

## Basing Business Decisions on the Cost Per Patient

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As you begin your practice or as the practice grows, you need to factor in a valuable concept when making business decisions. It is your Cost per Patient, which is 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 the patient for the privilege of treating them.

In practice you will have two types of expenses, fixed and variable. The fixed expenses are those costs which do not change with the patient volume. Examples of the fixed expenses are rent, salaries (both employees and your own), insurance, leases, etc. The variable expenses change based on the patient volume. Examples of variable expenses are medical supplies, office supplies, postage, telephone service, etc.

The cost per patient is computed as follows: Add the total expenses each month and divide this number by the number of patients you see each month. For example: the expenses, combining both fixed and variable is \$5,200 and you see 30 patients per week (130 patients per month) also called Patient Volume (PV).  $30 \text{ patients/week} \times 4.33 \text{ weeks (average) per month}$ . Your cost per patient is:

$$\frac{\$5,200}{130 \text{ PV}} = \$40.00$$

Whether you are moving into a new location or an established practice, looking to add an employee, buy 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, which affect the cost per patient, and ultimately the bottom line.

Example 1) You have an established practice with an extra office which 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 service, and have a receptionist available on Saturday so he can see patients.

If the office space is 250 square feet, your cost associated with renting it at \$1.50 per square foot is \$375.00 per month. However, the doctor wants these additional services; \$100 per month for the telephone line, 10 hours more each month for the person who does the billing at \$15 per hour (\$150 per month), and a receptionist on Saturday for four hours at \$10.00 per hour which is (\$173.00 per month). The total for all these additional expenses is \$423.00. Added to the \$375 office space cost, the new total is \$798.00.

Let's look at the choices available. If you only provide the space without the extra services, your costs are reduced each month to:

$$\$5,200 - \$400 = \$4,800$$

This reduces our cost per patient to:

$$\frac{\$4,800}{130 \text{ PV}} = \$36.92$$

You have reduced your cost per patient and made \$25 on the deal. However, if you include the additional services requested, your monthly costs are now:

$$\$5,200 - \$400 + \$423 = \$5,223$$

The cost per patient is still \$40.00. You did not improve your situation and have the headache of a renter.

Example 2) If you have an established practice with a monthly cost of \$5,200 and you are seeing 130 patients per month, your cost per patient is \$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 in addition to the \$3,000 salary you take home per month for your living expenses, you also earn \$1,300.

Your practice has grown and you need to hire another person to keep up with taking calls at the front desk, making appointments, paperwork for the HMO=s, etc. You are trying to figure how much to pay and how this will affect your net income. You find that receptionists in the area are paid \$9.25 per hour. You need the person 40 hours per week which results in a salary of \$1,600 per month. Your office cost per month and the net income to you has just changed. Your cost per patient is now:

$$\frac{\$5,200 + \$1,600}{130 \text{ PV}} = \$52.30$$

Your salary of \$3,000 just became \$2,700, with no additional \$1,300. The reason is you have diverted your extra income and part of the salary to hiring the new person at the front desk. In this case if you are able to increase your patient volume with a receptionist, this is a good business move, and the short fall each month of \$300 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 it, paid over 5 years, which is \$3,333.00 per month. The office rent, employee salaries (and yours), etc. is \$10,667 per month, so your total cost per month is \$14,000.00. The practice has a current patient volume of 50 visits per week (216 patient visits per month), and is charging \$50 per visit. The gross income for the office is \$10,800. The cost per patient is:

$$\frac{\$14,000}{216 \text{ PV}} = \$64.81$$

The patient's fees are \$50.00 per visit, so the new doctor would lose \$14.81 per visit. The new doctor must decide how to make up for the deficit by either reducing the expenses or increasing the patient volume or fees. One remedy is to charge the patients \$65 per visit and hope the patient visits do not drop significantly. Another solution is to attract new patients to the practice through a marketing plan. Instead of seeing 50 visits per week see 60 or 70 per week. Another option is to reduce office expenses. For example: downsizing to a smaller office, sub-leasing space to other doctors, or reducing the office salaries (including his own). Any and all 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 three 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, which is 30 visits/week x 4.33 weeks/month), then use 30 visits per week to do your calculations to set a reasonable goal for making the practice support itself and you.*