Practices Can't Cut Their Way to Growth

By Laurie Morgan

Practices today are intensely focused on cost-cutting by any means necessary. But, it's important to realize cutting is not always beneficial.

Source: Physicians Practice

The idea that you can't cut your way to more profit is a well-known business maxim. It refers to the fact that you need people, infrastructure, and marketing to build revenues – and I think it's a particularly useful idea for medical practices. Billable services are the only (or main) source of revenue for most practices. If you attempt to cost-save by cutting things that enable your clinicians to see more patients, it's likely you're going to cut into profits, too.

Despite this risk, my partners and I often encounter practices that are intensely focused on cost-cutting. I wonder if this is because they're applying a personal finance mindset: i.e., the idea of a penny saved as a penny earned. But personal finance and business finance are different. If you skip a few lattes, you can sock some dollars away for the future – and then invest them to make them grow. When you cut expenses in your practice, though, you might be cutting the very investments that you need for future business profit. Whether you will improve or diminish your bottom line depends on what costs you cut.

A recent practice client of ours wanted a better bottom line fast, in order to attract a higher acquisition price. The owners and manager worked together to quickly implement expense cuts. But at the end of six months, they found their plan had backfired: profitability declined. A look at expenses they chose to cut helps explain the unexpected result.

One of their first moves was to ban overtime. Some employees were earning as much as 20 percent of their income through overtime. Cutting it could only help, right?

As it turns out, the overtime was affecting profitability – but not in the way they thought. The practice was actually understaffed. Once the overtime ban was in place, important tasks started slipping through the cracks. For example, recalls for follow-up visits and appointment reminders were done less reliably. The overtime they saved in the end was much less than the revenue they sacrificed.

If this practice had analyzed why they had so much overtime and understood that the problem was understaffing, they could have added several more employees at no net cost. With a few more MAs, their physicians could have accommodated more patients, bringing a much bigger boost to the bottom line.

In another of our cases, the husband-and-wife owners of a young solo practice were convinced they needed to avoid spending by any means necessary. As a result, they gave up opportunities to be more profitable and efficient. For example, the husband acted as the practice's manager, biller, and receptionist. Since he needed to be at the front desk all day, billing became his "night job" - and he didn't have enough time to do it well. He wasn't able to spot claim denial patterns, and the practice was missing filing deadlines. These errors cost the practice much more than the savings from not staffing their front desk with an employee. The practice had also declined an inexpensive eligibility add-on to their billing system - it would have cost about $100 a month, but would have saved many times that in denied claims.

If you're thinking about cutting or limiting costs to improve your bottom line, here are a few questions to consider that can help you avoid a decision that moves your profit in the wrong direction:

**Is my substitute equally good?**

The solo practice that was resistant to investing had also done smart things to save money. For example, they had acquired a lot of nearly new equipment at less than half the cost from a practice that was closing up shop. This is a great way to save money – especially if your alternative is giving up on productivity by, say, outfitting fewer rooms for your clinicians.

**If I cut or forgo this expense, will it impact productivity?**
Be sure to think this question through carefully. The answer is not always obvious – as our overtime-cutting practice found. This opaqueness is one of the reasons it's so easy to make a cost-cutting mistake and undermine profitability.

**Am I giving up a bigger upside than I'm saving?**

This can apply particularly to marketing expenses. If you haven't analyzed the bang-for-the-buck you're getting from your marketing, do that before cutting. For many practice types, well-executed ads can bring in many times their costs in new patient revenues – and cutting them can immediately hurt profitability. Technology also has the potential deliver positive ROI; be sure to pencil out both sides of the financial impact before deciding whether or not to add something new.

**Can I get the same thing I have right now for less money?**

When you can get the exact same thing for less money, that's almost always an improvement to your bottom line. For example, can you negotiate a lower processing fee for credit cards, or a better rate on corporate cards? A discount on your phone bills? When you can persuade a vendor to offer a better price for the things you know you need, the difference goes right to your bottom line.


Links: