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Analyzing Your Practice's Costs

Managing the business side of a medical practice gets harder all the time. To ensure a successful practice, it's critical to understand your practice's cost structure.

There are four basic cost categories:

- Fixed expenses are those costs that don't change, irrespective of how many patients you see. They include rent/mortgage payments, business and malpractice insurance, and depreciation.
- Variable expenses are costs that change with the number of patients you see -- medical supplies, for example.
- Direct expenses are those costs that are directly related to the delivery of services to patients -- medical staff salaries and the associated payroll taxes, for example.
- Indirect expenses support the delivery of patient care but are not related to direct patient care. Examples include bank charges and office supplies.

Each type of expense your practice incurs can be classified as (1) fixed or variable and (2) direct or indirect. Why does this matter? On a routine basis, your efforts should focus on controlling variable costs. Renegotiating purchasing contracts for medical and office supplies, better inventory control, and tighter management of overtime can help lower the variable costs of running your practice.

Your opportunities to address fixed costs will be less frequent. However, since decisions regarding office space, equipment purchases, and insurance can have a significant impact on your practice's bottom line, you will want to evaluate these items at appropriate intervals.

We can help your practice with an in-depth cost analysis and recommend strategies that can help your practice control costs.