Dynamic Chiropractic

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The Most Efficient Way to Lower Practice Overhead

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Each year, business and personal finance magazines love to run "how to cut spending" or "how to lower your overhead" feature articles, particularly around April 15th when unanticipated tax bills threaten to take money from the budget that is just not there. Over the past couple of years, an economic tightening of the belts as a byproduct of the recession has also produced a flurry of these articles and tips from well-known financial gurus.

The temptation for chiropractors is to buckle down with the same vigor and look for ways to "trim the fat" off our business operations. While I certainly don't advocate over-spending in any department, let me show you why penny pinching is *not* the most efficient way to increase practice profitability.

Crunching That Makes Little Sense

Most of the time, it doesn't make good sense to attempt to scrimp and save a few cents on paper, pens, or common office supplies when dollars are literally falling out of your pockets in other areas of your clinic due to faulty systems, poor collections procedures, unruly A/R or billing mistakes. As an example, let's compare some common scenarios surrounding three doctors all seeking to improve profitability and see the potential benefits that can be derived from the solutions.

Scenario #1: Overhead Crunching

Doc A sees an ad to save money on credit-card processing fees. The ad makes sense to him, as he knows that a significant portion of his patients pay via credit card and it seems like shaving even a few cents here and there will produce a significant savings in a year's time. He decides to go with a different company. Let's see the breakdown of what he achieved.

Doc A runs an average or "typical" chiropractic practice that collects approximately $300,000 per year. Twenty-five percent of the collections come in the form of over-the-counter payments from co-pays, co-insurances, deductibles and non-insured patients via credit card. That equates to $75,000 per year processed through his machine.

As you know, card processing companies typically charge a "discount rate" which is a percentage of all transactions taken. There are other fees involved, but for the sake of this example, let's see what comparing three companies can do. Company A charges a discount rate of 1.59 percent, company B charges 1.69 percent and company C charges 1.79 percent. Over the course of the year, doc will spend $1,193 with company A, $1,267 with company B and $1,342 with company C. The biggest savings Doc A can achieve with this overhead crunching scenario is $150 per year. It took Doc A's staff three hours to do the research @ $10/hour of salary, so his net return for this solution is $120 per year.

Scenario #2: Regaining Control

Doc B runs an "average" practice like Doc A, collecting the same $300,000 per year. Doc B sees that his accounts receivable is getting out of control and that his staff is falling behind on collections. Past-due balances over 90 days are creeping and there are now 100 patients and $15,000 in that category. Doc B assigns a staff member to spend three hours of time identifying active patients who have these balances of $100 or more. The staff member puts a note in their chart and on subsequent visits, the front desk is able to collect from just four of these patients @ $100 each for a total of $400. They repeat this procedure each month with similar results and a total of $4,800 over the course of the next year. Staff time cost the doctor $30/month at a total cost of $360 and providing for a net yearly return of $4,400.

Scenario #3: Developing Proactive, Profitable Systems

Doc C runs the same average practice as above, but feels that he is missing opportunities to maximize his income. In a staff meeting, one of his team members questions why he no longer recommends cervical pillows to his patients. A few months ago, when Doc C received a promotional offer from a pillow manufacturer, he purchased a display and a supply of pillows. Since he had the pillows on hand and it was a new product, he was excited to recommend them and the pillows sold well. In time, the newness wore off and even though the pillows performed great and patients loved them, Doc C simply "forgot" to recommend them. As a result, they sat on the shelf gathering dust.

Doc C decided to re-start his pillow recommendations for all patients that would benefit. He assigned a staff member the task of creating a list of recent new patients and established patients with chronic neck problems for Doc C to consider when formulating his pillow recommendations. The staff member spent three hours on this task and developed not only a list of current needs, but also an ongoing protocol to continue to perform this in the future. Over the course of the next year, Doc C sold an average of eight pillows more per month than previously for an additional $2,400 in revenue, once the cost of the pillows was subtracted. Staff cost was $30 for a net return of $2,370.

Same Time Investment, Different Results

Each doctor invested three hours of staff time, but the results were vastly different. So, which doctor wins? In a way, all came out ahead of where they were before, because they have each addressed a problem in their practice. In reducing overhead, Doctor A will continue to save his $120 per year and over the course of 10 years will save an extra $1,200. Not much, but it is better than spending extra money unnecessarily.

Doc B's solution actually corrected a problem in the practice due to poor systems or inadequate management. While Doc B's initial net return was the largest, if the problem is truly addressed, future returns will diminish in time due to the fact that they will hopefully fix the reason that the A/R was getting over 90 days. Solutions like this produce a big initial gain, but to make them truly effective, a preventative strategy should be put in place so that they don't go on forever. After all, it's great that Doc B collected an extra $4,400, but we have to keep in mind that this also means that the remainder of the $15,000 A/R in the 90 day+ category went uncollected.

Although it appears that Doc C did not fare as well as Doc B, the scenario here represents a revenue-building solution that increases production. It is proactive and will continue to produce gains, never losses. It also is not mitigating losses like Doc B's solution. In reality, Doc C stands to gain the most from implementing his pillow protocol even though the initial revenue gain was not as large as Doc B.

Do the Math - Then Act

As I stated in the beginning of the article, many DCs are looking for ways to increase profitability due to the current economic climate. Before jumping headlong into belt-tightening frenzy and cutting back on staff, supplies and the necessities of running your practice, take some time to do the math - *then* act!

Certainly, some doctors *should* go on a spending moratorium, as they have piles of unused gadgets lying about their offices. Other DCs need to "liberate" non-essential employees as their overhead is being needlessly burdened by overstaffing. Still other chiropractors attempt to create a chiropractic "Taj Mahal" and have gigantic office spaces that are unused and costly. These doctors all need to lower overhead, but probably not to the degree of pinching pennies on pencils.

Sticking to a reasonable budget that conforms to industry norms is helpful. If you have no idea what that may look like for chiropractors, I would be glad to furnish you with some overhead numbers to serve as a guideline. Simply send an e-mail to tom@strategicdc.com noting you read this article and I furnish the numbers to you free of charge.

While lowering your overhead is helpful, I hope that this article demonstrates for you that the most efficient way to lower your overhead and improve profitability is generally to increase production. Typically, no amount of penny pinching will ever match the gains that you can achieve by developing better systems, profitable protocols or strategies to help you increase your services.

For those of you who can look at the figures above and derive some concrete ideas on what to do, here's my question: What are you waiting for? Get started! It's never too early or too late to improve the profitability of your practice!

APRIL 2010