

PUTTING YOUR PRACTICE ON A BUDGET

With all the decisions and compromises that are made when forming or joining a practice, getting all parties (or just yourself, in solo practice) to agree to adhere to a budget can be the most difficult step. The following are basic guidelines to assist in this process, keeping in mind that a budget needs to be customized to your practice.

TIPS FOR SURVIVING BUDGET MANAGEMENT

- Involve everybody who works in the practice in the development of the budget to ensure their “buy-in.”
- Start by examining past financial statements for up to three years, if available. Note any service and lease contracts, fee schedule information, and plans for any major expenditures (new equipment, additional staff and/or pay increases, information system updates, etc.).
- It may be helpful to think in terms of fixed versus variable expenses (e.g., costs that are predictable and consistent, such as rent, as opposed to costs that may fluctuate with patient volume, such as office supplies). Where possible, calculate average annual changes in expenditures to identify trends (e.g., the accountant’s bill may be increasing steadily at a 4 percent annual rate), which can then be applied to predict future expenditures.
- You may have more precise information and tracking if you operate individual accounts for distinct functions (e.g., petty cash, payroll, office operations).
- Review the budget each month to determine if your initial estimates were in the ballpark.
- For group practices, ongoing budget reviews should include the full staff, and someone should be designated to be in charge of the process, with the responsibility for producing budget reports.
- In particular, review variable budget items regularly, including costs for telephone service, postage, and any frequently utilized external services, such as consultants, lawyers, printers, and suppliers.
- Buy in bulk and obtain volume discounts whenever possible (purchasing a given set of services through a single contractor may also help you negotiate good deals). Use an order list for supplies that requires approval, rather than allowing random ordering.
- For practices with a variable patient volume, consider paying employees by the hour rather than on salary.

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- Consider using email for most correspondence with patients to reduce postage costs. But you must be sure to get your patient's permission to communicate this way and ensure that correspondence can be kept confidential.
 - Consider using voice mail rather than having staff take messages.
 - If your practice is sufficiently large, have contests to identify effective cost-cutting strategies (a portion of the savings and public acknowledgment are well worth the investment).
 - Consider implementing a policy about missed appointments, and keep the collections process as efficient and timely as possible to maintain cash flow (see Appendix O).
 - If your practice is sufficiently large, consider subcontracting the following functions:
 - accounting;
 - administrative services;
 - claims processing;
 - information management;
 - managed care contracting;
 - marketing;
 - quality assurance/improvement; and
 - utilization management.

If you need additional information, you may want to consult with a financial advisor who specializes in medical practices.