The Big 10: The Most Important Metrics Your Practice Should Be Tracking

Financial Disclosure

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Presented by: Andrew Maller & Elizabeth Holloway

Andrew and Elizabeth are Consultants at BSM Consulting. BSM Consulting provides practice management solutions to specialty care providers.

Objectives

- Determine the metrics most important in measuring the financial health of the practice.
- Integrate the metrics and tools provided in the course in the practice.
- Interpret the results of each metric to identify tangible areas of opportunity for improvement.
What is a Key Performance Indicator (KPI)?

- Type of performance measurement that is essential to the practice reaching its goals.
- An objective to be targeted that will add the most value to the business.
- Should be understandable, meaningful, and measurable.

The truth is, if you are not tracking KPIs...

- You won't know where you are or where you are going.
- You will have no sense of how performance compares to prior year or budget.
- You will find it challenging to lead or manage the practice.
- You will tend to make poor business decisions.

What are the most important KPIs to track in your practice?
Balance Sheet

Is my practice healthy financially?

Balance Sheet Introduction

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities</th>
<th>Shareholders' Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Assets</td>
<td>Current Liabilities</td>
<td>Paid In Capital</td>
</tr>
<tr>
<td>Tangible Assets</td>
<td>Non-Current Liabilities</td>
<td>Retained Earnings</td>
</tr>
<tr>
<td>Non-Current Assets</td>
<td></td>
<td>Net Income</td>
</tr>
</tbody>
</table>
### The Eye Group Sample Balance Sheet

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities and Shareholder’s Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Checking Account</td>
<td>$34,934</td>
</tr>
<tr>
<td>Savings Account</td>
<td>74,405</td>
</tr>
<tr>
<td><strong>Total Current Assets</strong></td>
<td>$120,337</td>
</tr>
<tr>
<td><strong>Tangible Assets</strong></td>
<td></td>
</tr>
<tr>
<td>Medical Equipment</td>
<td>$700,643</td>
</tr>
<tr>
<td>Office Equipment</td>
<td>89,120</td>
</tr>
<tr>
<td>Leasehold/Improvements</td>
<td>23,203</td>
</tr>
<tr>
<td>Accumulated Depreciation</td>
<td>$20,046</td>
</tr>
<tr>
<td><strong>Total Tangible Assets</strong></td>
<td>$743,121</td>
</tr>
<tr>
<td><strong>Other Assets</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$1,842,500</td>
</tr>
<tr>
<td><strong>Current Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Accounts Payable</td>
<td>$34,394</td>
</tr>
<tr>
<td><strong>Non-Current Liabilities</strong></td>
<td></td>
</tr>
<tr>
<td>Equipment Loan</td>
<td>$43,461</td>
</tr>
<tr>
<td><strong>Total Non Current Liabilities</strong></td>
<td>$86,850</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$103,484</td>
</tr>
<tr>
<td><strong>Shareholders’ Equity</strong></td>
<td></td>
</tr>
<tr>
<td>Capital Stock</td>
<td>$5,000</td>
</tr>
<tr>
<td>Other Assets</td>
<td></td>
</tr>
<tr>
<td><strong>Total Liabilities &amp; Equity</strong></td>
<td>$184,250</td>
</tr>
</tbody>
</table>

### Balance Sheet Ratios

**Current Ratio**

**Formula:**

\[
\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

**Calculation**

\[
\text{Current Ratio} = \frac{58,337}{34,394} = 1.70
\]

**Used For:** Measure of a practice’s ability to use current assets to cover current liabilities

**Goal:** Goal should be greater than 1.0, but 2.0 or higher is preferred

**Debt-to-Equity Ratio**

**Formula:**

\[
\text{Debt-to-Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}
\]

**Calculation**

\[
\text{Debt-to-Equity Ratio} = \frac{103,484}{80,766} = 1.28
\]

**Used For:** Measure of a practice’s borrowing power or leverage

**Goal:** Goal should be less than 3 to 1
Physician Productivity

Are Our Physicians Productive?

Net Collections per FTE MD

Data: Net collections (gross collections minus refunds)
Number of FTE MD’s

Formula: Net collections divided by the number of FTE MD’s.

Used For: Assessment of provider productivity; track year over year trends, as well as inter-doctor variances

Tips: Look at the ratio over an extended period of time (monthly variances are quite common); low collections may indicate collection difficulties or provider inefficiencies.

Benchmark Range: $800,000–$1,300,000
Net Collections Per Encounter

Data: Net collections (gross collections minus refunds) divided total patient encounters.

Formula: Net collections / total patient encounters.

Used For: Practice efficiency assessment tool; useful tool to build revenue model in budgeting plan.

Tips: Understand your practice and the types of patients you see; helps you project provider revenue.

Benchmark Range: $175–$250

Billing & Collections

Are we getting paid in a timely manner?
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### Net Collection Ratio

- **Data:** Monthly Collection Totals (net of patient refunds) and Monthly Adjusted Charges (gross charges less contractual agreements).
- **Formula:** Net collections divided by adjusted charges.
- **Used For:** Identification of a practice's ability to collect that which it can legally collect (net charges).
- **Tips:** Look at the ratio over an extended period of time (monthly variances are quite common); low percentages may indicate billing problems, collection difficulties, payer delays.

**Benchmark Range:** 95%–99%

### Billing Metrics: Accounts Receivable Aging

- **Data:** Monthly Accounts Receivable Summary Aging Reports.
- **Used For:** Identifying collection trends in the practice.
- **Tips:** High ratios could be caused by billing problems, difficulties, or payer delays; track trends over time; if problems are apparent, complete a detailed payer analysis and re-assess department policies and procedures.

<table>
<thead>
<tr>
<th>A/R Aging Category</th>
<th>Percent of A/R Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 30 days</td>
<td>55% - 75%</td>
</tr>
<tr>
<td>31 – 60 days</td>
<td>8% - 18%</td>
</tr>
<tr>
<td>61 – 90 days</td>
<td>3% - 9%</td>
</tr>
<tr>
<td>91 – 120 days</td>
<td>2% - 6%</td>
</tr>
<tr>
<td>Over 120 days</td>
<td>4% - 17%</td>
</tr>
</tbody>
</table>

**Benchmark Range:**

### Billing Metrics: Days Sales Outstanding

- **Ratio:** Days Sales Outstanding
- **Used For:** Adjusted accounts receivable divided by the average daily collections.
- **Tips:** Measure of how quickly receivables turn over in the practice.

<table>
<thead>
<tr>
<th>Adjusted Accounts Receivable Balance</th>
<th>Days Sales Outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Current A/R balance × gross collection ratio ÷ net collections/gross charges)</td>
<td>(Adjusted accounts receivable balance ÷ average daily collections)</td>
</tr>
</tbody>
</table>
**Operating Efficiency**

Are my expenses too high?

Operating Expense Ratio

- **Data:** Operating Expense Less MD/OD Compensation and Benefits
- **Formula:** Total operating expenses divided by net collections.
- **Used For:** Illustration of practice efficiency converting revenue into professional compensation.
- **Tips:** Statistic not absolute; correlate with other indices; evaluate over time to observe trends.

**Benchmark Range:** 50%–70%
Do I have the right number of staff?

Net Collections per FTE Staff

Data: Net collections (gross collections minus refunds) / Number of FTE Staff

Formula: Net collections divided by the number of FTE's.

Used For: Assessment of staff efficiency and productivity

Tips: Compare trends over several years; be sure to compare with other like kind practices; performance less than healthy range may indicate overstaffing problem.

Benchmark Range: $140,000 - $200,000
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Payroll Ratio

**Data:**
- Gross non-physician payroll
- Net collections (gross collections less refunds)

**Formula:**
Gross non-physician payroll \( \div \) net collections

**Used For:**
Efficient use of non-professional personnel

**Tips:**
- Extremely low percentages may indicate physician inefficiency
- High percentages generally indicate overall practice inefficiencies

**Benchmark Range:** 20%–26%

Staffing Metrics: Payroll Ratio

**Ratio:** Payroll

**Formula:**
Gross non-physician payroll \( \div \) net collections

**Used For:**
Efficient use of non-professional personnel

Case Study: Do I have the right number of staff?

**Low Payroll Ratio: 18%**
*Over Stressed Staff*

**High Payroll Ratio: 36%**
*Inefficient Office*
Presenting Numbers to Physicians

- Set monthly deadlines
- Be accurate
- Be on time!
- Condense data
- Prepare back-up documentation

Summary

KPI’s: The Big 10

- Understand performance
- Understand trends
- Make informed business decisions

Thank you for attending!

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