DIAGNOSING YOUR PRACTICE’S FINANCIAL STATUS

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Practice growth forecasting is extremely challenging!

Today’s Objectives

Provide practical information.

Offer useful tools to facilitate data reporting and interpretation.

Sound Business Decisions
Questions Commonly Asked by Ophthalmologists

- Am I making as much as I should?
- Is my overhead too high?
- Are collections efforts appropriate and effective?
- Is my dispensary as profitable as it should be?
- Do I have too much or too little staff?
- Should I hire a new associate?
- Does it make sense to open another office?
- Am I as efficient as I should be?

What is benchmarking?

The process of measuring and comparing one’s practice with other “like kind” and/or better performing practices as well as your own historical results.

Why should I benchmark my results?

- Focuses you on key operating metrics that impact practice performance.
- Keeps track of the “health” of the practice.
- Helps identify areas for potential performance improvement.
- Sometimes the solutions to practice performance problems may be quite different than initial appearances.
- Objective assessment of data can often provide the means for finding the right answer.
What should I measure?

- Profitability and overhead management.
- Productivity, capacity utilization and staffing measures.
- Cash flow management efficiencies.
- Patient and employee satisfaction.

Success in a medical group can be defined in a variety of ways.

Sound business decisions cannot be made without **good, sound** information.

Essential Elements of Financial Reports

- **Timeliness**: Statements and management ratios should be completed and received within 15-20 working days of the end of each month.
- **Concise**: Single page – more is not better!
- **Ease of Access**: Regardless of size of practice or number of locations.
- **Use of Comparative Data**: Previous operating results or anticipated budgets.
- **Trend Analysis**: Examined in comparison to 3, 6 or 12 month moving averages.
Where do the benchmarks come from?

The Benchmark Range has been developed by BSM Consulting, as a result of working with ophthalmic practices throughout the country for over 30 years.

The Benchmark range typically represents the 25th to the 75th percentile of all practices.

The information is then corroborated with other industry data and the American Academy of Ophthalmology benchmarking database results.

Since practices vary in the nature of services provided, the Benchmark Range is not a "one size fits all" answer to measuring practice performance.

Used for directional purposes only.

Key Leading Indicators

- Net Collection Ratio
- Operating Expense Ratio
- Non-MD Payroll Ratio
- Number of FTE Staff per FTE Provider
- Patient Encounters per FTE MD/OD

Key Leading Indicators

- Net Collections per FTE Support Staff
- Net Collections per FTE MD/OD
- MD/OD Net Collections per Patient Encounter
- New Patient Ratio
- Accounts Receivable Aging Analysis
**Net Collection Ratio**

**Data:**
- Monthly Collection Totals (net of patient refunds)
- 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%

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**Operating Expense Ratio**

**Data:**
- Operating Expense Less MD/OD Compensation and Benefits
- Net Collections (monthly gross collections less refunds)

**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%

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**Operating Expense Ratio Example**

<table>
<thead>
<tr>
<th>Monthly Operating Expenses</th>
<th>$60,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monthly Net Collections</td>
<td>$100,000</td>
</tr>
</tbody>
</table>

Operating Expense Ratio = \( \frac{60}{100} = 60\% \)
Non-Provider Payroll Ratio

Data: Gross Non-Provider Payroll
Net Collections (gross collections less refunds)

Formula: Gross non-provider payroll divided by net collections.

Used For: Assessment of practice efficiency in utilization of non-professional personnel.

Tips: Extremely low percentages may indicate physician inefficiency; high percentages generally indicate overall practice inefficiencies; evaluate results over time and trends.

Benchmark Range: 20% - 26% (unburdened)
26% - 32% (burdened)

Number of FTE Staff per FTE Provider

Data: Number of FTEs (total monthly employee hrs divided by 173.33)
Number of FTE MDs and ODs

Formula: FTE support staff divided by total MDs and ODs.

Used For: Identifying practice efficiency in utilization of support staff.

Tips: Lower number of staff per FTE provider may indicate a need for additional personnel; whereas, a higher number of staff may suggest inefficiency in use of staff.

Note: Be sure to correlate this metric with the Non-Provider Payroll Ratio and Net Collections per FTE Support Staff.

Benchmark Range: 4 - 8

Net Collections per FTE Support Staff

Data: Net Collections (gross collections less refunds)
Number of FTE Support Staff (total monthly employee hours divided by 173.33)

Formula: Monthly net collections divided by FTEs.

Used For: Assessing staff efficiency and productivity.

Tips: Compare trends over time; be sure to compare with like kind practices; performance less than benchmark range may indicate overstaffing problem.

Benchmark Range: $140,000 - $200,000 Annualized
What drives these staffing ratios?

- The Number of Staff
- The Productivity of Staff
- Staff Pay Levels
- The Productivity of Providers

AAO-OOSS Salary Survey, Sponsored by Allergan

**Data:**
- Number of Patient Encounters (use all visits with posted E&M and ophthalmic visit codes; include no charge visits)
- Number of FTE MDs/ODs

**Formula:**
Number of MD/OD patient encounters divided by the number of FTE MDs/ODs.

**Used For:** Measurement of physician productivity and efficiency.

**Tips:**
- Assess inter-doctor variances in group practices; a low measure may indicate physician inefficiency or a more conservative practice pattern; evaluate sub-specialty differences in encounter rates.

**Benchmark Range:**
- MD 4,000 - 7,000 Annualized
- OD 2,000 - 4,000 Annualized
Net Collections per FTE MD/OD

Data: Net Collections (monthly gross collections less refunds) 
Number of FTE MDs/ODs

Formula: MD/OD Net collections divided by the number of FTE MDs/ODs.

Used For: Evaluation of physician productivity.

Tips: Compare inter-doctor variances; evaluate physician schedules and patient mix; low productivity numbers may point to physician inefficiency, patient throughput issues, or a need for marketing.

Benchmark Range: MD $800,000 - $1,300,000 Annualized 
OD $200,000 - $400,000 Annualized

MD/OD Net Collections per Patient Encounter

Data: MD/OD Net Collections (gross collections minus refunds) 
Total MD/OD Patient Encounters (new, established, and no charge visits)

Formula: MD/OD Net collections divided by total MD/OD patient encounters.

Used For: Measurement of practice revenues in relationship to patient volume.

Tips: Compare revenue rates per encounter over time for the practice, as well as by provider; consider differences in sub-specialty rates due to reimbursement differences, as well as surgery rates to patient office visits; useful tool for budgeting.

Benchmark Range: MD $175 - $250 
OD $80 - $150

New Patient Ratio

Data: Number of New Patient Ophthalmic and E&M Encounters 
Number of Established Pt. Ophthalmic and E&M Encounters

Formula: New Patient Encounters divided by the sum of all New Patient Encounters plus Established Patient Encounters. Do not include No Charge and Follow-Up Visits.

Used For: Assessment of practice’s ability to attract a continuing flow of new patients in relationship to their total patient encounters.

Tips: Lower number may point to a need for marketing. Be sure to correlate this metric with the patient encounters per providers and the revenue per patient encounter.

Benchmark Range: 15% - 25%
Accounts Receivable Aging Analysis

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>Benchmark Range:</td>
<td></td>
</tr>
<tr>
<td>0 – 30 days</td>
<td>5% - 15%</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>
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How to Use the Benchmarking Data

- If possible, complete a 3-year historical comparative report to establish your baseline.
- Set up productivity and efficiency goals based on historical results.
- Assess results regularly by using a monthly benchmarking report.

3-Year Historical Benchmarking Report
Do not over-react to monthly fluctuations in any of these ratios. The “healthy ranges” shown should be considered “soft” because unique circumstances in each practice make generalizations difficult. Benchmarks are a comparative tool, so it’s absolutely critical to compare apples to apples. Helpful to always use more than 1 benchmark to understand the true position within a practice. When calculating benchmarks, be sure to use comparable time periods for all numerators and denominators. Benchmark reports are road maps that uncover symptoms within the practice.

Summary

Using benchmark reports should be a key tool in your practice to analyze results on a consistent basis.

Having meaningful information enables us to make sound business decisions for the practice.

Solicit the services of the Eye Care Business Advisor Group to help develop Financial Benchmarking Reports.
Questions?

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