ACUPUNCTURE Today

BILLING / FEES / INSURANCE

Basing Business Decisions on the Cost Per Patient

Kevin McNamee

As you begin your practice, and as your practice grows, you need to factor in a valuable concept when making business decisions: your cost per patient, the amount of money you spend for the privilege of treating patients. You always want your income to exceed the costs associated with the practice, otherwise you are paying patients for the privilege of treating them.

In practice, you will have two types of expenses: fixed and variable. Fixed expenses are those costs that do not change with the volume of patients. Examples include rent; salaries (both your employees and your own); insurance; leases; and so forth. Variable expenses change based on the patient volume. Examples include medical supplies; office supplies; postage; telephone charges; etc.

The cost per patient is computed as follows. Add up the total expenses each month and divide that number by the total number of patients you see each month. For example, your expenses for the month (both fixed and variable) are $5,200, and you see 130 patients per month (also called PV, or patient volume). Your cost per patient would be:

$5,200 / 130 = $40.00

Whether you are moving into a new location or established practice; looking to add an employee; buying another piece of equipment; or taking on a new renter in your office, you need to look at the change in the cost per patient and what it does to your net income. The following are common business decisions that affect the cost per patient (and ultimately, the bottom line).

Example #1: You have an established practice with an extra office that you could rent to another doctor to help reduce your expenses. The new doctor wants to pay $400 per month. For this rent, the new doctor wants you to provide use of the extra office, a telephone line, billing and collection services; and a receptionist available on Saturday so he can see his patients.

If the office space is 250 square feet, your cost associated with renting it at $1.50 per square foot would be $375.00 per month. However, the doctor wants these additional services: $100 per month for the phone line; 10 hours more each month for the person who handles the billing at $15 per hour ($150 per month); and a receptionist on Saturday for four hours at $10 per hour ($173 per month). The total for these additional expenses is $423, which, added to the $375 office space cost, amounts to $798.00.

Let's look at the choices available. If you only provide the space without the extra services (and charge $400 instead of $375), your total expenses are reduced to $4,800 each month. The cost per patient

would be:

$4,800 / 130 PV = $36.92

You have just reduced your cost per patient and made an extra $25. However, if you include the additional services requested, your total monthly costs would increase ($5,200 - $400 rent + $423 additional services = $5,223). The cost per patient would still be approximately $40.00. Not only did you not improve your situation; you also have the additional headache of dealing with a renter.

Example #2: You have an established practice with a monthly cost of $5,200. You see 130 patients per month, which makes your cost per patient $40.00. Let's say you take home a salary of $3,000 per month as part of the $5,200. Your average charge for your services is $50 per visit, which is $6,500 per month gross. This means that in addition to the $3,000 salary you take home per month for your living expenses, you earn an additional $1,300.

Your practice has grown, and you need to hire another person to take calls at the front desk, make appointments, do paperwork for HMOs, etc. Receptionists in the area are paid $9.25 per hour. You need the person to work 40 hours per week, which results in a monthly salary of $1,600. Your office cost and net income have just changed. Your cost per patient is now:

$5,200 + $1,600 / 130 PV = $52.30

Your $3,000 salary has just been reduced to $2,700, and the additional $1,300 you were making now goes to paying the new receptionist. If you are able to increase your patient volume with a receptionist, this is a good business move, and the $300 monthly shortfall is a temporary measure instituted for long-term benefits. Hopefully, the new receptionist will be able to generate new patients by taking calls immediately, thus increasing your patient volume and reducing the cost per patient.

Example #3: You are looking to buy a practice. The selling doctor wants $200,000 for the practice, paid over five years (which equates to $3,333 per month). The office rent, employee salaries, and other costs are $10,667 per month, so your total monthly cost is $14,000. The practice has a current patient volume of 216 visits per month; it charges $50 per visit. The gross income for the office is $10,800 pre month. The cost per patient is:

$14,000 / 216 PV = $64.81

With the current cost per patient at $64.81 and the patient's fees at $50 per visit, the new doctor would lose $14.81 per visit. The new doctor must decide how to make up for the deficit by either reducing expenses, increasing patient volume, or increasing fees.

One remedy is to raise fees to $65 per visit and hope the patient visits do not drop significantly. Another solution is to attract new patients through a marketing plan, raising the number of visits to 60 or 70 per week. A third option is to reduce office expenses by downsizing to a smaller office, subleasing space to other doctors, or reducing office salaries. Each of these options will accomplish the goal of making money. In this case, when the new doctor examines the cost per patient, he will realize that unless he makes changes, the practice will be a losing proposition.

These are just a few examples of how the simple equation of cost per patient can assist in making business decisions regardless of what phase your career is in. It is a vital tool for periodically evaluating the health of your business.

Note: If you just opened your practice or are seeing fewer than 30 patients per week [130 patient visits per month (30 visits/week x 4.33 weeks/month)], use 30 visits per week to perform your calculations to set a reasonable goal for making the practice support itself and you.

JANUARY 2001