Budgeting & Managing Practice Expenses

HCMS
Harris County Medical Society

Annual budget development and monitoring are vital to the success of any business.

With reimbursements stagnant, and the increasing costs in complying with mandated regulatory requirements, practices struggle to maintain a healthy bottom line. Performing regular variance analyses will alert you to a problem before it becomes too large.

The objective is to be proactive, not reactive, to changes that can threaten financial viability. At the heart of maintaining a healthy bottom line is a working budget. Without it, financial threats are often not identified until they reach a critical stage.

Budgets provide a roadmap for the business and can help to identify areas of concern before they become grave. Below is a primer on budgeting. It's not as hard as one might imagine, but it has to be monitored and analyzed on a monthly basis and modified annually to be effective.

Most businesses have room for improvement. If your practice does not have a budget in place, there are still ways to assess and improve your practice's financial health. The most common options to improve financial stability are to increase revenue or reduce expenses. Increasing revenue options may include adding ancillary services, extending office hours or hiring mid-levels to accommodate more patient encounters, etc. Seeing more patients may not be feasible for some practices and there is a variable cost incurred with each patient encounter. Thus, reducing costs is often the better and faster mechanism to affect a change in your bottom line.

Being cognizant of practice spending patterns, especially as a percentage of total revenue, is key to any cost reduction effort. Categorizing expenses and comparing them to industry benchmarks will help to identify where to focus your attention. Below are links to two articles from AAFP's Family Practice Management Journal providing a game plan for analyzing costs and cost reduction strategies. The third link discusses developing a budget.

The 12-Step Way to Reduce Practice Expenses: Part 1, Operational Efficiencies:
http://www.aafp.org/fpm/2010/0300/p38.html
The 12-Step Way to Reduce Practice Expenses: Part 2, Staffing Efficiencies:
http://www.aafp.org/fpm/2010/0500/p30.html
Three Steps to an Effective Practice Budget: http://www.aafp.org/fpm/2004/0100/p46.html