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Financial Disclosure

The “Art” of Benchmarking

Presented by:
Maureen Waddle

Maureen is a Senior Consultant at BSM Consulting. Allergan, Inc. is a client of BSM Consulting.

Objectives

- Define standard benchmarks and formulas.
- Review the uses of benchmarks.
- Understand the potential pitfalls through case studies.
- Develop action plans based on information.
- Become a benchmarking artist, have fun!
**What is benchmarking?**

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

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**Caveats of Benchmarking**

<table>
<thead>
<tr>
<th>Know definitions and formulas</th>
<th>Compare apples to apples</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratios result from two numbers</td>
<td>Know how you can impact a change</td>
</tr>
<tr>
<td>Benchmarks are “directional”</td>
<td>Don’t overreact. Use more than one benchmark to make decisions</td>
</tr>
<tr>
<td>“Healthy” Ranges</td>
<td>BSM experience, Corroboration with experts and AAO database. 25th to 75th percentile</td>
</tr>
</tbody>
</table>

**Most important!**

Use the tool to compare against yourself, set goals, create tactical plans, and IMPLEMENT.

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**Case Study to Guide us Through Benchmarks**
**Background**

- Large, multi-specialty group eye care practice
- Metropolitan area
- 4 to 10 partners
- Additional employed ophthalmologists & optometrists
- Multiple office locations
- At least one surgery center
- At least one partner older than 55
- Have added new doctors over the past four years
- Revenues and office visits are growing year over year

**Sample Benchmarking Report**

- Accounts Receivable Benchmarks
  - **Net Collections Ratio**: Healthy Range: 95 – 99%
  - **Days Sales Outstanding**: Healthy Range: 25 – 45 Days
  - **A/R Aging by Category**:
    - Healthy Range:
      - 0 – 30 Days: 40 – 60%
      - 31 – 60 Days: 15 – 25%
      - 61 – 90 Days: 5 – 10%
      - 91 – 120 Days: 5 – 10%
      - 120+ Days: 10 – 20%
A/R Results from Case Study

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Healthy Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Collection Ratio</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross Charges</td>
<td>$6,058,043</td>
<td>$6,753,658</td>
<td>$6,850,412</td>
<td></td>
</tr>
<tr>
<td>Contractual Adjustments</td>
<td>$958,325</td>
<td>$1,408,284</td>
<td>$1,295,125</td>
<td></td>
</tr>
<tr>
<td>Adjusted Charges</td>
<td>$5,099,718</td>
<td>$5,345,374</td>
<td>$5,555,287</td>
<td></td>
</tr>
<tr>
<td>Total Net Collections</td>
<td>$5,035,164</td>
<td>$5,240,165</td>
<td>$5,403,168</td>
<td></td>
</tr>
<tr>
<td>Net Collection Ratio</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Status?

- How are we feeling about our practice?
- What should our follow-up activity be?
- What additional information might you want?

Most Commonly Used Standards

**Productivity**

- Collections per Encounter
  - Healthy Range: $150 – $225
- Encounters per FTE MD
  - Healthy Range: 5,000 – 8,000
- Encounters per FTE OD
  - Healthy Range: 2,500 – 4,500
Case Study Financial Efficiency

Status?

- How are we feeling about our practice?
- What should our follow-up activity be?
- What additional information might you want?

Most Commonly Used Standards

Financial Efficiency

- Collections per FTE MD: Healthy Range: $600K – $1.2M
- Operating Expense Ratio: Healthy Range: 48% – 68%
- Net Collections per FTE OD: Healthy Range: $200K – $500K
Practice Expenses

<table>
<thead>
<tr>
<th>Year</th>
<th>Overhead</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$6,399,853</td>
<td>2.7%</td>
</tr>
<tr>
<td>2</td>
<td>$6,575,176</td>
<td>17.8%</td>
</tr>
<tr>
<td>3</td>
<td>$7,746,116</td>
<td>-3.0%</td>
</tr>
<tr>
<td>Est. 4</td>
<td>$7,510,624</td>
<td>-5.00%</td>
</tr>
</tbody>
</table>

Net Income (Partner Take-home)

<table>
<thead>
<tr>
<th>Year</th>
<th>Partner Compensation</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$4,100,000</td>
<td>-19.5%</td>
</tr>
<tr>
<td>2</td>
<td>$3,301,500</td>
<td>-9.9%</td>
</tr>
<tr>
<td>3</td>
<td>$2,975,000</td>
<td>-15.1%</td>
</tr>
<tr>
<td>Est. 4</td>
<td>$2,525,000</td>
<td>-15.1%</td>
</tr>
</tbody>
</table>

Status?

- How are we feeling about our practice?
- What should our follow-up activity be?
- What additional information might you want?
Most Commonly Used Standards

**Staffing**

- **Staff Salary Expense Ratio**
  - Healthy Range: 20% – 26%

- **Number of FTE Staff per FTE MDs**
  - Healthy Range: 6 – 8

- **Revenue per FTE**
  - Healthy Range: $110K – $160K

**Others?**

- Collections per FTE billing person
- Technicians per FTE MD

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Case Study Staffing Measures

**Net Collections per FTE Support Staff**

**Number of FTEs per FTE Provider**

**Non-MD Payroll Ratio**

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Status?

- Now, how are we feeling?
- Put yourself in the role of this administrator…
  - What additional information might you want?
  - When do you have enough information?

Avoid paralysis by analysis!
Revenue Per FTE MD

Year 1 | Year 2 | Year 3 | Est. 4
$1,124,599 | $1,016,109 | $1,005,628 | $960,781

Remove Specialty

Revenue per FTE MD
Remove Retina/Oculoplastics/Optometry

Lessons Learned Thus Far

- Compare apples to apples.
- Use more than one benchmark to paint your picture.
- Benchmarks aren’t the only pieces of information to review.
Ultimate Goals

Don’t rely on chance!

Implement an Action Plan related to the key imperatives of the practice:

- Clearly describe actions to be taken.
- Assign an accountable person.
- Establish a deadline.
- Monitor progress.

Action Plan

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>PARTNER IN CHARGE</th>
<th>RESPONSIBLE PARTY</th>
<th>DUE</th>
<th>STATUS/COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Planning/Reporting</td>
<td></td>
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<tr>
<td>1. Weekly log completion</td>
<td></td>
<td></td>
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<tr>
<td>2. Monitoring data quality to ensure allProv in monthly meetings</td>
<td></td>
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<tr>
<td>3. Process audits for quality of care</td>
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<tr>
<td>4. Plan for closeout of managed care</td>
<td></td>
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<tr>
<td>5. Access revenue audit</td>
<td></td>
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<tr>
<td>6. Post acquisition revenue</td>
<td></td>
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<tr>
<td>7. Bi-annual financial statement</td>
<td></td>
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<td></td>
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<tr>
<td>8. Plan for compensation</td>
<td></td>
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<td></td>
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<tr>
<td>9. 501c3 planning</td>
<td></td>
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<tr>
<td>10. Evaluate</td>
<td></td>
<td></td>
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<tr>
<td>11. Review and update staff policy manual</td>
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Financial

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Accounts receivable monitoring</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>2. Purchasing and expense controls</td>
<td></td>
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<tr>
<td>3. Benchmark review</td>
<td></td>
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<tr>
<td>4. Coordination with CPA/bookkeeper</td>
<td></td>
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<tr>
<td>5. P&amp;L statements</td>
<td></td>
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</table>

Human Resources

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
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<th>RESPONSIBLE PARTY</th>
<th>DUE</th>
<th>STATUS/COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Create and update staff policy manual</td>
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</table>

Clinical Operations

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
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<th>RESPONSIBLE PARTY</th>
<th>DUE</th>
<th>STATUS/COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
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<td>2.</td>
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<td>3.</td>
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What’s next?

- Find possible solutions and talk to the team.
- Make recommendations.
- Get partner buy-in.
- Create action plan.
- Execute the plan.
Benchmarking as the BASIS for:

- Identifying Opportunities and Setting Goals
- Modifying the Tool for Various Uses
  - Adding a provider
  - Adding a satellite location
  - Adding equipment
  - Budgeting
  - Eliminating…

Sample 3-Year Benchmarking Report

Summary

- Benchmarking helps us analyze our current situation and create a road map for the practice.
- The art is knowing your own practice and implementing a measured plan.
- Benchmarking and financial analysis is not the ONLY consideration.
- Use the tools and information from this course to paint a clear picture and guide your practice to making better business decisions.
Thank You for Attending!

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Any questions?