Understanding Your Practice's Overhead and Profitability

Here are three actions you need to take right now.

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Practice Management Pearls is a regular feature that focuses on practice management issues presented by successful DPMs who are members of the American Academy of Podiatric Practice Management. The AAPPM has a forty-three year history of providing its member podiatrists with practice management education and resources they need to practice efficiently and profitably, through personal mentoring and sharing of knowledge. To contact AAPPM call 978-686-6185, e-mail aappmexecdir@aol.com or visit www.aappm.com.

The calculation of operational overhead relies upon your full-year Profit and Loss (P&L) Statement. On that document, the top line will reflect your revenues. Your expenses will then be listed, but it's important to understand that some of the expenses are truly not "operational". For example, you will need to subtract expenses associated with anything personal, such as your salary (or all officer salaries if you are a partnership...but leave employed DPM salaries in there), perks, meals, and entertainment, and any depreciation taken for the year.

What are left on your P&L statement should be the true expenses needed to produce the associated revenue. If you are similar to most podiatry practices, your top expenses will likely be staff salary, medical supplies, insurance, and rent. If you employ other podiatrists, their salaries will also be included.

Most podiatry practices are running an overhead of about 60%-65% of collections (35%-40% margin). As a result of government regulations and initiatives such as HIPAA and MACRA, the overhead of most medical practices is steadily increasing. According to the Medical Group Management Association, general operating costs for most medical practices have increased

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52.6% since 2001, exceeding revenue gains in that period. Cost-containment is now more important than ever. Targeting your largest expenses provides the biggest bang for your buck.

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Three Strategies to Deploy Right Now

1) Have concrete job descriptions in order to make certain that staffing is optimal and not excessive. All staff must be productive. Consider automating as many processes as possible, or outsourcing some processes such as billing, for maximum cost-effectiveness.

2) Watch your insurance rates carefully. Regularly re-assess your health insurance needs. You may be missing out on savings simply because you have maintained the same plan year after year while your situation has changed.

3) Participate in GPOs (Group Purchasing Organizations) and e-commerce sites in order to save on medical supplies. Because the supplies are negotiated based on large volume within the site, this could be an easy way to save 10-15% or more on the very same supplies that you are purchasing right now.

Trying to raise your profitability by focusing on revenue generation is not as effective as focusing on expenses. Generating revenue will ultimately lead to rising expensing (variable expenses), and only a certain amount of that revenue will find its way to your bottom line. But cutting costs (without cutting quality) leads to a dollar-for-dollar rise in profitability. That's what economists refer to as "leverage", and that's what we all need to focus on in 2017! **PM**

Dr. Guiliana is a nationally recognized speaker and author on topics pertaining to medical practice management. He holds a Master's in Health Care Management and is the Managing Partner of Collaborative Practice Solutions, LLC, a full scale podiatric consulting firm. He is a Fellow in the American Academy of Podiatric Practice Management.