Financial Benchmarking: Worth Its Weight in Gold

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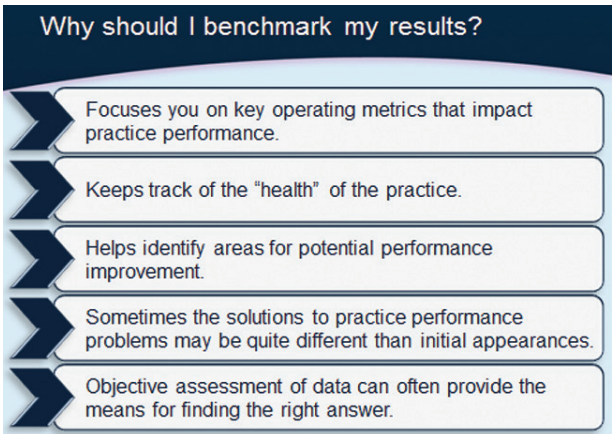
Allergan recognizes the important role women eye care practitioners play in the ophthalmic and optometric communities. Visionary Insights for Eye Care Women—VIEW—is a platform established by Allergan that is dedicated to supporting and promoting women optometrists and ophthalmologists. This article marks the third in a series that will appear in Cataract & Refractive Surgery Today, *its sister publication,* Advanced Ocular Care, *and the online publication,* MillennialEYE *(www.millennialeye.com).*

HOW CAN FINANCIAL BENCHMARKING AID OPHTHALMIC PRACTICES?

Many physicians/practice owners make important financial decisions—like adding a new office, a new doctor, or buying equipment—based on a gut feeling rather than on an assessment of needs and return on investment. As ophthalmic reimbursements have declined and expenses have increased in recent years, physicians' margin of income is being squeezed. They can no longer afford to make these important decisions without solid evidence of the benefits. This is where financial benchmarking is worth its weight in gold (Figure).



WHAT ARE THE CURRENT US TRENDS?

I have completed more financial benchmarking reports for ophthalmic practices this year than ever before. All of my clients have experienced consistent year-over-year increases in their net collections until 2013—the first year I started to see practices' net collections actually decline. The culprit is lower reimbursements. In addition, operating expenses have been rising as a result of technological advances such as the implementation of electronic medical records. Thus, many ophthalmologists are beginning to collect a smaller salary. In this new economic environment, benchmarking can help practices avoid some expensive mistakes.

WHAT SYSTEMS DO CLINICIANS NEED TO HAVE IN PLACE TO TRACK THEIR FINANCIAL DATA?

When working with a medical practice, my first step is to compose a financial benchmarking report. This document becomes a financial map of the practice. It shows not only how the practice has been performing, but more importantly, areas where opportunities exist. Most of the data can be gathered from the clinic's profit and loss statements or income statements. I can usually teach an administrator how to find and enter the necessary data into the report within 1.5 hours. Then, the client and I review this report on an annual basis, which typically takes 1 hour. I prefer to present the data at the physicians' board meeting so they can use it to create a strategic plan for the future of the practice.

IN YOUR EXPERIENCE, WHAT ARE THE BEST WAYS TO CONTROL COSTS AND BOOST INCOME?

Controlling costs and boosting income are mandates for every practice, no matter its size. The best way to control costs is first to identify them. Prior to 2013, some practice administrators did not look closely at their operating expenses per line item, because they never had problems making payroll. In this new economic climate, it makes financial sense for practices to look at where they could negotiate on certain expenses, anything from landscapers to their accountant, to the attorneys and consultants they use.

WHAT ARE THE STANDARD BENCHMARKING MEASUREMENTS?

The main items included in our benchmarking report are overhead, net collections per physician, patient encounters per physician, net collections per staff member, and new patient ratio. We also look at capacity, utilization of the office space, and number of staff members per physician. Staffing decisions are not easy and require a review of several data points.

Operating expenses are approximately 50% to 70% of total net collections. If a practice is bringing in $1 million in net collections and its operating expenses are at 60%, that leaves $400,000 for the physician's income.

Interestingly, I have seen the net collections per physician and the net collections per patient encounter increase in recent years. The main explanation for this is advancements in technology and the increased volume of new diagnostic testing.

HOW SHOULD PHYSICIANS MAKE COST/BENEFIT DECISIONS WHEN PURCHASING TECHNOLOGY?

Feasibility analyzing tools are available to help physicians determine how many patients will have to use the new equipment before the practice recoups the cost of the device via reimbursements. As eye care business advisors, we can also look at a practice's patient demographics to evaluate whether a new device will be appropriate for its patient population.

Another interesting change in our benchmarking is patient encounters per physician per year—it was just lowered from 5,000 to 8,000 to 4,000 to 7,000. With more baby boomers reaching senior age, we expected the opposite to happen; ie, that ophthalmologists would be seeing more patients this year. I think the explanation is that physicians are becoming more efficient with patient visits. More than 60% of ophthalmology practices now have optometrists on board who are acting as gatekeepers for the surgeons. These types of practices might generate fewer visits with the ophthalmologist, but possibly more visits with the optometrist.

WHAT ARE YOUR KEY TIPS FOR PRACTICES IN TERMS OF FINANCIAL BENCHMARKING?

Just do it. The most effective way to benchmark is an annual check-up for 3 years so that we can establish trends within the practice as well as compared with other practices around the country.

Also, I think it is important for administrators to keep track of these data at least on a quarterly basis, if not monthly, and to review the data with their physicians. For example, an administrator would not want to discover in October that the practice's net collections had been 20% less in the first and second quarters of the year, because by then it might be too late to make up the difference.

In 2013, for instance, Medicare reimbursements for cataract surgery declined by 13%, and complex cataract surgery by 21%, which translated to a reduction in net collections of $50,000 to $100,000 for some of the practices I was working with at the time. The administrators who did not run projection numbers for the full year were surprised at the end of the year by the impact the reduced revenue had on their practice.

WHERE DO YOUR BENCHMARKS COME FROM?

The benchmarks that my colleagues and I use come from two main places, (1) the Allergan Access member practices we work with, and (2) data from BSM Consulting, a group with more than 25 years' experience working with ophthalmology practices.

CONCLUSIONS

I am passionate about financial benchmarking, because I have seen what an impact it makes on practices. Our clients, who are practitioners and administrators, say they sleep better at night knowing their financial data are easily accessible and knowing how they compare financially to other practices. Furthermore, the new landscape of declining reimbursements and myriad new rules and regulations makes operating a practice more challenging than ever. Financial benchmarking lets medical administrators know that they are on track for success. Without this important information, it can feel like flying blind. ■

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