



PATHWAY



To Your Perfect Practice

SEPTEMBER 2015 | VOL. 6, NO. 9

Performance Metrics for Your Perfect Practice

If you measure it, you can
improve it.

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Pathway to Your Perfect Practice is a monthly feature section in *CRST* designed to help facilitate the realization of personal and business success through the delivery of exceptional patient experiences.



PERFORMANCE METRICS FOR YOUR PERFECT PRACTICE

If you measure it, you can improve it.

BY JAMES D. DAWES



As scientists and business people, we have been receiving the same advice for centuries. Galileo, the father of modern science, told us to “Measure what is measurable, and make measurable what is not so.” Peter Drucker, one of the developers of modern business theory said, “If you can’t measure it, you can’t improve it.” As successful physicians, surgeons,

and businesspeople running multimillion dollar enterprises, we must surely be measuring and improving upon these metrics year after year to experience growth and prosper, right? Maybe. Do you really know? Are you experiencing growth? If yes, is that growth organic same-store growth or through acquisitions and expansion? Do you understand the cost of that growth, and is it yielding incremental profit? All of these questions can be complicated and perplexing.

In most refractive surgery practices, I find that, for the surgeon owners, the ultimate measure of success is the year-end

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total compensation and shareholder distribution or net earnings to shareholders. This metric is usually manifested in the ever-prominent questions as year-end financials are compiled: was this year better than last, and how much will my distribution check be? I call this the Jerry McGuire “show me the money” moment, beyond which I often see a complete breakdown in the quantification and analysis of metrics that drive the short- and long-term success of the surgical practice in small, medium, and even large refractive surgical groups.

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DATA, DATA, AND MORE DATA?

Are we suffering from a lack of data or data overload? Do we understand what the data say about our ability to achieve overall success? Those of you who know me personally know that I love bicycles and that I love riding them for long distances over all kinds of terrain—dirt, gravel, and tarmac. I do this quite often, in spite of the fact that my wife, kids, and neighbors like to poke fun at me as I walk around in my brightly colored spandex biking kits and gear. While out for a 65-mile club ride the other day, I watched as my bicycle computer provided me with the following information: total time of ride, total distance of ride, current speed, current heart rate, current pedaling cadence, and pedaling power (watts). When I got off my bike and synchronized its computer to my laptop, I had pages of detailed analytics with comparative statistics to previous rides. I can even upload my statistics via various apps and Internet sites and then share and compare my performance to those of other members of my biking club or random strangers who have completed the same ride.

As crazy as it sounds, tens of thousands of people around the world do this on a weekly basis. So, looking at my bicycle computer, I wondered how many surgeons are paying this close attention to their practices, and do they understand the relationship each of these metrics has to the ultimate metric of their business' profitability. Put in biking terms, do you really understand the correlation between pedaling cadence and power output in terms of how fast you get from point A to point B? In many situations, we get so caught up in a particular data point—premium IOL conversions or number of patients seen—that we may lose sight of the impact that metric has on the overall success of the practice. How do we focus on what really matters?

EXECUTING YOUR VISION

In previous installments of “Pathway to Your Perfect Practice,” we focused on getting all of the elements in place for your ultimate success in achieving your vision of the perfect practice. Now, we must shift gears to focus on the actual execution of your vision. The next several installments will focus on how to translate your vision into executable steps such that the progress toward achieving each one can be measured. Here, I refer back to one of my favorite quotations, which has been attributed to Stephen Case, Thomas Edison, and even Japanese proverbs: “Vision without execution is just hallucination.” Do not hallucinate. Focus on executing your vision by measuring your success in achieving your stated goals. Next month, I will discuss how to communicate your vision to your team, continue to motivate them toward your goals, and gather feedback on how to improve.

Herein, I discuss performance metrics and examine

measurement tools based on the intended audience or user, starting with you as the surgeon business owner and then the producing physicians and other providers in the practice and the management team. It is important that the individuals receiving the performance metric also have control over the metric for which they are being held accountable. There is nothing more frustrating or demoralizing for a team member than to try to achieve a benchmark over which he or she has little or no control. Thus, matching the metric and the accountable party is as important as defining the metric itself.

When examining performance metrics, it is of little value to look at a standalone number without a comparison. Much like a clinical trial needs a control group, metrics need a point of comparison. Series of numbers tell stories and demonstrate trends. I always try to look at metrics as a comparison to a prior period or a projected target/budget to better understand progress.

FOUR KEY PERFORMANCE METRICS FOR PHYSICIAN AND SURGEON OWNERS

Remember the concept of the vision quest from the first installment of this series in the February edition (crstoday.com/2015/02/your-vision-quest). Now, let's follow the advice of Galileo and Peter Drucker and measure your progress toward that vision. What is the metric we will use to determine to what degree you are achieving that vision? These are four categories of metrics that I find most helpful in evaluating business success.

No. 1. Profit by Profit Centers

Most surgical practices measure the bottom line by one of two metrics: EBITDA (earnings before interest, depreciation, and amortization) or net cash flow to shareholders. Let's simply call this “total profit.” After paying expenses and investing in necessary new technology, is your company yielding a profit, and is that profit continually growing year after year? If yes, then you have your first indicator of business success. Even with a positive total profit growth trend, your work is not complete. Surgeon owners must remember they are also producers. Not only are you a business owner, but you should be considered a paid producer on the payroll cost side of the equation to obtain an accurate description of profit. Therefore, when assessing the practice's overall profitability, surgeons must factor in their own cost as a surgeon provider based on the market rate of a replacement surgeon who might provide similar professional surgical services. The measurement tool or accounting system being used by the practice must be sophisticated enough to drill down into the source of profitability by revenue category. For example, if a solo surgeon practice produces annual net revenues of \$2 million and shareholder distributions of \$550,000 while

**TABLE. AGGREGATE TOTAL PROFIT MODEL VERSUS PROFIT CENTER MODEL**

Aggregate Total Profit Model				
Net revenues	\$2,000,000			
Net employed provider costs	\$200,000			
Net expenses and overhead	\$1,250,000			
Net cash flow/profit	\$550,000			
% profit margin	27.50%			
Profit Center Model:	Optometry	Optical	Surgeon	Total
Net revenues	\$500,000	\$250,000	\$1,250,000	\$2,000,000
Net provider costs	\$200,000	\$0	\$437,500	\$637,500
Net expenses and overhead	\$287,500	\$206,250	\$756,250	\$1,250,000
Net cash flow/profit	\$12,500	\$43,750	\$56,250	\$112,500
% profit margin	2.50%	17.50%	4.50%	5.63%

employing two optometric physicians and owning a small optical shop as part of the business, was the \$550,000 total profit achieved from surgical production, optometric production, or optical sales? Most likely, the answer is a combination of all of the above. The calculation in the Table shows the difference between examining the aggregate or total profits of the business versus what I refer to as a profit center approach to understanding practice performance.

By considering the business owner surgeon's compensation as a provider cost at 35% of revenues, the business owner can now see how each profit center is performing relative to the other profit centers. As demonstrated in the table, the surgeon is compensated \$437,500 (assuming a market compensation rate of 35% of professional

surgeon revenues) and is compensated an additional \$112,500 as a business owner. After examining these data, the surgeon business owner may make the decision to invest relatively more effort in growing the optical department due to the higher margins achieved in that profit center or may decide that the relative profit from optometry is a great investment given the case volume production associated with primary eye care practices. Note, it is also important for the practice to have the ability to accurately allocate payroll, operating expenses, and overhead by revenue category to get a realistic picture of profit center profitability. This allocation methodology must be consistent to allow period-to-period comparisons.

No. 2. Growth in Volume Based on Customer Base or Referral Sources

In the modern era of digital media, we are bombarded with statistics related to our brand, how that brand is trending, the frequency at which our posts are being reposted, the number of page views we are receiving, the number of likes we may be given on any particular pin or tweet. These vanity metrics do not necessarily translate into quantifiable customers who actually purchase services from our businesses. Action metrics, on the other hand, are quantifiable metrics relating to revenue-producing transactions such as cataract consultations and surgical cases by category, like IOL or laser vision correction procedures. Many times, I hear physicians discussing how many patients they see in a given day. When we drill down into the data, however, the number of patients seen includes postoperative patients, general or comprehensive visits, routine pressure checks, YAG laser follow-ups, and similar types of visits that really are not production oriented for a refractive surgeon. A morning session with 50 patients appears to be a busy morning on the surface; however, if it turns out that only five of those patients are actual IOL or laser vision correction consultations, the metric is misleading much like 5,000 Facebook likes that do not result in a single appointment ever coming from that Facebook page. Therefore, it is important to differentiate between so-called vanity metrics and action metrics.

If growth in customer base is a goal of your refractive surgical practice, you must look at the sources of those patients. The two primary sources are physician referrals and patient referrals, including patient self-referrals. I am speculating, but I doubt that many patients will simply be driving down the street, decide they want to have laser vision correction, and pull into the first LASIK center they see along the road. In many refractive surgical practices I visit, my first question will be to ask for the most recent year-on-year referral report of referring physicians by category of surgical case and the marketing source report by

media category. After hearing this request, the practice owners and administrator look around the room and make some grunting noises and a few comments about having that information somewhere in a report, which in most every case can never actually be produced. If Dr. Jones is supposedly one of your biggest referral sources but you cannot tell me to what degree his cataract and LASIK referral volumes are up or down this year compared to last year at any given time during the year, then you are out of touch with your customer base. As a business owner, you absolutely must know with complete confidence and accuracy the source of your physician referrals and the related trends in those referral volumes. With that knowledge in hand, you must actively address negative and positive trends in referral volumes from key referral sources.

Tracking how nonphysician referrals come to the practice can be a difficult and cumbersome task. Often, patient referrals or self-referrals are a combination of insurance coverage, word of mouth, multiple forms of media, and other combined forces; for that reason, I try to focus on something quantifiable. The measurement I use is a modification of word-of-mouth referrals, what I call “patient willingness to refer.” There are countless statistics and studies regarding the value of a customer referral (so many in fact that trying to quote just a few would not be a productive exercise for the purposes of this article). We can all agree that a referral from a satisfied customer or patient is very desirable, and although there is no guarantee that a patient who says he or she will refer someone will actually do so, a patient’s willingness to make a referral as an indicator of his or her satisfaction is better than a patient who is not willing to refer anyone.

Over the years, I have migrated to measuring patient willingness as a single indicator of patients’ satisfaction. The question I used to gather the data to support this metric is, “Are you willing to refer friends and family to our surgery practice or surgeon (insert surgeon name)?” I sort the responses by yes, no, or indifferent and by overall percentages compared with the total number of respondents.

There are many ways to obtain these data. Fortunately, as surgeons, you are trained scientists and understand quantitative methodologies in gathering data. I suggest you simply develop a measurement tool, (digital is preferred to manual) make it easy for the patient to use, ask the questions consistently to all patients, automatically compile the data, report the data, review the data, and use them to improve your processes. You might be surprised by your results.

For example, let’s say you see 5,000 patients per year in your practice. On average, each patient visits your practice 2.75 times per year, for a total of 13,750 office visits. Your practice electronically surveys each patient after his or her visit, which yields a 10% response rate (1,375 respondents).

“Action metrics, on the other hand, are quantifiable metrics relating to revenue-producing transactions such as cataract consultations and surgical cases by category, like IOL or laser vision correction procedures.”

Eighty-five percent of those patients say they would refer a friend or family member to your practice. Which, on the surface sounds pretty good. On 206 occasions, however, patients specifically said they **would not** refer anyone to your practice. When that metric is extrapolated to all patient visits, we find that, on 2,000 occasions, patients may not have been willing to refer someone to your practice.

Start asking your patients how you can improve, and then take action on their recommendations. This conversation will naturally move you on to the next step in the process of improving communication with patients and understanding to which components of the experience the patient assigns the most value.

No. 3. Employee Satisfaction by Turnover Ratios

Your team members are the lifeblood of your business. The most recent installment of “Pathway to Your Perfect Practice,” Building the Perfect Team in the August issue (crstoday.com/2015/08/building-the-perfect-team), addressed the metric of employee turnover. If your annual employee turnover is greater than 20%, you have an opportunity to improve your overall employee morale. Employee turnover is a great indicator of satisfaction, because it addresses the ultimate decision of whether or not the person feels fulfilled enough to stay with the organization or is dissatisfied to the point that he or she is willing to leave the organization. This metric represents how satisfied your team members are with your company as a work environment and with you as a business owner. High turnover ratios are also indicative of high employee costs, something that diminishes real profits. In relation to profit, there is a negative correlation between employee turnover and profit.

No. 4. Stakeholder Life Satisfaction or “Happy Factor”

In the second installment of this column, Soul Searching, (March; crstoday.com/2015/03/soul-searching) addressed

the importance of bringing other members of your inner circle into your decision-making process as you experienced your vision quest and searched to find the ultimate vision for your perfect practice. You likely have a spouse, partner, children, friends, and business associates who are greatly affected by the decisions you make related to your business and its strategic direction. Your personal vision quest and their individual vision quests are intermingled and sometimes comingled to the point that one may depend on the other. As you progress along your pathway, you must continually check in with the other key stakeholders in your life to ensure overall satisfaction, general happiness, and a progression toward fulfillment. Quantifying and measuring something as subjective as “satisfaction” can be hard to do, so most of us just stop there. It is easier to measure our own happiness and the happiness of our stakeholders by more quantifiable measurements, such as profits.

Up to this point, I have given you very concrete methods and tools for measuring the success of your business. How can you quantify the degree to which you are achieving overall satisfaction in your own life and contributing to the positivity and satisfaction of the key stakeholders around you? That may sound a lot like trying to end world hunger, but then again, maybe not. I recommend you start with the following: Rate your overall life satisfaction on a scale from 1 to 10 (with 10 being the happiest). Be prepared to accept the response, and use these data for improvement. I started asking this of a few key members of my management team, physician group, and even family members several years ago. I was shocked when I heard 5s and 6s and even the occa-

sional 4! I, of course, expected 9s and 10s. What I learned was that, not only had I never asked how satisfied my key stakeholders and I were, but I had no idea what drove that satisfaction. I have often referred to this metric as the “happy factor,” and I have made it routine to ask key members of my team and family, what’s your happy factor? Often, I write down the person’s response and, 30 days later, come back and ask again. If it is worse, I ask why. Soon, you will start to deeply understand the motivating factors of the key stakeholders in your life. By asking yourself the same question, you continually force yourself to gut check your progress on your own vision quest.

FOUR KEY METRIC CATEGORIES

As an owner of a surgical practice, if you can quantify and understand how your business is performing by measuring these four key metric categories, you will be in a strong position to evaluate your overall success at any given point in time:

- (1) growth in profits by profit center
- (2) growth in customer base by referral source
- (3) employee satisfaction based on turnover ratios
- (4) stakeholder life satisfaction based on happy factors

PERFORMANCE METRICS FOR PHYSICIANS AND MANAGEMENT TEAM MEMBERS

Surgical practices are largely privately held entities. In most cases, other than the owner physicians and key management team members, shareholder profitability metrics often are not released to all physician providers and managers. How do you communicate performance metric expectations and hold individuals accountable without

BALANCE SHEET? WHAT’S A BALANCE SHEET?

In surgical practices, I often find that surgeon owners and managers rarely if ever take a look at the balance sheet. However, as banking regulations have increased and the ability to obtain financing requires an increasing number hoops to jump through and more groups are considering working with private equity investors, paying close attention to a few key indicators on the balance sheet will serve you well. Your

balance sheet is not a statement of the *value* of your company, it is a snapshot of the financial health of your company on a given date. Ask your administrator or certified public accountant to include these metrics with your monthly financial statements so that you can quickly understand both your company’s *liquidity* (ability to pay its bills) and *solvency* (borrowing power).

Liquidity: Current Ratio = Current Assets/Current Liabilities

Target Ratio > 1.0, 2.0 or greater desirable

Solvency: Debt-to-Equity Ratio = Total Liabilities/Total Equity

Target Ratio < 3, less than 1.5 desirable

MY SWEET 16 METRICS FOR PHYSICIAN PRODUCERS AND MANAGERS

- No. 1. Total patient encounters (excluding postoperative visits) per physician
- No. 2. Net collections per encounter (excluding postoperative visits) per physician
- No. 3. Net collections per physician
- No. 4. Surgical case volume and collections per surgeon by surgical category
- No. 5. Refractive surgical consultation to technology adoption percentage (otherwise referred to as *conversion percentage*, a term which I do not recommend, simply because you are not attempting to convert patients; you are simply exposing them to advanced technology and measuring their adoption rate)
- No. 6. Surgical referral volume by source (internally and externally physician referred or patient self-referred)
- No. 7. Retail net sales and cost of goods by product
- No. 8. Days sales outstanding in accounts receivable
- No. 9. Percentage of collections for elective (cash) services versus Medicare, insurance, and third-party payers
- No. 10. Nonprovider staffing costs as a percentage of net revenue
- No. 11. Total operating expenses as a percentage of net revenue
- No. 12. Case cost per surgical case by category (if applicable with ambulatory surgery center ownership)
- No. 13. Wait time from appointment to start of examination (when the patient enters room)
- No. 14. Total cycle time from appointment time to checkout (including optical purchase)
- No. 15. Patient willingness to refer a friend or family member
- No. 16. Employee turnover ratio

sharing all of the details? It is really not that difficult. Many practices use the technique of budgeting or projecting revenues, volumes by category, payroll expenses, operating expenses, and capital spending, and they hold their physicians and managers accountable to these budgets and projections on a monthly or quarterly basis. Some groups even tie incentive compensation to meeting or exceeding these goals. Many of the larger, more sophisticated groups will do annual budgets or projections by location and per provider. Obviously, the more complicated budgeting and projecting activities require a more robust accounting system and staffing platform. Given that many readers do not have access to these luxuries, I have listed my favorite metrics that I like to see on at least a monthly basis in a dashboard format for any practice with which I am working (see *My Sweet 16 Metrics for Physician Producers and Managers*). Most of these metrics are based on relatively easy-to-gather data that have a direct impact on the success of the business. Some metrics such as patient sources, wait times, and willingness to refer will require additional measurement systems to be put in place. The key to all metrics is that there is agreement on the formula. Then, consistently and accurately gather and report the data in a format that is easy to read and understand. In an ideal world, each month, I would examine the data and use a prior period for comparison to evaluate trends for each category, resulting in an operational action plan to address problematic areas.

CONCLUSION

In closing, I will leave you with the words of author Mark Victor Hansen: "Don't wait until everything is just right. It will never be perfect. There will always be challenges, obstacles and less than perfect conditions. So what. Get started now. With each step you take, you will grow stronger and stronger, more and more skilled, more and more self-confident and more and more successful."

I urge you not to wait until you have the perfect analytical tools in place. Rather, start measuring your performance today, improve on your measurement tool, and over time, customize it to your tastes. It has taken me years to learn what drives success in refractive surgical practices, and I am still learning every day. Each day in the field, I continue to learn and modify my measurement tools, so when you read an article I write 3 years from now, it will likely list other performance metrics. The learning is part of the fun. ■

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