

Tending to Your Business Side

The goal of any medical practice is to deliver excellent care. Ultimately, however, your success may depend on more than the clinical ability of the doctors in your practice and the quality of the care they provide.

Tending to the business side of your medical practice will help ensure financial wellness and overall success.

Building a Budget

Budgeting can be a powerful financial management tool. It's a practical way to categorize your expenses, and it forces you to track your actual costs. By reviewing spending patterns, you'll be able to spot irregularities and take steps to resolve them. A budget will also show you where you can reduce or eliminate unnecessary spending.

Tracking Financial Vitals

You measure your patients' vital signs -- temperature, blood pressure, heart rate, etc. -- at every visit. Your practice also has vital signs. They are measures of the financial health of your business side.

Overhead. Profitability may be the most important vital sign of all. By controlling overhead, you can boost profits. Overhead includes physician salaries, insurance, staff costs, and other operating expenses. It's a good idea to periodically confirm that these key expenses are stable or that they vary in anticipated ways.

You may want to compare your overhead, including staffing, with that of similar practices. The Medical Group Management Association and other sources offer benchmarking tools that you can use to measure various aspects of your practice.

Cash Flow. A healthy cash flow is also vital. Having enough cash on hand to meet your current obligations is a sign that your finances are healthy. Having to tap a line of credit to pay normal operating expenses on a regular basis is a sign that something is wrong. Any supplemental financing you need should be temporary and occasional. If it isn't, take a close look at productivity, billing, collections, compensation, and other expenses.

Collections. Your collection ratio -- the percentage of your billing that eventually is collected -- is another way to measure financial health. If your

collection ratio is not very high within a reasonable period of time after bills have been sent out, there may be a problem.

Accounts Receivable. This last key financial vital sign is income that has been billed by your practice but has not yet been collected. Unfortunately, it gets increasingly more difficult to collect that income as time goes by. Get into the habit of regularly reviewing your accounts receivable aging reports (0-30 days, 31-60 days, etc.) and have your billing staff follow up on overdue accounts sooner rather than later.

Addressing All Your Needs

Your expertise is medicine, ours is finance. In addition to helping you maintain the financial health of your practice, we can help with the following: structuring and implementing a practice merger or acquisition; financing the acquisition of equipment and offices; distributing physician income; valuing a practice; choosing office software; and structuring buy-ins, buy-outs, and buy/sell agreements. Please contact us for assistance.

Profitability may be the most important vital sign of all.