



How to cut costs and maximize profits despite financial pressure

Today's medical practices experience tremendous financial pressure independent of impending healthcare reform. Many groups face significant reimbursement cuts by Medicare and commercial payers from initiatives that began before the 2008 elections. In addition, the current economic environment has forced many employers to adopt high-deductible health plans (HDHPs), which motivate some patients to defer doctor appointments or skip them altogether. Medical practices find it more difficult to collect larger patient balances from those with HDHPs.

At the same time, you, as medical practice administrators, are asked to cut overhead and manage costs like never before. But how do you identify where to cut? Applying traditional financial techniques to medical practice data and operational issues can help you manage practice costs and maximize profitability.

Use comparisons and financial indicators to analyze financial data. Current financial information becomes more meaningful when compared with prior-period data, budgets, external benchmarks or data for different locations or providers. Many accounting packages have report writers that can generate such comparisons as part of the monthly accounting cycle.

Benchmarking, a process that combines various metrics with a search for best practices, is an excellent tool for identifying areas ripe for cost cutting or operational improvement. Compare staffing ratios and overhead costs to MGMA Cost Survey medians for similar practices to identify places where the group may shrink staff or make other reductions. Benchmarking your group or providers against MGMA medians can reveal opportunities to increase revenue through ancillary services or motivate physicians to increase productivity.

The budgeting process makes up an essential part of effective cost management. When properly implemented, budgeting allows participation from department managers and physician leaders and results in a budget that supports your group's short- and long-term strategic goals.

Use realistic numbers when creating the budget; practice leaders must know the practice's true potential. Don't incorporate "slack" in budgets, making goals easy to achieve. Likewise, unrealistic or unobtainable budgets fail to motivate managers to improve operations.

Finally, don't overlook internal controls as a way to improve the bottom line. Some groups hesitate to implement internal controls when cutting costs. This could prove expensive. Recent data from the Association of Certified Fraud Examiners *2008 Report to the Nation on Occupational Fraud & Abuse* reveals that the typical American organization loses an estimated 7 percent of its revenues to fraud committed by its employees and other insiders.¹ Becoming familiar with typical medical practice frauds and implementing appropriate cost-effective internal controls can help improve the bottom line.

1. *2008 Report to the Nation on Occupational Fraud & Abuse. Association of Certified Fraud Executives.*