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Industry Brief

Physiotherapy Services in Australia

Demand for physiotherapy services is likely to increase as physiotherapy is more widely used as a means of rehabilitation from injury and ageing. However, practitioners may face constrained profit growth as competition and private health insurers place increased pressure on consultation fees.

Overview

Physiotherapy is a registrable profession that focuses on the treatment of medical conditions or injuries by physical means such as manipulation, massage, ultrasound, hydrotherapy and exercise. There is some overlap with chiropractors, osteopaths, occupational therapists and exercise physiologists, but these professions have their own training and regulatory regimes.

Industry Structure

According to an Australian Institute of Health and Welfare study, in 2000-01 there were 7,500 physiotherapists employed in Australia. Of these, slightly over half work in the private sector.

The physiotherapy services sector is characterised by a large number of small professional practices either established on a sole practitioner or partnership basis. A 1997-98 ABS survey of the industry showed that sole practitioners and partnerships accounted for 64.4 per cent and 7.5 per cent of all physiotherapy businesses respectively. Large physiotherapy businesses are rare, however some physiotherapists operate from larger clinics, such as sports medicine and community health clinics. There has also been a trend of practitioners forming groups of medical professionals in the one clinic for the purposes of increasing market share and economies of scale.

Franchising is uncommon in the industry, with WA-based LifeCare Health Ltd believed to be the only real player. As in other industries, franchising may offer advantages in terms of advertising, creating a market identity and possibly negotiating provider agreements with insurers.

Physiotherapists can specialise in specific areas such as spinal injuries, sports injuries, gerontology (aged care) and paediatrics, allowing them to establish a reputation in a defined target market as well as servicing the standard clientele.

The industry is considered to have low usage of high technology equipment and is fairly labour intensive. This is in direct contrast to a number of other sectors of the health services industry and has been the driving force behind its small business structure.

Physiotherapists are now widely accepted by the general public and the medical community and are seen as an integral part of the health services industry.

Industry Performance

IBISWorld estimate that industry turnover in 2001-02 was $480 million.

Overall demand for health services is a function of the health and demographics of the population. Demand for physiotherapy services is influenced by the increased acceptance of physiotherapists as an acceptable form of treatment and the ageing of the population, leading to an increased need for the service.

Medicare does not cover physiotherapy services so private health insurance levels also have an affect on its relative attractiveness. Most funds will cover physiotherapy services under an “extras” policy but will limit both the rebate per individual session and also the total annual rebate available.

Income is primarily sourced from client consultations. Consequently, the fortunes of the industry are tied to the overall economic climate and the willingness of clients to seek physiotherapy treatment.

As physiotherapy services are excluded from Medicare, movements in household disposable

income can affect demand. Households with higher incomes are more likely to utilise physiotherapy services. According to the ABS Household Expenditure survey, in 1998-99 households whose gross income was among the lowest 20 per cent of all households, spent on average $0.22 per week on physiotherapy and chiropractic services. However households whose gross income was in the top 20 per cent of all households spent on average $1.25 per week.

Physiotherapists also receive income from private health funds (some funds allow this directly, but most reimburse their members). The Private Health Insurance Administration Council recorded expenditure by health insurance funds on physiotherapy of $138.6m in 2001-02. Benefits paid by health insurance funds covered 61.2 per cent of the total cost of the insured services. Other income sources include workers compensation insurers (for return to work/rehabilitation cases) and other insurers such as the States Transport Accident Commissions for car accident injuries.

Consultation fees charged by physiotherapists are restrained by the fact that Medicare does not cover their services. Hence consumers are faced with significant out-of-pocket expenses, particularly if private health insurance is not held. This underlines the importance of physiotherapists being able to grow and maintain their customer base through the quality of service provided.

Profitability is impacted by the ability of the physiotherapist to generate a large client base, control costs (particularly wages of assistants) and manage bad debts. Wages are the most significant cost item in a physiotherapy practice.

As this industry is labour intensive, it is difficult for small practices to grow significantly, which limits their profitability. In the past, physiotherapists have tried to improve their profitability by operating several practices, although this runs the risk of increased overheads.

Volatility of income and profitability is considered low.

Benchmarking

The following table identifies a range of key performance indicators for the physiotherapy services industry.

Indicator	Average	Low	High
Total Income	$273,274	$161,820	$368,833
Interest Charges	2.01%	0.68%	2.97%
Rent of Premises	9.21%	5.43%	13.15%
Wages & Salaries	26.22%	11.89%	39.05%
Net Profit before principals salaries	42.06%	27.53%	54.50%
Ave. consultation length (minutes)	31	25	31
Ave. number of consultations per physio per week	60	37	71

Source: EBC Business Benchmarking Guide

Generally, larger practices achieve higher net profit per principal, have higher staffing costs as a percentage of income and generate more revenue per consultation.

The benchmarking suggests that the more profitable practices were larger, had much better personnel productivity, generated more revenue per consultation and conducted more consults per week.

Regulatory Impact

Physiotherapy is regulated at the state and territory level by the various physiotherapy registration boards.

The major association is the Australian Physiotherapy Association (APA), which represents approximately 75% of registered practitioners. The APA has a code of ethics for its members.

Physiotherapists are under no obligation to comply with any fee structure, other than under Veteran's Affairs provisions. The Australian Physiotherapy Association provided a list of recommended fees, but had to stop the practice in order to avoid breaching the Trade Practices Act.

Outlook

The overall view for the industry is positive, with growth expected in the 3.5-4 per cent per year range over the next few years. However the growing involvement of health funds in setting fees and the trend towards the corporatisation of medicine are longer-term challenges, and may have a negative impact on small physiotherapy practices.

Growth opportunities exist for the industry with the ageing of the population and the increased professionalism of sport likely to increase demand for physiotherapy. Increased awareness of physiotherapy as an acceptable form of medical treatment should also enable sustainable growth for the industry in the medium to long term.

Other growth opportunities may arise from the outsourcing of hospital outpatient work, and the growing trend towards earlier discharges from hospital stays. This will be particularly relevant for physiotherapists who specialise in treating elderly people.

Growth could also be achieved by developing franchise systems that aim to leverage advertising and brand names, and possibly negotiate provider agreements with insurers.

If private health insurance is held, physiotherapy services become relatively more affordable. However in practice, these changes are expected to lead to only a marginal increase in demand for physiotherapy, as it is generally needs driven.

Research group IBISWorld believe that membership of private health insurance funds peaked in 2001-02 following the introduction of policy measures in 1998 including the 30 per cent rebate for private health insurance and the provision of 'lifetime' health cover. It is expected that membership will decline over the outlook period. This will have an adverse effect on growth in benefits paid for physiotherapy services.

Physiotherapists are likely to face increased competition in the outlook period, with high levels of new Australian and overseas practitioners entering the industry. Competitive pressures may also restrain consultation fees and hence physiotherapists may encounter lower growth in turnover.

A significant issue facing the industry is action by health insurance funds to reduce the cost of health care. Health insurance companies may try to restrict the fees charged by physiotherapists (as with other health professionals) by either setting maximum rates or by keeping rebates low to pressure physiotherapists into keeping their fees low. In the case of capping fees, some insurers may offer the lure of referrals or "preferred provider" status as a trade off.

A similar issue is the growing trend towards "corporatising" medicine, where medical practices and other health professionals operate from large clinics owned by companies, not necessarily by the health professionals. This may offer some advantages to independent physiotherapists, as there are cross referral opportunities, and the sharing of costs may mean that administration expenses are lowered.

Both these trends have generated some concern in the profession, as there are considerable ethical difficulties involved where appropriate treatment objectives clash with a profit imperative.

Overall the outlook for the industry is promising. Turnover growth is expected over the outlook period as physiotherapy is more widely used as a means of rehabilitation from injury and ageing. However physiotherapists may face increased pressure on consultation fees through competition and private health insurers, which may constrain profit growth.

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