


**FINANCIAL BENCHMARKING
FOR
THE OPHTHALMOLOGY PRACTICE**

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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 financial "health" of the practice.
- Helps identify areas for potential performance improvement.
- Solutions to practice performance problems may be very 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 blended 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

Days Sales Outstanding

Documents Needed

- ▶ Profit and Loss Statement (P & L)
- ▶ CPT Utilization Report by Doctor
- ▶ Number of Hours worked by your employees
- ▶ A/R Aging Analysis Report

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%

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: 48% - 68%

Non-MD Payroll Ratio

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

Formula: *Gross non-MD 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.

Benchmark Range: 6 - 8

Patient Encounters per FTE MD/OD

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 5,000 - 8,000 Annualized
OD 2,000 - 4,500 Annualized

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: \$110,000 - \$160,000 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 - \$1,200,000 Annualized
OD \$200,000 - \$ 500,000 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 \$150 - \$225
OD \$ 70 - \$130

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*.

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% - 30%

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.

	<u>A/R Aging Category</u>	<u>Percent of A/R Total</u>
	0 – 30 days	40% - 60%
Benchmark	31 – 60 days	15% - 25%
Range:	61 – 90 days	5% - 10%
	91 – 120 days	5% - 10%
	Over 120 days	10% - 20%

Days Sales Outstanding

Data: Average Daily Collections (monthly net collections divided by 30 days)
Adjusted Accounts Receivable Balance (A/R balance times gross collection ratio)

Formula: *Adjusted accounts receivable balance* divided by *average daily collections*.

Used For: Providing a barometer of how rapidly receivables turn over in the practice.

Tips: Measure trends over time; a low number of days in receivables indicates a healthy management of the billing and collections process; a high number of days may indicate billing, collection, or potential payer issues.

Benchmark Range: 25 – 45 days

Benchmark Cautions and Caveats

- 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 its 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.

Thank You!

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