Examine Expenses to Prepare for Fee Cuts

By James C. Hall, CPA

With reductions in Medicare fees heading our way, many practices will want to review their financial statements to determine whether there might be ways to reduce expenses.

One critical piece of the puzzle is labor expense. Since therapy practices are considered a service business, we might want to start with a general rule of thumb: *All* service businesses should have no more than 50% of their revenue going out the door to labor expense. If your labor component is higher than this percentage, you may want to start there. From a sensitivity standpoint, you might even want to pass out financial statements to your employees and solicit their input as you begin evaluating ways to cut costs.

With my company, I was fortunate to have a head start on this process. About 2 or 3 years ago, the financial health of my company was not where I wanted it to be. Since my staff are the most important components of our business, I wanted to start somewhere other than with layoffs. I started by listing out my average expenditures every month. Since I was overweight, I immediately noticed I could save about $20 a week just by not buying bagels and doughnuts every Thursday (a real belt-tightening move!).

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Although every dollar counts, I was more interested in my higher payments. It didn't take very long to notice that I had four leases/loans that were costing me roughly $2500 per month in cash flow. All four had payoff amounts of somewhere between $5000 and $7000. Since the payoff amounts were similar, I decided to accelerate the lease with the highest monthly payment amount. I chose to target this one because it would provide the most financial breathing room once paid off. As soon as that lease was paid off, I went after the second highest monthly payment amount. When I started this process, all of these leases were set to be paid in full in 18 months to 3 years. It took about a year, but all four leases were paid in full and we had breathing room with cash flow.

As I worked on this process, I was speaking with my staff about what I was doing, and we began evaluating the rest of our expenditures. We elected to give up 700 square feet of office space that we weren't using. Not only did this drop our monthly rent, it also trimmed our utility bills. As we looked over our phone bills, DSL costs, copying equipment, and outdated phones, we began asking our vendors for ideas to update our equipment while cutting costs. We discovered that through two vendors, we could replace our outdated equipment while reducing the monthly costs associated with our old hodgepodge of equipment. We also discovered that a T1 line led to decreased phone and Internet costs. And the newer equipment worked seamlessly in our office environment, thus causing us fewer headaches.

Since starting this process, we have reduced our overall monthly cash needs by about 15% to 20%. We have paid off leases and have begun paying cash for new purchases as much as possible. One employee has left our company and has not been replaced (my staff tells me they do not need any more assistance to handle our current workload, and our overtime budget has remained the same).

Although I did not really seek outside counsel when I started this process, a tool that I became aware of that anyone can use is popular TV and radio financial advisor Dave Ramsey's *Financial Peace University* course, which you can find online at www.daveramsey.com. The materials you need to purchase are not expensive, and Mr. Ramsey has lived through his material and knows it well. In addition, his humor makes the course interesting and enjoyable. I would recommend that if you decide to take this class, you do it with a group. A group will offer both encouragement and accountability.

I hope that you can cut your expenses enough so that when Medicare does decide to reduce provider fees, you will be in a better position to maintain your profit margins. ■

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