

Managing Outside Costs to Maintain Profitability

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In the current economic climate, ObGyns are facing the same financial challenge that other medical offices and businesses are facing across the country—how to maintain profitability. To meet this challenge, closely evaluate the various outside costs that your practice pays on a line-item (eg, income statement expense item) basis to determine how corners can be cut and costs can be trimmed. Here are some ideas to consider:

MEDICAL SUPPLIES

Medical supplies constitute a very significant portion of expenses for an ObGyn practice, much more than an average office. Higher costs include instrumentation, medications, and supplies for in-office procedures and routine exams. Because expectations are generally higher for the “patient experience” in an ObGyn office, even routine supplies such as gowns and table paper are often of a higher quality/cost. Group purchasing companies can offer the ability to lower the total delivered cost of supplies and services by combining the purchasing power of many physicians, lower carrying costs, and obtaining payment term discounts. Such providers can offer participants negotiated contracts at significant savings. Additionally, you should check with your local hospital, as many have developed effective group purchasing organizations.

MALPRACTICE INSURANCE

It is usually worthwhile to shop for malpractice coverage every 3 years. If you choose to work with a broker, be sure they have solid financial ratings, expertise in malpractice cases, and that they work with a broad range of carriers.

Also, always take steps toward reducing risks to keep your premiums at a minimum, such as:

- Take advantage of in-service training offered by your malpractice carrier

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- Use electronic prescriptions to reduce errors
- Review procedures for signing-out call coverage and transitions for patients in active labor
- Standardize protocols for group practices.

DRUG COSTS

For those items that are billable to insurance carriers and patients, review your fee schedule regularly to ensure your costs do not exceed the amount you are charging. A group purchasing entity may be effective in securing larger volume discounts that would not be available to you as an individual.

OUTSIDE PROFESSIONAL FEES

While it may seem that fees for outside professionals are a “given,” each type should be reviewed to see what can be done to keep such fees to a minimum.

- **Ultrasound Reading Fees (Outside Providers)**—Many practices use outside radiologists to read and report on ultrasounds performed in their offices. The financial arrangements should be reviewed and renegotiated regularly. Are you billing “globally” (ie, paying a fixed fee per scan)? Are you paying a flat monthly fee for all scans read? An arrangement that was negotiated two years ago may not reflect the current economy or your current needs.
- **Ultrasound Technicians**—Deciding whether to pay per-scan fees or to employ a sonographer on an hourly basis is a very important decision. A decision made in earlier years may have been forced on you by a tight labor market. But the reimbursement picture is changing, and it is critical to reevaluate previous choices. Has your local labor market changed in the last few years so that it now provides you with more options?

FOCUSPOINT

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FOCUS POINT

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- **Accounting**—Unless you are skilled at bookkeeping or have trained staff, preparing your regular financial reports internally is generally not recommended. If you are using an outside service, work with an accountant who understands medical practices in particular. Also, if there are large variances in your monthly accounting bills, consider negotiating with your accountant to provide billing on a fixed-fee basis to smooth out your cash flow; your CPA may also incorporate a discount for such an arrangement.
- **Pension administration**—If your current outside pension administrator is slow to respond, fails to seek cheaper plan alternatives, or makes regular errors, it is likely costing you money. It may be time for your practice to seek a new provider that offers custom-designed planning, personal administrative services, and is focused on meeting your practice's needs.
- **Transcription services**—For many practices, this service needs to be viewed as a luxury that can no longer be afforded. Consider developing internal systems to reduce or eliminate such costs, such as developing check forms and template letters that eliminate the need for transcriptions. For groups, allocating the direct cost to the provider through the distribution formula can often motivate the most transcription-dependent physician. If you must have transcription services, renegotiate your rates or consider overseas outsourcing for significant savings.

EQUIPMENT

Purchasing medical or office equipment can be a major capital outlay, yet buying it is not your only option. Depending on your situation, you may want to lease rather than buy. In many cases, leasing offers tax advantages over purchasing and can be useful in managing cash flow. Examples of equipment that an ObGyn might want to lease include ultrasound equipment, bone density equipment, computer systems, phone systems, and lasers for aesthetic services.

REAL ESTATE

If you are in a market where economic conditions are forcing down leases and rents for commercial buildings, consider renegotiating your lease. In addition to having more leverage to request a lower rate, you might also now be in a position to ask for tenant improvements and other allowances.

You might also consider a lease-purchase option, which your landlord may be even more willing to consider if the building's value has been falling. Finally, if property values are dropping and your financial situation permits, it may be appropriate to look into buying a building or build-to-suit if no such local building fills your current or future needs for space, size, and/or location.

OTHER EXPENSES

Service contracts for high-end equipment (ultrasound, bone density scanners, etc.) should be reviewed annually. You may be paying for a much higher level of service than you are using. Computer software and hardware maintenance contracts can be intimidating because of the unique relationship a vendor may have with the practice, but a regular review for value should be performed.

Telephone and communication services have been open to increasing competition in recent years, so those prices should be negotiated annually. Advertising in the yellow pages or other media should be tracked for response rates, not only in calls converted to patients, but also in quality level of new patients gained through each particular media. Bank fees and credit card processing fees should be reviewed regularly for accuracy and for competitiveness. As banks are currently under severe economic pressure, shopping your business could yield some significant concessions, whether from a new bank or from your existing bank that must step up its services to keep your business.

CONCLUSION

By identifying outside costs, evaluating them closely, and reducing expenses wherever possible, you can increase the profits of your practice and meet the challenges of the current economic climate.

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