

## Effective Cost Management for Your Medical Practice

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Practice administrators should consider more than just the top-line revenue. It's all about effectively managing your resources.

**Source:** Physicians Practice

The cost of doing business in a medical practice has always intrigued me. For years, the business side of medicine has focused on building revenue while still prioritizing effective customer service and quality patient care. However, with the changing reimbursement scene, it seems that *efficient cost management* should come to the surface as a key issue for the stability and survival of the practice.

Practice overhead or costs can be broken down into several buckets. For our purposes, we'll review direct costs, fixed costs, and variable costs. Direct costs are those which relate to patient care: e.g. staffing and medical equipment. Fixed costs are those which remain constant: e.g. office rent and malpractice insurance. And as implied, variable costs will fluctuate based on patient volume, number of providers, etc.

### Direct costs

Knowing that staff salaries can consume up to 25 percent of practice revenue, practices often cut overtime and the number of employees in an effort to control overhead. This strategy may be financially effective, but beware, simply looking at overtime and staffing as a way to control expenses is very nearsighted.

Why not look at how efficient your employees are? Ask yourself, "Do my staff members have the right skills? Are they performing the right tasks well, at the right time?" Your questions can be answered by direct observation and by asking staff members what they do, why they do it, and when they do it. You will be amazed at the insights your employees have about how they can improve their performance, especially when challenged and offered incentives to improve. Incentives can take the form of gift cards, bonuses, time off, and even a genuine thank you in recognition for a job well done.

### Fixed/variable costs

Now that you've examined staffing costs, you should turn your attention to fixed costs. These are costs that are subject to long-term agreements, such as rent and malpractice premiums. Savings in this cost bucket can be realized at the time of contract negotiation. Also, most malpractice carriers have an educational incentive to reduce premiums; it takes time, but is well worth the investment.

Every office has an excess inventory of items that were ordered and are now out of date, or were purchased on a special volume discount. Medical supplies are a small portion of overhead, but still remain as a major expense, especially when they are never used or thrown out due to expiration. Make sure you make a regular audit of your supply closet, keeping on hand only what you will use in the near future. Practices may also consider joining a purchasing collective with other practices, to benefit from volume purchasing.

### The bigger picture

One financial perspective that can be thought of as old school but remains a part of doing business in medicine is this: slow decision making and caution when spending large sums of money. Both concerns are prudent, but must also take into consideration the bigger practice picture.

Often times it is quite cost effective to invest in technology. This may be an integrated clearinghouse

that sends out statements (as opposed to your staff printing, folding, and stuffing envelopes). At other times, the simpler solution is best. Sending a staff member to Sam's Club to buy paper towels may seem cheaper, and quicker, than having them delivered by the office supplier, but lost time away from the office may actually be more expensive. Every task should be examined on its own merits. The bigger picture might suggest that employee time is more valuable managing claims denials or greeting patients, than other small tasks that could be managed through the use of technology.

## **Lean management**

When I talk about lean-management principles, one of the key concepts is bringing value to the customer. An efficient and friendly patient visit will bring more value to your "customers" than folding paper statements. An efficient and friendly patient visit will result in improved patient satisfaction scores, which will lead to more repeat business for your practice. More business means more revenue, more revenue means incentives to staff can be offered, as well as an improved bottom line.

Practice administrators involved in managing today's medical practice should consider more than just the top-line revenue. You should have an in-depth understanding of how much it costs to see a patient (serve a customer), as well as how your staff are accomplishing their tasks. Efficiencies in both areas are necessary to achieve a positive patient outcome. After all, that's what it's all about.

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