

Medical Practice Costs Are a Challenge...Are We Up For It?

SALES – COSTS = PROFIT

I like this formula for a couple of reasons. First it is simple to understand. Second it applies to all of us. It is the same for a mechanic, carpenter, physician, distributor, or whatever the chosen field, Sales – Cost will always = Profit. Since that is the case, why then all the attention and focus on the top line? Shouldn't costs receive equal time, like half, since that's half the formula?! In fact, it can be argued that costs deserve more time than sales because 100% of a dollar saved drops directly to the bottom line. We're lucky if 30% of a sales dollar becomes profit. Of course we need revenue and new sales. But I'll ask the question again, why all the focus on generating revenue or "growing the business" to increase profits?

Medical practices want to increase the top line, and rightfully so. But there is a great need for medical practices to reduce and control costs, as well. And I will be the first to say that there is very little material that teaches practice managers and administrators how to actually bring it to pass. Two key expense categories to target, though, as you begin to focus on the "other half of the equation" are labor and supply costs. They can easily represent 70% or more of total expenses. It is the position of some that, "they are what they are". It is my position that we can lower them significantly, often times dramatically! And it can be done without compromising quality or affecting the level of customer service. In other words it can be done painlessly.

This is how you do it. By the way, this is only for those who are truly serious about lowering the costs of their practice. You can't come into this with a half-hearted approach. So don't bother reading the rest of this if you are not there yet.

1. The administrative staff works together and decides on a regular time to meet. One (1) hour a week is sufficient. Encourage open communication and interaction from all staff members. Get the ownership or buy in.
2. Set a realistic goal of how much you want to save the practice per month (e.g., \$10,000). Then annualize it (e.g. \$120,000). Yes, set the goal before doing anything else. Don't get caught up in benchmarking. It's a nice tool to refer to now and then but every practice is different, in size, specialty, geographic location, etc. Your practice is unique, that's what makes you great. Measure against where you are. Besides you already set the goal and are determined to meet it, so what good is the other data?
3. There are certain principles and guidelines to follow. Most important is your *attitude*...how you approach this whole thing about reducing and controlling costs. Be persistent – not overbearing. Be determined to get it!
4. You need a system or process to bring it to pass. That system will include measuring and tracking, employee participation, analyzing job functions, training, supplier negotiation, evaluation, implementation, and follow-up to name a few.

5. Analyze and research every cost. Use the P&L, expense statements, payroll, supplier purchases, and other expense related reports.
6. Then go to work and tackle it!

We talk a lot about rising healthcare costs and the need to control or contain them. Quite frankly, we need to *reduce* them, then control them! And we can do it! And it can be quite an enjoyable, satisfying ride with great rewards (like \$120,000 worth). Maybe the physician will kick in a team bonus for reaching your intermediate and final goals. The task of lowering costs is an administrative function, one the practice manager and staff can handle quite well given the proper tools and instruction. The end result is a large gain made in the profitability of the practice.

Physicians and practice managers who are up for the challenge, can effectively reduce and control the costs in their own practice. By doing so they will save tens of thousands of dollars while creating a more efficient, productive and cost conscious staff.

Source: Mike Blais, President Execpro Cost Systems
mblais@execpro.com 720-283-4055

Publications related to this topic on website www.practicesupport.com:

[Staff Productivity Improvement Process for the Medical Office](#)
[Controlling Medical Practice Expenses](#)
[Financial Management Policies for the Physician Office](#)
[Practice Manager's Guide for Lowering Supplier Costs](#)

