

Managing for Profit – September 2008

With yearly fees in excess of £1.5 billion, the private healthcare market for practitioners is big business - yet many practitioners may not accurately know how much it really costs to see one private patient.

Cost analysis is not the exclusive domain of the manufacturing industry; all businesses need to have a clear understanding of their cost base and private practice is not (and should not) be any different. In testing times such as these and with fees being squeezed, look to drive profit not just through business development but by analysing your cost base and identifying areas where costs can be reduced and where the benefits of any given expense can be enhanced. So, how much does it cost you to see one patient?

Take a year's financial statement and review your outgoings. Categorise them as either fixed or variable, and direct or indirect – the four main cost families. Your fixed costs will be items such as rent and equipment leases and as the name suggests these costs are not influenced (in the short term) by either growth or business decline. Your variable costs will be those items such as stationery, paper and postage which flex with your business. Direct costs are all those incurred by directly delivering the front line patient care and service such as a private secretary. Indirect costs are those incurred in support of your patient care delivery – billing being a prime example.

If you are looking to control, reduce or get more benefit from your cost base, then the easiest costs to influence will be your variable and indirect costs. Be more careful with direct costs as any material change will of course impact on the quality of the patient care you want to deliver. Remember also that cost/benefit analysis is just as relevant for cost control as it is for investment. Make sure you do not make the mistake of working hard for little material effect as the cost of doing so will more than likely outweigh any savings you make! Look to your big cost items as it is here where you can have the biggest impact.

Your biggest direct cost will be staff. Much can be achieved here especially if you place the emphasis on extracting the most benefit you can from this expense. Remember that happy staff will give better service for less cost. Avoid the financial and time costs involved with rehiring and retraining by focussing on staff retention – pay appropriately and incentivise performance. Then carry out frequent efficiency analyses to ensure all staff is working optimally. There will always be some degree of waste in administrative jobs so better to work on turning that into useful time rather than hiring one more person. Once you know your profit per patient imagine what incentive this gives you to set an objective of seeing one more patient per day, knowing what contribution it will make to your bottom line. It won't cost you anything to empower your staff to use redundant time to look at ways this can be achieved – lower DNAs or better patient service to increase the possibility of referrals for example.

Look at the way you work as an individual as well. Most practitioners will be unaware of the hidden costs they incur. Whilst these costs are not immediately obvious, and are often very difficult to quantify, it is possible to estimate the financial impact on your practice, and may make your original cost assessment vary significantly. For example:

- Time – how much time each month do you spend getting involved in your practice administration? Your "hourly rate" seeing patients is much higher than the £20/hour you might typically pay for administrative work – and this can add up to a massive "opportunity cost" of missed clinical time over a year. It is unlikely you will ever fully eliminate the time "cost", but you should make sure that you use your time wisely.
- Quality – the quality of the service to your patients can greatly influence the overall success of your practice. For example, if a new patient cannot get through on the phone, they are simply likely to go elsewhere – representing lost revenue (which is a cost). Or, if all of your appointments are not fully, accurately and promptly invoiced you will be leaking yet more money.
- Hassle – the peace of mind of not having to deal with certain issues yourself may justify a small premium in paying someone else to take care of the problem for you. For example, what would it be worth to you knowing that if your secretary leaves, they will sort out a prompt replacement for you? The value of this will vary from one person to another, but there would be a time (and therefore financial) implication of having to recruit a replacement secretary yourself.

Outsourcing is the process of subcontracting work to a third-party company or individual. The decision to outsource is often made in the interest of lowering costs, ensuring that your energy is directed at the core competencies of your particular business.

You may decide to outsource your entire practice management function – perhaps to an experienced medical secretary employed by a hospital, or to a practice management organisation. This is often a cost-effective way of improving the quality of patient service and utilising skills and experience of other people. You could also explore specific outsourcing components of your practice. For example, you may find that your financial administration is weak, and therefore outsourcing invoicing & collections to a financial specialist is a profitable approach. You might also look at outsourcing transcription and letter production to specialist providers.

Only when you have a clear picture of how much it costs you to see one patient, and therefore your profit per patient, will you be able to give the right focus and direction to the essential functions of cost control and effective cost/benefit analysis.

