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11-2019

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EDITORIAL:

WHY MEDICAL (AND DERMATOLOGICAL) PRACTICE HAS BECOME SO
CONVOLUTED: THE COMPLEXITY/CONVOLUTIONAL/OBFUSCATORY
KLEPTOCRACIES

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“It is time, said the walrus, to speak of many things.....

.....for he had eaten them every one.”

- Lewis Carrol

As we have noted in a previous editorial¹, the practice of dermatology has become not only complex but also convoluted, with many new problems that appear to defy reason. The question we now ask is: why?

The Stated Problem

Consider dermatology (or medical) practice from the aspect of those who manage, and seek to glean a profit from, medical management corporations, including but not limited to third party payers. Although much of the complexity burden thrust upon doctors' offices is borne by the offices and doctors, there is also much that is borne by the companies, and the entire process appears to make no sense whatsoever. How can the business professionals who run these outfits make such blunders? Let us approach this question by examining another industry: fast food franchising.

It happens that a prep school classmate of one of us (WCL) was a major player in the operation of a fast food franchising company (think Mc Donald's, Hardee's, etc., although it was neither. In this editorial, we shall attempt to avoid specific names; this is about a phenomenon, not a company or companies.) The national franchising company confers its brand name and logo on many individually owned outlets but does not ordinarily own any of them and is traded as a separate entity. Depending on the company, it may, however, dictate certain aspects of how each outlet is managed. For example, it may dictate how the manager of each outlet is paid.

The franchising company in question was sold to another, larger, corporation a number of years ago, for well over 30 million dollars. The sellers (including the associate), all of whom had undergraduate bachelor degrees in business from various state universities, watched in awe as the new managers, with Masters in Business Administration degrees from the likes of Wharton (Penn) and Baker (Harvard) took over; they wanted to see how real pros handled the company they had created and nurtured.

The new pros took over and promptly ran the company into the ground! The very first thing they did was to take the 15 per cent of revenues of each outlet that had formerly been given to each individual manager (which incentivized the manager to keep the outlet clean and well run) and take it for themselves. They also cancelled all advertising and maintenance expenditures, taking those (and other) funds, as well. The chain promptly tanked, and the original owners bought the company back a few years later, for a measly 3 million dollars. They then reinvigorated the company and sold it again, to a different conglomerate, a few years after that, for several million dollars more than the original sale price.

Why Such a Blunder?

How could the pros make such a blunder? The answer is that they did not blunder at all: they made a fortune on the deal. While the first conglomerate suffered a 30 million dollar loss, the managers from the conglomerate, who made the deal and then mismanaged the company, pocketed the short term gain obtained (about 12 million dollars) and immediately left the company, leaving the mess behind them. The 30 million dollars lost was someone else's money.

The lesson to be taken home from this tale is that if something appears to make no sense you may need to look at it from another angle; somebody, somewhere, is making money on the situation.

The Explanation

In the 1990s, a similar situation occurred in doctors' offices associated with large medical centers. Numerous medical offices were taken over by the centers, only to do poorly, not meet expectations, and then be bought back for a fraction of the cost, often by the same doctors who had sold them in the first place. Why? Because the offices were originally run by the doctors who owned them, and after the sale by doctors who were simply employees of the new owners. It is one thing to own a company/practice and put all your effort into making it thrive (and your patients happy), and a very different thing to simply be an employee (even though as a doctor, you are very devoted

to the patients). The offices tanked financially, because no one cared about their management as before.

We suspect that, as in our other example, someone somewhere made money on these deals, despite the fact that the centers, themselves, lost money.

We now have a situation where, again, medical centers are buying associated medical practices. What may be different this time around is the complexity associated with practicing medicine. As physicians, our primary attention is, as it should be, our specialty and our patients, but it is important that we also pay attention to the business aspects of our practices. Who is making money, how, and how might this affect us? As in the above examples, we might end up actually making money out of this mess, but we should not continue to depend on chance for this to happen.

Recommendations

What should the dermatologist do? Is this like Radio Shack that got too big for its britches? Or Macy's? It is important that we retain (or obtain) situational awareness, that we keep our bearings and know as much as we can about where the business of medicine is going, and why. The new complexity of the environment in which we practice may have arisen for any of a number of reasons, but the more important question is why it is being sustained. The complexity, although it is poor business generally, favors certain interests. For example, the larger the practice (or the entity that has taken it over), the better equipped it may be to handle the complexity. We suspect that the buying up of practices of several decades ago is now recurring driven by this facet. It is important that we pay attention, and take whatever steps we can to cope with this trend. We suspect that some of the impetus for increasing inclusion of cosmetic dermatological procedures into dermatology is avoiding some of this complexity; patients who undergo these procedures generally pay cash. We have no complaint against cosmetic dermatology, but we are concerned that traditional/medical dermatology is losing the ground that cosmetic dermatology is gaining.

Our first recommendation is that dermatologists look outside their immediate practice environment to observe these business trends accurately. Our second is that we strive to keep traditional dermatology in the hands of dermatologists. Our third is that we strive to influence the complexity trend, either by opposing it or by developing better means of coping with it, perhaps by collective action. Above all, when hearing the walrus speak, it may be more important to observe what it is doing than to listen to what it is saying.

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