

Overhead and Operations: Cutting Where It Counts

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To remain a profitable entity, whether a retail operation, manufacturing plant, or a medical practice, the common denominator is the same: where can you cut your costs, increase your revenue, and maintain additional profitability? Learning where to cut your operational expenses is as important to your business's profitability as bringing in additional dollars.

KEY WORDS: Cost reduction; expenses; credit card processing; group purchasing organizations; medical practice.

When you were in medical school, you never studied the business side of medicine. You didn't have time, and there was already too much to learn about the science of medicine. Upon graduation, you went right into an internship, a residency, possibly a fellowship, and then most likely worked for a hospital or another practice until it was time to go out on your own.

During this time, you most likely depended on someone else to handle the business side of the practice, and now that it has become time to take the plunge and open your own practice, you're looking to balance the world of profit and loss. Over the past several years, you may have been successful in spite of yourself, but now let's analyze how you can cut your costs without cutting your own throat.

CREDIT CARD PROCESSING

There are many merchant processors in the industry, all trying to tell you that they have the absolute best rates. How can you tell if you are really receiving the best monthly rates for all of the transactions you process? Simply put, it's the net bottom line percentage that matters. Credit card processing includes two major components: the gross charge (percentage) of each transaction, and a per transaction fee, anywhere from 5 to 25 cents per transaction.

Certain mandatory interchange fees are fixed by the credit card companies (e.g., Visa, MasterCard, Discover, and American Express). The merchant processor who handles your account then sets additional fees, such as monthly statement, transaction, cancellation, and other fees; these are very negotiable. Don't be afraid to ask for help from outside sources such as consultants, your banker, or even a colleague in negotiating these fees.

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PATIENT FINANCING

In the current more relaxed economy, there seem to be more options for patient financing than there were just a few years ago. Banks and finance companies have loosened their criteria, allowing more patients to finance their procedures. The major patient financing companies have controlled the market for many years, charging extremely high merchant processing rates for extended financing plans that exceed six months. You may end up paying anywhere from 7.9% to 11.9% or even higher if you extend financing options to your patients for 12 to 18 months.

Purchase generic items whenever possible to receive best pricing.

There are programs out there that allow your patients to apply for a 0% interest credit card for 6 to 18 months, depending on their FICO credit scores. By suggesting this route to your patients, you can reduce your merchant processing fees by as much as 10%, because you are only liable for the fees associated with your traditional credit card charges, and have no additional financial liability. There are no contracts to sign, and the transactions are between the patients and the credit card company.

SUPPLY COSTS AND COST COMPARISON

Supply costs can be a large percentage of your expenses, and you are probably the last person to look at the actual inventory in your office. This function is usually delegated to a clinical technician, operating room nurse, or other staff

member. The cost of supplies may be examined when you first set up your practice, but rarely is it reanalyzed periodically and compared with competitive vendors. Medical supply salespeople usually work on commission, and, therefore, may have no incentive to try to get you the best pricing unless prompted to do so to maintain your account.

Purchase generic items whenever possible to receive best pricing. A disposable item that never touches a patient does not need to be a name brand. For example, the needle and syringe that spike an IV tube or bag does not need to be a name-brand item.

Create a comparison spreadsheet of the most common items you purchase regularly, and ask your vendors to offer quotes on those items on a quarterly basis. This will show you the differences in pricing and allow you to switch vendors almost immediately. You should be doing this for both medical and office supplies, all the way down to items such as reams of paper, pens, paper clips, and more. Remember, every dollar starts with a penny.

You should be associated with a group purchasing organization, which offers major discounts to members of the group. If you are not already associated with one, ask your vendor for immediate assistance. You will be amazed at the incredible savings you will realize, directing profit right to the bottom line.

Maintain proper par levels of inventory so you are not overstocked; have only items you will use in the immediate future. Remember, overbuying ties up precious capital. You can always purchase these items when you need them in the future.

SHIPPING AND HANDLING COSTS

Are you examining the shipping fees stated on your invoices? Sometimes the cost for shipping and handling comes close to or even exceeds the actual cost of the items purchased. Try to negotiate your shipping and handling fees, or, better yet, determine whether or not these fees may even be waived with a minimum order. Most practices do not account for these added charges when they determine the actual cost per item, yet this has to be factored into the wholesale price if the items are for resale.

RESALE TAX ID NUMBERS

Ensure that *all* of your vendors have your state sales and tax ID number, so that they do not charge you tax on each order. This avoids having to pay the tax at the time of the purchase, and also eliminates the need to submit it to the state after the sale. If you resell products, this tax is collected at the time of the sale and submitted to the appropriate state tax bureau (remember to deduct whatever allowable percentage is offered for collecting this tax when you submit it).

DISCOUNTS FOR PAYMENT OF INVOICES

Ask your vendors for early payment discounts. Many vendors may offer a few percentage points off if the bill is paid within 10 to 15 days, reducing your cost of capital if the funds are just sitting in your account.

Invoice batching versus individual invoice payments saves time and money, because you can batch all of the invoices from the same vendor and pay them all at one time. You eliminate the time it takes to pay each invoice, plus you can reduce banking expenses. Consider paying as much as you can with credit cards. You not only receive reward points, but you gain the extra time it takes to have the funds actually debited from your account. Although your vendors are paid on time, you do not have to pay the actual amount due until it is time to pay your credit card bill.

REMOTE CAPTURE BANKING

Scanning checks as you receive them or at the end of the day allows you almost immediate access to your funds. This reduces the chance of returned checks due to quicker access, and also reduces the time it takes to prepare deposits and make the trip to the bank. Remember, time is money.

CONSIGNMENT AND EXTENDED FINANCING

Some vendors allow you to stock supplies and equipment for an extended period of time and pay for them only when items are used or sold. (The most common vendors are breast implant companies, but others do exist.)

Office supplies should be purchased by a designated employee.

If your vendors do not offer consignment terms, ask them for extended financing for 45, 60, or 90 days. This frees up capital and allows you to use or sell these products, collect revenue, and then pay for them later.

OFFICE SUPPLIES

Be prudent in how you purchase simple items such as pens, tablets, printer ink and toner, and paper clips. Keep most of these items secured and have designated people assigned to distribute them. Office supplies should be purchased by a designated employee and approved by a higher level manager or the business owner.

Try to purchase office supplies on sale. You don't have to have all of the name brand items that have no real value versus generic items. Remember, these are disposable items, and do not bring you a profit.

UTILITY COSTS

Keep your office at a reasonable temperature, and adjust the temperature warmer in the summer months and cooler in the winter when you are gone for the day and weekend. Conserve energy and reduce your utility bill at the same time. Turn off all of the lights and unused appliances that may be drawing energy when you leave the office. Close all the doors in your facility that may be increasing or reducing the temperature. (This also reduces the chance of a fire spreading.)

WARRANTIES AND MAINTENANCE CONTRACTS

When you purchase new and used equipment, maintenance agreements and warranties can be a good idea if the cost of repairs to those items is exceptionally high. The agreement may even specify that a loaner will be provided, which helps eliminate the loss of revenue in the event your equipment needs to be out of service for an extended period of time. Try to determine how much a repair might cost and consider self-insuring to eliminate paying for maintenance contracts that cover potential repairs that are never needed and maintenance that is not needed.

USED EQUIPMENT VERSUS NEW

Consider purchasing secondhand furniture and equipment. You may be able to get an extremely large discount by buying from a practice that is purchasing newer technology, has a practitioner retiring, or is closing. Be aware that warranties may not follow with the new owner. Ask ahead of time and don't assume, regardless of what you are told by the person selling it. If you are promised a warranty, make sure to get it in writing.

PAYROLL AND PAYROLL PROCESSING

If you are processing payroll calculations manually, try using a biometric payroll system, like fingerprint monitoring. This eliminates the chance that anyone can punch in or electronically clock in for another employee. This type of system also calculates the amount of hours worked by each employee, eliminating the time you spend calculating hours. Consider using a payroll service where the monthly and quarterly tax reports are also done electronically, eliminating even more accounting time.

Using interns and part-time staff can significantly reduce payroll expenses. High school and college interns can

perform many administrative duties at a much lower rate of pay. Part-time employees also can work for lower wages and don't necessarily require benefits such as vacation, holidays, and healthcare. You have the availability to use them only when you need them, eliminating the worry of too much staff during nonpeak periods.

LINE OF CREDIT VERSUS LOANS AND LEASES

Consider using an interest-only line of credit versus a traditional loan or lease. Not only is the interest rate drastically reduced, but you are not mandated to make high monthly payments where most of the payment goes toward interest in the beginning of the loan or lease. If you choose to, you may pay off greater portions of the principal and reduce your interest expenses with each subsequent payment.

CO-OP ADVERTISING

Ask vendors and suppliers if they offer some type of perk or promotion for advertising their products. If a vendor is not allowed to share the advertising financially, ask if it can support your efforts with free products. These products represent money in the long run.

Ask your vendors to support or sponsor "lunch and learn" activities that you present. Have them pay for lunches, marketing materials, and even door prizes for procedures that require consumables and disposables.

INSURANCE POLICIES

Negotiate insurance policies before the old ones expire. Compare your policy limits and determine whether or not you really need all of the coverage that you are paying for. Sometimes you may be overinsured, and reducing your limits can also reduce your premium. Take pictures of your major pieces of equipment, record the model and serial numbers, and determine the true cost to replace them in the event of a catastrophe.

CONCLUSION

Every revenue dollar is only a fraction of profit. Remember, a penny saved is a penny earned. Every expense that you reduce in your practice is an actual margin dollar. You will be amazed at how fast reducing your expenses can add up to higher margins. ■■