Case Study: Using Benchmarking Data to Facilitate Performance Improvement

By Bruce S. Maller

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 answers.

Case Study

Ophthalmology Associates, Inc. (fictitious name) is a group practice with two partners and one full-time optometrist. The practice employs 15 full-time equivalents (FTEs). The practice does not have an optical dispensary. The practice has seen steady growth over the past several years. The younger of the two partners completed his buy-in about three years ago.

The practice is located in an upscale community with a population of around 115,000. There is an above average percentage of individuals over the age of 65 in the area. There are seven ophthalmologists serving the community. Three of the seven are approaching retirement age and are only working on a part-time basis.

The administrator recently indicated to a visiting consultant that despite the continued growth in patient encounters and surgical volume, the partners have experienced a decline in take-home pay. The younger partner had recently mentioned that, if he did not see some improvement in his income, he might have to consider leaving the practice. In view of the fact the practice had recently moved to a new 4,500 square foot facility and signed a long-term lease, the administrator felt this was a time-urgent issue, needing some immediate attention.

Prior to conducting the on-site assessment of the practice, the consultant completed a three-year financial and productivity analysis. The consultant reviewed his findings with the administrator. A recap of some of the more significant historical results appears in *Exhibit 1*.

Exhibit 1: Significant Historical Results

	Year 1	Year 2	Year 3
Collections (1)	$1,325k	$1,295k	$1,205k
Expenses	$ 835k	$ 793k	$ 738k
Net Income	$ 490k	$ 502k	$ 467k
Patient Encounters:			
New Patients	2,785	2,585	2,545
Established Patients	8,013	7,595	7,158
No-Charge Visits	658	498	531
Total Encounters	11,456	10,678	10,234
Patient Encounters by MD/OD:			
Senior Partner	4,438	4,761	5,375
New Partner	4,378	3,982	3,751
Optometrist	2,640	1,935	1,108
Operating Expense Ratio	63%	61%	61%
Payroll Ratio	27%	25%	24%

(1) Collections by provider for Year 3 were as follows:
Senior Partner: $597,938

Other Observations

Other significant observations include:

1. Days Sales Outstanding of 36 was well within the industry healthy range of 25 to 45 days.

2. Based on results of a recent employee staff survey, morale was fair. There were several comments on the surveys suggesting that some type of incentive plan would be appreciated. In addition, there were several complaints from the staff members about excessive workload. These comments were primarily from back-office employees. Staff wage levels were slightly below national averages. Other benefits were competitive with similar practices in the area.

3. A review of physician schedules indicated the physicians were seeing an average of only 26 patients per day (or about 67% of available slots) and the optometrist was seeing an average of 12 patients per day.

4. The practice had an unusually high no-show rate.

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The administrator indicated that only about 20% of patients were routinely called to confirm their scheduled appointments.

5. Curiously, new patients were being booked out between four and six weeks while established patients were scheduled out about three weeks.

6. The partners shared net income on the basis of their respective production, measured on the basis of collected receipts.

7. Cataract surgery volume has averaged about 240 cases per year for the past three years.

8. The practice does little to no internal or external marketing. In fact, annual marketing expense, including yellow page ads, has averaged about $15,000 for the past three years.

9. The doctors and the administrator were quite bullish about growth prospects for the practice. However, they were concerned that, if they were to see more patients, staff might revolt.

The consultant had an opportunity to meet with the physician partners during the first evening of the visit. In addition to the information summarized above, he also reviewed with them the following statistics with comparisons to industry norms. The norms are based on vast experiences in evaluating ophthalmology practices over many years. These data are illustrated in *Exhibit 2*.

Exhibit 2: Industry Norms

	Year 3	Healthy Range
Overhead Ratio	63%	48% - 68%
Payroll Ratio	27%	20% - 26%
Average Revenue Rate per MD	$543,000	$800,000 - $1,200,000
Average Patient Encounters per MD	4,400	5,000 - 8,000
Revenue Rate per Encounter	$123	$150 - $225
Number of FTEs per FTE MD	7.5	6 - 8

With the objective data assessment and a review of the other observations noted above, the consultant was able to facilitate a focused discussion around the core issues facing the practice. The bottom line in the minds of the doctors was that they were not generating a sufficient level of take-home pay. It was clear to the consultant that there were several contributing factors.

First of all, with the facility and staffing capacity in place, this practice could see a significantly greater number of patients. The community actually has a shortage of full-time equivalent ophthalmologists suggesting the practice has room to grow. There are clearly some staff management issues that need to be addressed and resolved. While there appears to be an adequate number of staff, it is clear they are not being managed to achieve optimum results for the practice. The consultant's assessment revealed a need for management and development training for the administrator and a definite need for team building and training for the entire staff.

As mentioned, the practice has made little to no investment in marketing. At a minimum, an upgrade in patient education materials was recommended. It was agreed to defer a decision on other marketing activities until we were able to implement some basic training programs, i.e., telephone skills and patient counseling training.

Although the doctors wanted to focus on cost reduction strategies, the consultant was able to move the discussion around opportunities to grow the top line and improve patient scheduling, flow, and efficiency. The group agreed to implement several programs that would focus on filling available patient slots and reducing the no-show rate.

They also agreed to give consideration to implementing an incentive plan that would only be triggered if the practice were able to achieve specific encounter targets. It was decided that, if each partner were to increase individual annual patient encounters to 6,000, a bonus pool of 7.5% of incremental practice revenue over the Year 3 base line of $1,325,000 would be set aside. It was estimated that, if the group were to hit its encounter targets, annual revenue was likely to increase by nearly $400,000. This amount was determined by taking the targeted annual patient encounter figure of 12,000, subtracting the Year 3 MD-patient encounters of 8,816, and multiplying the result by the Year 3 revenue rate per encounter of $123.

The significance of choosing patient encounters as the barometer for the incentive plan was that staff and physicians all play a part in controlling this number. Further,

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the economic incentives of staff and physicians were more closely aligned. As the physicians achieved their goals, staff could see how they would win.

The physicians also agreed to carefully analyze the feasibility of adding an optical dispensary. The new facility had some unused space that easily could accommodate this business.

The key learning from this case study is that the use of objective data can oftentimes help to redirect the agenda away from a more emotional assessment and create a mechanism to focus all stakeholders on the most important variables that affect practice performance.

For more information, contact BSM Consulting at 1-800-832-0609.