

Expense Management

There are countless ways practices can cut business expenses or better manage them. The number-one method: stay involved in the business of running a practice.

Fast Facts

- ▲ *Practices without a budget are more vulnerable to a variety of problems, such as embezzlement, over- or under-staffing, supply waste, inappropriate purchasing, inadequate savings for improvements, and higher-than-necessary income taxes. Page 86.*
- ▲ *Medical Group Management Association (MGMA) provides data on practice expenses delineated by support costs, general operating expenses, and other expenditures so that a practice can compare—or benchmark—its performance with other physicians and practices in its specialty. Page 88.*
- ▲ *When deciding whether to lease or buy a particular piece of equipment, practices need to look at a variety of factors, including the upfront costs, the expected useful life of the equipment, and the current cash position of the practice. Page 90.*

Physicians and small-practice owners can better manage their business expenses by being involved,” cautions Barbara J. Grant, CPA, MST, principal, Gates, Moore & Company, Atlanta, Ga. “Don’t let your office manager handle every purchase decision without you. Sign every check and scrutinize the supporting invoices. Require periodic competitive bids for recurring expenses like medical and office supplies.”

Identifying ways to cut costs can be relatively easy, but the



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true test is prioritizing these cut costs in order to optimize the use of capital and maintain the practice's focus.

Typically, physicians may zero in on big-ticket, recurring items over which the practice has some control. Staffing costs often top this list. But it's important to look at the challenges associated with potential budget cuts as well as the potential savings. Bryan Smith, accountant with Phase 2 Consulting in Austin, Tex., writes in a 2004 article for the Healthcare Financial Management Association that it might be better to start with cuts that are easy to implement, even if the savings are not huge. These easily achievable goals can set the stage for larger, long-term budget controls.

Paul D. Weinberg, CPA, CA, partner, DeMarco, Kinnaman, Lewis & Co., Lincolnshire, Ill., says practices can decrease expenses by "taking advantage of vendor discounts, buying non-perishable items in quantity for a less expensive per-unit price, and employing office procedures to minimize waste." Many businesses fail due to not budgeting expenses, he says; when money gets short, they start cutting expenses by eliminating the unnecessary ones from the bottom up. Budgeting is the first step to manage expenses that have gotten out of hand and are climbing, according to Mr. Weinberg.

The key to making these decisions is data. Ms. Grant points out that data management is an essential element in the process of expense management.

Budgeting Expenses

Practices without a budget are more vulnerable to a variety of problems, such as embezzlement, over- or under-staffing, supply waste, inappropriate purchasing, inadequate savings for improvements, and higher-than-necessary income taxes, reports Keith Borglum, a consultant based in Santa Rosa, Calif., in a 2004 article for *Family Practice Management*.

Barry Lycka, MD, cosmetic and dermatologic surgeon in Edmonton, Alberta, Canada, advises physicians and office managers to first become familiar with the practice's expenses—what they are and how much is spent—in each area, and to develop a budget based on these numbers.

Physicians, along with the office manager, are probably the

best choices for establishing a budget. The office manager can keep everyone notified through quarterly budget reports and a quarterly variance analysis. Dr. Lycka suggests that physicians look at each expense to assess its importance and then look into options for getting the same item for less.

But a budget is not a static document—it's a tool to keep your practice on track. By regularly checking actual expenses against the budget (called a "variance analysis"), physicians can find expenses that vary from budget and determine how much

they vary and why. A variance analysis should be performed quarterly so that new problems can be caught and dealt with quickly. Another staff member, CPA, or physician should occasionally check the work of the person preparing the variance analysis in order to protect the practice against embezzlement. Again, having effective, quality practice-management software can be a tremendous asset.

Ms. Capko believes that physicians should look at the historical trends and correlate them with other events at the practice. For example, adding a new physician to the practice, a period of high staff turnover, a computer conversion, and other such changes might be associated with higher expenses. The cause of the change in expenses may give a clue to how to get the practice back on track.

"To maximize efficiencies, be sure you have the right people doing the right things," states Ms. Grant. "Pay staff at or above market salaries, and provide competitive benefits so they feel they are being treated fairly; and you avoid the high cost of turnover—recruiting and training costs. Keep benefit costs low by using a qualified broker. Understaffing and underpaying costs you more in the long run. Once you have qualified support staff in place, leverage them to maximize your own efficiencies."

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advises performing a year-to-date (YTD) analysis. Compare your current analysis with last year's analysis results.

"Of particular interest should be any expense line item that has a positive variance, or increase, when compared with the applicable time period for last year," says Mr. Croce. "You should determine the reason or reasons for this change and try to prevent it from continuing or reoccurring. Consequently, where expenses are reduced, you may find money to improve your business through additions to staff or equipment."

"Benchmarking is helpful because it lets you know how your practice is doing, and it also provides an incentive for setting goals and monitoring performance to see if you are hitting the mark," Ms. Capko says.

There are any number of accounting software packages available that will help with periodic expense analyses. Mr. Croce uses QuickBooks for his business and recommends it for any business, including medical practices.

"These software packages have reports already created. All you have to do is input your numbers and compile each report," he explains. "For example, a profit-and-loss report allows you to look at changes in revenue, expenses, and net income."

Benchmarking

Physicians should also look at how their expenses compare with other similar practices—a process called "benchmarking." Benchmarking is comparing specific indicators of the practice's performance with an established reasonable number, which is either the best internal performance or industry comparisons, by specialty and practice size. National benchmark statistics on practice overhead can be utilized to create and adjust a budget. You can also obtain regional or national family practice overhead statistics, then adjust those benchmarks to suit your practice. Benchmark data will need to be adjusted at least once a year to reflect actual costs (due to inflation and other factors).

The MGMA provides data on practice expenses delineated by support costs, general operating expenses, and other expenditures so that a practice can compare its performance with other physicians and practices in its specialty. Mr. Croce points out

that MGMA provides information and assistance with benchmarking to members at discounted prices.

“Benchmarking is helpful because it lets you know how your practice is doing, and it also provides an incentive for setting goals and monitoring performance to see if you are hitting the mark,” Ms. Capko says.

Ms. Grant notes that benchmarking is helpful as a starting point to gauge if you are above or below the medians for key indicators. “Be sure that you are comparing yourself with your peers—a small practice will not have the same efficiencies and purchasing power as a larger practice,” states Ms. Grant.

Benchmarking also provides standards to assess how physicians within a practice compare with each other (above median, below median, 25th percentile, etc.). When performance lags, physicians who are “underperforming” can be identified and steps taken to help them improve their individual performance (change schedule template, change compensation formula, etc.), according to Mr. Croce.

“By maximizing the performance of the individual physicians, you can maximize the performance of the practice as a whole,” he says.

Individual performance can be benchmarked by “drilling down” or analyzing the group report in depth and comparing peers within the group. Use the high performer to examine what he or she is doing differently that the other doctors can gain from, says Ms. Capko.

Ms. Grant advises looking at key indicators for individual performance, including collections, patient volume measured in terms of patient visits or surgeries, and work Relative Value Units (RVUs). Be sure you’re comparing FTEs; a physician who works four days a week will not generate as much revenue as one who works five days.

“The practice’s efficiency or performance can be benchmarked by starting with the number of FTE staff and comparing against the norms,” says Ms. Capko.

Comparing your practice’s performance with others can also open up new possibilities and solutions and help overcome the myopia (sometimes called “paradigm blindness”) that is common in small businesses struggling to survive.

“Benchmarking opens organizations to new methods, ideas, and tools to improve their effectiveness,” Dr. Lycka explains. “It helps crack through resistance to change by demonstrating other methods of solving problems than the one currently employed, and demonstrating that they work, because they are being used by others,” he says.

In order to overcome paradigm blindness, Dr. Lycka advises practices to identify their problem areas through conversing with patients or surveying them, and asking employees for their thoughts as well. It can also be helpful to see how businesses in other industries or regions handle similar processes and learn from what they have done. In some cases, physicians and their office managers may choose to visit successful practices and businesses to get a “hands-on” feel for their methods.

Benchmarking can help small practices improve performance in other ways, too, Ms. Capko adds. “Another obvious indicator

Equipment Lease vs Purchase

The topic of equipment lease versus purchase elicits vocal proponents for either option. John Croce, Fairfield Consultants, LLC, Oxford, Conn., advises his clients to always check with their accountants before making a larger financial commitment.

His opinion is that for cash-flow purposes and to minimize monthly costs, a lease for a new computer system, hardware, and/or software, or an expensive piece of medical equipment may make the most sense. “Where technology is rapidly advancing, a lease allows you to simply exchange the product for the current version when the lease expires. Purchases of highly technological products can leave you with an outdated product in just a few years and disappointment when you go to sell them,” explains Mr. Croce.

Barbara J. Grant, CPA, MST, principal, Gates, Moore & Company, Atlanta, Ga., says that generally, leasing costs more than purchasing; however, you can never know this for certain until you calculate the effective interest rate of the lease. Just as some car manufacturers offer low lease rates for certain models, so do equipment vendors.

“When comparing the effective interest rate of the two alternatives, include all the ‘hidden’ costs, like sales-and-use tax, maintenance, personal property taxes, and transaction costs,” states Ms. Grant. “If

of a well-performing practice operation is patient satisfaction and low turnover, which means a content staff,” she states.

“I want to stress that ‘goals’ do not need to be financial alone, nor should they be,” explains Mr. Weinberg. “Maybe a certain ‘quality of life’ or ‘giving back to the community’ is a goal of the practice.”

Ms. Capko offers some additional advice for maximizing practice performance: “In a nutshell: invest in technology, maximize its features, and do a better job of making the most of the patient visit, getting things done in real time that relate to the visit,” she says. “Think like a business. Use time and resources wisely, and don’t put your head in the sand when problems emerge. Most of all, don’t get discouraged and think there’s nothing you can do when things are not going well. Take control, get competent staff, and if need be, call in an expert to get your ship in top shape!”

you’re purchasing a piece of high-tech equipment that may soon become obsolete, leasing may be better when you’re ready to upgrade. A lease is easier to obtain and does not affect your credit as a bank loan does; this may be important if you’re just starting out in practice. Leases generally require little or no down payment.”

Every physician has a different opinion on leasing vs purchasing medical equipment, and despite any advice offered by a consultant or CPA, he or she will do whatever feels right.

Leasing large pieces of equipment/technology may be better for the bottom line than purchasing, due to the ability to save large outflows of cash required when purchasing, says Paul D. Weinberg, CPA, CA, partner, DeMarco, Kinnaman, Lewis & Co., Lincolnshire, Ill. The money saved can be used for other areas of the office, he says. He advises office managers and physicians to consider the following when deciding to lease or buy equipment:

- interest rate for the loan;
- residual value of that particular piece of equipment (its related resale value and/or buy-out amount);
- the amount of use of the equipment and its related effect on useful life;
- current cash position of the company;
- tax considerations.