



## Great “Step 2+” Cost-Saving Changes to Make Dramatic Cash-Flow Improvements *Michael T. Finch, CPA*



According to MGMA, 2008 was the first year when practice revenues in their surveys actually declined. Most practices would say they felt a decline before then. While we are all in the process of searching for ways to enhance revenue streams or add revenue streams, (see my article “[Five Cash-Flow Generators Most Practices Can Implement Within Three Months](#)” at [www.blackwatchllc.com/projects](http://www.blackwatchllc.com/projects)) we have also been trimming costs where the opportunity exists. This article is for those who have completed that step, and are now ready for the more substantial and strategic adjustments to costs that require more work and creativity.

1. **Staff Furloughs.** This is a challenging initiative that when done properly, can enrich the culture of your office. The key to this process is creating the proper metrics to know when you are technically over-staffed for the designated period. There are benchmark metrics for each specialty that you can use to help determine when you have more staff than your patient appointments would dictate. By using these metrics, along with analysis of your schedule several weeks ahead, you can compress your schedules and close the office for a day, or tell certain staff they do not need to come in on those days due to a light schedule. This step comes after right-sizing your staff to today’s revenue expectations. Your staffing probably has an assumption of full days every day, or at least the contingency of a full day. Spending some time considering your schedule will likely cause you to realize that you could accumulate a handful of 80% days into fewer 100% days. Another key to this plan is to help staff to manage their sick or vacation days in this process. The tendency is for staff to take those days on their furlough days, but you want to make furloughs a consistent strategy. Don’t let them leave themselves without vacation or sick days. Is this a tightrope? Sure, but your staff has likely seen layoffs, and would prefer to adapt to a furlough scenario than look for a job in this market.
2. **Put a new eye on all service agreements.** Appoint a new person to review the monthly invoices from all service providers. Today, your controller or AP staff is looking at all the invoices to ensure the bill should be paid, but not with the creative eye that an “outsider” can provide. Ask a trusted and energetic administrative staff member to look at all the service invoices each month, and provide feedback. Every time I have given this opportunity to someone, they provide surprising feedback ranging from “we don’t even use this” to “we did this differently at my last job.” Provide some incentive, even if it is as simple as the trust to do the project. The “Cost Committee” concept can create a “witch hunt” fear among staff, and finger-pointing on the committee. A singularly focused staff



- person can feel free to target an expense and find a solution themselves with less concern about stepping on the wrong toes.
3. **Creative or hypothetical layoff.** Force yourself to consider a handful of layoffs, and decide what you would have to do in order to make it work. The results may surprise you, and you may find your way into developing more interesting and fulfilling job descriptions for certain key people who would love to have some leadership. Restructure work flow to accommodate your new vision, and reflect your changes in a new org chart. The new roles and the new energy can lift up the whole organization, even if you don't choose to lay anyone off. The leadership displayed can earn easier buy-in for other initiatives.
  4. **Implement and enforce overtime rules.** Every office has someone who incurs more time than necessary, and often they are paid by the hour. The psychology of the employee who targets their overtime hours as their personal 50% raise is noticed by other staff. Not only does it cause division in the office, but you are probably being taken advantage of.
  5. **Benchmark and investigate causes of deviation.** The accountability that is created in a benchmarking exercise spurs creativity. Most of the time, the areas where a practice is deviating from benchmarks comes as a surprise, and is the result of the "this is how we have always done it" mindset, or "our docs can't manage in an environment that doesn't provide this" mindset. If you find the right benchmarks and drill down far enough, you will know exactly what drives costs in your practice, and where your "luxuries" exist. The key, however, is to find the right benchmarks that reflect your practice. Otherwise, you can set yourself up for failure or the perception of inability to manage costs.
  6. **Manage turnover.** Well, of course, right? This takes effort, but will reap rewards that can and cannot be measured. This is the kind of task that most often requires outside resources to achieve. The easiest and most effective turnover-shrinking maneuver I ever implemented was to clarify roles and increase performance pressure. People quit jobs when it becomes a clock-punching exercise. They become energized and look forward to their role when it becomes a goal for success. Team or department managers should be in the business of nurturing people to the level of success that would qualify them to be promoted or leave the company for advancement if it is not available in yours. This is difficult and threatening at times, and can only be successfully implemented in a systematic manner. Create a system of documentation, evaluation, and reward. Do not venture to become the coach of the entire team. Coach your direct reports to coach their own direct reports, and get out of the way.

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