Podiatric Practice Budget Basics

It's vital to think about your budget and use it to improve your practice.

BY MARK TERRY

Start talking to physicians about budgets and one thing becomes clear—they don't like them much. But since it's such a basic part of running a business, podiatric practice or otherwise, they deal with it, even if sometimes everyone seems to be discussing different things.

At its most basic, a budget has two components: cost and revenue. Broadly, expenses for a medical practice break down loosely into three areas: space, equipment and staffing. Of course, the deeper you get into budgets, the more terms and categories and subcategories you get, including profit and loss (P&L), assets and liabilities, cash flow, expenses by category…

Rem Jackson

Rem Jackson, founder and CEO of Top Practices, says, "When you start talking about P&L budgets and benchmarks and areas above the line and below the line, net and gross, you lose physicians."

He suggests that instead of all the MBA chatter, you consider the topic from the point of view of a household budget, which most everyone is comfortable with. "You have a husband and wife who know how much income they expect this year, they know what their mortgage is, what their insurances are. They find out how much they're spending on groceries; how much they plan to spend on their vacation. And when you take what's going to come in, what's going out, and what is left, they can make a decision about how they're going to spend their money and live within their means with discipline in order to achieve their financial objectives."

Dr. Guiliana

The second definition is "a plan for the coordination of resources and expenditures." Key word: "plan." And finally, "the amount of money that is available for, required for, or assigned to a particular purpose."

What pulls this together is the notion that a "budget" is not a static thing, just a list of revenue and expenses, but "a plan" for allocating specific resources for specific reasons over a "period of time."

Dr. John Guiliana, podiatrist and managing director of Collaborative Practice Solutions, says, "A budget produces a blueprint of priorities for the practice. A budget helps you properly allocate resources. It helps you set priorities. It's a dynamic document that allows you the visibility to see if you need more capital allocated for staffing. It helps you monitor performance."

"A budget produces a blueprint of priorities for the practice."—Guiliana

What's a Budget?

Merriam-Webster actually gives us something to work with, although it's interesting that we don't get to financial issues until the fourth definition, the first being "a usually leather pouch, wallet, or pack." Of the three definitions under finance, they're largely the same, except for some differences that are worth considering in the context of a medical practice budget.

The first, then, is "a statement of the financial position of an administration (as of a nation) for a definite period of time based on estimates of expenditures during the period and proposals for financing them." What is worth noting here is "period of time" and "proposals."

Numbers Versus Budgets

Jackson is quite specific about differentiating between a budget and a practice's numbers. "Knowing your numbers is one of the most helpful and protective activities that any business can do, but especially a medical practice. If you don't know how to monitor your key practice numbers, you don't know what's going on in

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your practice." So, the key numbers of your medical practice, at least a minimal list, includes:

- New patients this month versus the same month last year.
- Total number of patients this month versus the same month last year.
- Total amount billed this month versus the same month the previous year.
- Total monies collected this year compared to last year.
- Your requisite charges and requisite revenue for the practice over the last quarter and the last year.

Annette Joyce

Jackson says, "Those are incredibly important numbers. So are your accounts receivable from zero to 60 days, 60 to 90 days, and 90 to 120-plus days. If you just watch that, at a minimum, you're going to know if there's something good or something bad happening to your practice. You can make that much more granular, and the most successful practices usually do."

The budget, then, isn't the numbers, but what you plan to do with them. Guiliana refers to it as a "blueprint," but another word might be "strategy."

Time

As the Merriam-Webster definitions also indicate, there's a time factor that is a component of a budget. It also, of course, applies to "figures," which are the ingredients for a budget. Ideally, your budget is based on historical figures—your own, if you've been in practice for a while, or from other benchmarks that can typically be found with the Medical Group Management Association (MGMA), the American Academy of Podiatric Practice Management (AAPPM), and others.

As Jackson points out, there are a lot of time periods that should be followed, both current and historical, in evaluating budgets. And also, they should be evaluated regularly. How regularly? Probably monthly.

Annette Joyce, of Joyce Podiatry (Westminster, MD), says, "Typically, budgeting is probably a monthly thing. You have to know how much you have left at the end of the month in order to have appropriate supplies for the next month. We do inventory. Inventory controls a big part of our budget. My staff inventories—ideally, they do a count once a week, but not less than once a month to see what we have in inventory. We have several offices, so we have to count for each office."

That allows her and her staff to make sure they have the appropriate supplies on hand when needed. Inexpensive items aren't a problem, but more expensive items, such as wound-care products, require more planning because they create more impact on the budget. Joyce says, "Inventory is really about budgeting to me. Do we know what we have? You're not going to order it if we have it in stock. Every month you have your basic overhead, your staff, your rent—your basics just to keep your lights on and your practice open."

"Typically, budgeting is probably a monthly thing. You have to know how much you have left at the end of the month in order to have appropriate supplies for the next month."—Joyce

Use the Budget

Many physicians don't use a budget. Perhaps it's in the back of their heads, or maybe scratched down on a piece of paper somewhere, but apparently a lot of doctors just sort of "wing it." This seems crazy, when you think that many of them are managing million-dollar-plus budgets.

Guiliana says, "Without a budget, the practice owner is literally shooting in the dark when it comes to trying to create action plans for the practice moving forward, strategic plans. This is something I pound my fists about—how can you start a year if you don't have a strategic plan based on your budgets, and your budgets are based on your historical budgets?"

Here Are Three Steps to Using Your Budget

1) Track Expenses Appropriately. QuickBooks or other accounting software help, and published benchmarks and your historical records will help you understand if the expenses are normal. It's a good idea to have someone who specifically handles tracking expenses, although it's generally not a good idea to have only a single person do it—it's too easy for money to be embezzled or misallocated if there's no routine verification. Typically, the budget is created by the physician acting with the office manager and maintained by the office manager and/or bookkeeper via quarterly budget reports and variance analysis.

Decide which expenses to track. Don't limit yourself to what's on IRS tax forms or what accountants use. Create a practice-specific list of expense categories, which could be named "general ledger categories" or "chart of accounts." They should be detailed enough to be useful, but not so detailed that you get into "analysis paralysis" as you worry about every paperclip.

In most cases, don't combine categories in a chart of accounts. Primarily, that means not combining clinical and administrative supplies into a single category, or by combining the compensation and benefits of non-physician providers or ancillary-revenue-producing paraprofessionals into the same categories as support staff.

2) Use Benchmarks. Acquire benchmarks from the MGMA or other organizations, but be aware they typically report averages rather than medians. Identify the statistics that match the expenses categories in your chart of accounts. Track them

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against your own historical records. Also, make sure you're adjusting for variations; for example, if a benchmark indicates it uses RNs and you use medical assistants (MAs) or vice versa. Certain benchmarks such as rents will often be regional as well, so adjust accordingly.

3) Compare. As has been said repeatedly, just having a budget doesn't really get you anywhere. The key to improving your practice performance using your budget is to actually use the budget. Commonly, this falls into "variance analysis." In other words, compare what was going on last month with expenses this month; compare it to other months, and the same month from the previous year.

Jackson says, "If you have a well-constructed budget that you've planned for and you're watching your numbers and how they're doing, let's say you notice some numbers going either down or up. In either case, you should look at that and say, 'Why is that?' If it's up, maybe something good is happening. Then you can say, 'How can we do more of that? Maybe we can shift our marketing. Maybe we can improve on this or do it in other areas.'"

On the other hand, if the numbers are down, you need to know what caused it. "There's a real ability to improve your practice by finding where the cracks are, things that have been forgotten or messed up," Jackson says.

And there's always the possibility that if the numbers are way off, something is dramatically wrong—someone is stealing or there's an accounts problem. "Stealing," Jackson notes, "is way more common than you think."

"If you pay attention to the numbers, you figure it out very quickly, and if you know what you're collecting and what's in your account, you figure it out very quickly."—Jackson

The Boston consulting firm Marquet International indicates that the most common embezzler is a woman in her late 40s with no prior criminal record. Studies have found that anywhere from two-thirds to as high as 80 percent of embezzlers are women.

Jackson mentions a friend of his,

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an attorney, whose officer manager embezzled over $1.2 million from his practice over a period of 10 to 15 years. "My question is:" Jackson says, "How the heck could you not see that?" The answer is likely: He wasn't checking his numbers regularly.

More common than theft in a medical practice, however, is if there's a break with a payer. A payer stops paying for any of a million different reasons, and the physician doesn't notice it for a long time because nobody's watching. Jackson says, "If you pay attention to the numbers, you figure it out very quickly, and if you know what you're collecting and what's in your account, you figure it out very quickly."

The Practice of Business and the Practice of Medicine

The point of a practice budget is not only to track your revenue and expenses, but to be able to make changes to your practice as necessary to make it more profitable. Your budget will likely shift depending on what stage of your practice you're in. Although the Wharton Business School recommends that 15 percent of a business's budget be spent on marketing, early on in a medical practice, when you don't have a lot of patients, a higher percentage might be worthwhile—it will pay back dividends later.

As your practice hits what Guiliana calls "a critical mass for sustainability," you're likely to spend less money on marketing and more on staff. But it's precisely these things that make budgets an important practice strategy; they help you allocate resources. It's just good business. Of course, there's a caveat to that.

Joyce says, "If you live every day focused solely on 'How much money am I making today?', you can't be a good doctor. You're not supposed to go into medicine for the bottom line. You treat patients to make them better. If you don't remember that, no matter what, you'll never be happy, and your practice will suffer for it. You can't be focused solely on the budget. You have to focus on the patient first. So I try to remember, I have to balance business with patient care." **PM**

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