the price elasticity of expenditure on medical care is much larger than literature would suggest. If, indeed, Kowalski is correct

in her hypothesis that price does play a role in health care, then a material decrease in competition, which would perhaps increase prices would have a negative effect on health care utilization.

The caveat in drawing conclusions about health care policy is that it's a process rife with room for error

But if one looks at historical reform there is marked cyclicality. Managed care's rise and fall suggests that after a period of increased regulation, policy is ultimately manipulated and stringent guidelines are relaxed. The financial industry provides some salient clues. After the Enron bankruptcy and collapse of WorldCom, the Sarbanes-Oxley Act was enacted in 2002 in order to initiate new or enhanced standards for publicly-held companies, their management teams and boards, and public accounting firms. Millions of dollars were poured into increased accountability and reporting by publicly-traded companies. Law firms and accounting firms prospered; after a few years, policies were relaxed and business resumed.

This is not to suggest that health care reform is good or bad; reasonable people will agree that America can do a much better job. And this is not to argue that the reforms will not be permanent, which would help thirty-million Americans access care that perhaps they should have had for years. What this does mean in a milieu of sweeping change is that physicians should take a measured approach to the future of their practice.

Before contemplating rash mergers or consolidation, reflect on those practices around you who rushed into electronic health records

Today, many of those physicians who attempted to get ahead of the technological curve before the regulations were finalized and the respective software was refined now have a significant investment sitting in their office that must be written off. This is not to suggest that consolidation or mergers is an inappropriate strategy for the long-term success of practices. The benefits of mergers are extensive, but there is significant peril and irreparable consequences if they are not executed thoughtfully without the assistance of a trusted advisor. For example, what type of entity will be formed? How are profits shared? Is there real property involved? How will physicians allocate overhead? What happens if a physician leaves? Are there different tranches of stock? Are there buyback provisions?

Before Washington writes off the small practice, one should analyze California

According to the California Medical Association, almost two-thirds of patients within the state receive their primary care from a small practice. And with an increasing number of insured Californians, demand for care should increase. Persons with health insurance use more health care services than persons who are uninsured, writes Thomas Buchmueller, a health economist from the University of Michigan. Accordingly, demand should increase for physician visits, preventive services, disease management services, and prescription drugs. Janet Coffman of the University of California, San Francisco agrees. In The Impact of National Health Care Reform on Californias Health Workforce Needs, she projects that there will be an increase in demand for health professionals.

With this increase in demand and the historical trend of Californians receiving care from small practices, it's hard to fathom the demise of the independent physician. Today, these practices are the backbone of our health care system. California may be the birthplace of HMOs and home to many of the largest medical groups in the country, but ironically, most of the states' residents receive their care from physician offices with only one or two practicing doctors. For many counties in the state, these practices are the only source of care for residents.