



PRACTICE METRICS



FOR



BUSINESS DECISIONS

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OBJECTIVES

After this session you should be able to:

- Identify the types of decisions required of managers
- Identify several sources of practice metrics
- Identify several metrics
- Apply selected metrics to business decisions

MAJOR TYPES OF BUSINESS DECISIONS

1. STRATEGIC

2. TACTICAL

MAJOR TYPES OF BUSINESS DECISIONS

1. STRATEGIC-Situation or problem familiarization, resource identification & solution building and alignment
 - Mission, vision, values
 - Longer term goals
 - Critical success factors
 - Grand strategy; growth, harvesting, retrenchment

MAJOR TYPES OF BUSINESS DECISIONS

2. TACTICAL

- ❑ Shorter term plans; budgets, policies & procedures
- ❑ Development of Standards or Managing Toward Goals
 - Quality
 - Financial
 - Productivity-operational or financial

VARIABLES IMPACTING A PRIVATE PRACTICE'S METRICS

1. SPECIFIC CARE DELIVERY MARKET
2. PRACTICE SPECIFIC REALITES

SPECIFIC CARE DELIVERY MARKET

1. STAGE OF MANAGED CARE
2. HOSPITAL RELATIONSHIPS
3. STATE & FEDERAL LEGISLATION &
REGULATION
4. GEOGRAPHY
5. COMPETITION

SPECIFIC CARE DELIVERY MARKET

- HOSPITAL RELATIONSHIPS
 - NUMBER OF INSTITUTIONS
 - PROFIT OR NON-PROFIT
 - DEGREE OF COMPETITIVENESS
 - DEGREE OF COOPERATIVENESS

SPECIFIC CARE DELIVERY MARKET

- STATE / FEDERAL LEGISLATION & REGULATION
 - PAY OR DENY LAW
 - OFF LABEL LAW
 - ANY WILLING PROVIDER LAW
 - ALLOWED TO WORK (Pharmacist in Penna.)
 - TORT REFORM (VICARIOUS LIABILITY)
 - COVERAGE REQUIREMENTS

SPECIFIC CARE DELIVERY MARKET

* COMPETITION

- RELATIVE STRENGTH
- DEGREE OF COOPERATIVENESS
- DISTINCTIVE COMPETENCIES
- STRATEGIC ALLIANCES &
AFFILIATIONS

PRACTICE SPECIFIC REALITIES

1. SIZE - # PROVIDERS, # SITES
2. CULTURE - TEAM, INDIVIDUALS, RESEARCH, ALTERNATIVE MEDICINE, HISTORY, PROFIT
3. COST STRUCTURE
4. PROVIDER MIX - OLDER, YOUNGER, EXTENDERS
5. PHYSICIAN PAY, MOTIVATION, COMMITMENT, HARMONY
6. MANAGEMENT QUALITY - PROCESSES, LEADERSHIP, SKILLS
7. INVESTMENT IN TECHNOLOGY, PEOPLE, BUSINESS ENTITY
8. STRATEGY

PRACTICE METRICS

If the only tool you have is a hammer, you tend to see every problem as a nail.

Abraham Maslow (1908 - 1970)

DATA SOURCES:

1. EXTERNAL - less valid and of limited decisional use
 - PURCHASED (MGMA, PRIVATE CONSULTANTS)
 - SELF-OBTAINED (ASK AROUND)
 - PARTICIPATE IN SURVEY GROUPS
2. INTERNAL - (ASSUMES DATA MGMT. CAPABILITY)
 - BUDGETED
 - HISTORICAL (best)

DATA vs INFORMATION

- GATHERING DATA AND MEASURING DATA IS NOT ENOUGH
- MEASURING EFFECTIVENESS IS MORE IMPORTANT THAN VOLUME
- DATA MUST BE VALUED, SUPPORT ADVANCING THE BUSINESS & COMPARISONS PUT INTO ACTION
- STATISTICS: AVERAGE vs PERCENTILES, STND. DEVIATION.....
- DATA IS REFLECTIVE OF PAST & CURRENT PROCESSES, MANAGEMENT, PEOPLE, CONTRACTS AND INVESTMENTS
- THEREFORE, IF YOU WANT DIFFERENT DATA, YOU MUST CHANGE ONE OR MORE OF THESE ASPECTS OF THE PRACTICE

BENCHMARKS & DASHBOARDS

- BENCHMARKS = DATA POINTS NOTED OVER TIME
- MEASURE WHAT'S IMPORTANT TO YOU
- LINK THE DATA TO ORGANIZATION GOALS
- SUPERIMPOSE DATA ONTO [REVISED] PLANS
- IMPLEMENT THE REVISED PLAN

BENCHMARKS & DASHBOARDS

- DASHBOARDS PRESENT DATA & INFO ON BOTH A SUMMARY & DETAIL LEVEL
- IMPLEMENT THEM AROUND THE NEEDS OF THE BUSINESS
- DASHBOARDS ALLOW FOR A QUICK & PERSONALIZED OVERVIEW OF CRITICAL BUSINESS DATA WHEN NEEDED.
- DASHBOARDS OFFER INSIGHT & *SHARED* UNDERSTANDING OF BUSINESS CRITICAL INFO, ALLOWING THE USERS TO THEN ACT UPON THE INFO *COLLABORATIVELY*

SOME PRACTICE METRICS

1. FINANCIAL PRODUCTIVITY DATA

- CHARGES, PAYMENTS, ADJUSTMENTS, AND THEIR RATIOS, BY MONTH
- AGED ACCOUNTS RECEIVABLE BY MONTH and PAYER
- EoB ANALYTICS
- PAYROLL RATIO – $W2 \text{ wages} / \text{revenue}$

MORE PRACTICE METRICS

2. OPERATIONAL DATA

- CODING PATTERNS
- RVU PRODUCTION & COSTS – helpful in negotiations and setting your fees
- SOURCES OF CHARGES, PAYMENTS & ADJUSTMENTS (CHEMO, LAB, E&M, etc.)

STILL MORE PRACTICE METRICS

3. FINANCIAL ACTIVITY

- EXPENSE DATA AS % OF *SOMETHING*
- PHYSICIAN EXPENSES AS % OF ?
- DRUG INVENTORY VALUE OVER TIME
- BUSINESS UNIT P&L (LAB, TRIALS)
- DAILY – WEEKLY CASH POSITION

STILL MORE PRACTICE METRICS

EXPENSE MANAGEMENT CONSIDERATIONS

- PURGE MARGINAL PERFORMERS
- EMR ADVANTAGES
- DRUG EXPENSE = 77% OF NON-DR COSTS
- PAYROLL = 10% OF NON-DR COSTS ("NDC")
- HEALTH INS. = 1.8% OF NDC
- MED-SURG STUFF (PUMPS, NEEDLES) = 1.8% NDC
- RENT = 1.5% OF NDC
- DO THINGS RIGHT THE FIRST TIME

SAMPLE FINANCIAL PRODUCTIVITY DATA - PRACTICE X (5 FTE PHYSICIANS)

CATEGORY	GOALS	<u>Jan-xx</u>	<u>Mar-xx</u>	<u>May-xx</u>	<u>Jul-xx</u>	<u>Sep-xx</u>	<u>Nov-xx</u>	
# DAYS / MO		31	31	31	31	30	30	
CUM # DAYS		31	91	152	213	274	335	
NEW PATIENTS		95	110	90	118	93	100	
CHARGES		\$ 1,000,000	\$ 1,075,000	\$ 1,200,000	\$ 1,320,000	\$ 1,230,000	\$ 1,330,000	
PAYMENTS		\$ 928,000	\$ 720,000	\$ 947,000	\$ 980,000	\$ 928,000	\$ 938,000	
ADJUST % (ADJ \$ / CHGS)		35%	25%	32%	26%	26%	25%	
DRO (AR/AVG DAIL CHG)		35	31	28	31	33	30	
TOTAL A/R		\$ 1,128,000	\$ 1,145,000	\$ 1,099,000	\$ 1,326,000	\$ 1,336,000	\$ 1,330,000	
GROSS COLL % (PMTS / CHGS)		80%	93%	67%	79%	74%	75%	71%
ADJ COLLECT % (ADJ\$+PMT\$/CHGS)		99%	128%	92%	111%	100%	102%	95%

CATEGORY	GOALS	<u>Jan-yy</u>	<u>Mar-yy</u>	<u>May-yy</u>	<u>Jul-yy</u>	<u>Sep-yy</u>	<u>Nov-yy</u>	
# DAYS / MO		31	31	31	31	30	30	
CUM # DAYS		31	90	151	212	273	334	
NEW PATIENTS		83	132	109	132	117	105	
CHARGES		\$ 1,260,000	\$ 1,375,000	\$ 1,372,000	\$ 1,430,000	\$ 1,433,000	\$ 1,550,000	
PAYMENTS		\$ 1,259,000	\$ 880,000	\$ 992,000	\$ 1,140,000	\$ 978,000	\$ 1,042,000	
ADJUST % (ADJ \$ / CHGS)		36%	23%	26%	27%	25%	27%	
DRO (AR/AVG DAIL CHG)		30	34	32	31	32	29	
TOTAL A/R		\$ 1,236,000	\$ 1,507,000	\$ 1,416,000	\$ 1,414,000	\$ 1,548,000	\$ 1,520,000	
GROSS COLL % (PMTS / CHGS)		80%	100%	64%	72%	80%	68%	67%
ADJ COLLECT % (ADJ\$+PMT\$/CHGS)		99%	136%	87%	98%	106%	93%	95%

DATA FOR ILLUSTRATIVE PURPOSES ONLY

SAMPLE AGED ACCOUNTS RECEIVABLE - PRACTICE X

Aged A/R		0 - 30	31 - 60	61 - 90	91 - 120	121 +	A/R per Dr	
<u>External Std *</u>		<u>%</u>						
Goal	%	75	10	5	5	5	100%	\$ 350,000
Jan-xx	%	79.9%	7.8%	3.0%	1.2%	8.1%	100%	\$ 274,672
Mar-xx	%	77.3%	11.7%	3.3%	0.9%	6.8%	100%	\$ 334,990
May-xx	%	78.6%	10.0%	3.4%	1.2%	6.8%	100%	\$ 314,849
Jul-xx	%	79.1%	9.6%	3.5%	1.8%	6.0%	100%	\$ 314,442
Sep-xx	%	80.3%	10.0%	3.9%	1.5%	4.3%	100%	\$ 387,148
Nov-xx	%	82.1%	8.9%	3.5%	1.2%	4.3%	100%	\$ 380,231

DATA IS FOR ILLUSTRATIVE PURPOSES ONLY.

PRODUCTIVITY METRICS

SINGLE FACTOR LABOR PRODUCTIVITY: PRACTICE Z

	<u>YR 1</u>	<u>YR 2</u>	<u>% Change</u>
#PT OFFICE VISIT/staff HRS	0.256	0.371	45.0%
#PT OFFICE VISIT/FTE Dr	1,431	2,277	59.1%
#PT OFFICE VISIT/STAFF FTE's	530	768	44.8%
#PT OFFICE VISIT/HRS. AVAIL	1.03	1.64	59.1%
ABSENT. HRS/STAFF "REGULAR" HRS.	4.40%	4.43%	0.7%

PRODUCTIVITY METRICS

CAPITAL & LABOR PRODUCTIVITY: PRACTICE Z

	<u>YR 1</u>	<u>YR 2</u>	<u>% CHANGE</u>
CHARGES/FTE STAFF	\$870,000	\$728,447	-16.2%
COLLECTIONS/STAFF HRS.	\$109.19	\$128.13	+17.4%
TOT. EXPENSES/CHARGES	75%	58%	-22.7%
INCOME / FTE	390,000	300,000	-23%

** Data is for illustrative purposes only*

PAYROLL & OTHER EMPLOYEE RATIOS

	Non-Dr. P/R Ratio	Health insurance expense/covered ee
CY09	8.9%	\$ 9,400
CY08	10.1%	\$ 9,400
CY07	8.7%	\$ 8,500

DATA IS FOR ILLUSTRATIVE PURPOSES ONLY

ANNUALIZED COST OF TRADE CREDIT (CASH MGMNT)

$$\frac{\text{Early Payment Discount}}{(1 - \text{EPD})} \times \frac{365}{(\text{Net Pmnt Period} - \text{Discount Pmnt Per})}$$

If terms = 2% 10, net 30, the cost of NOT taking the discount, i.e., paying the net amount on day 30, is:

$$[.02/(1-.02)] \times [365/(30-10)] = 36.5\%$$

Therefore, if a buyer were able to borrow funds at a rate < 36.5%, they should do so and take the discount for early payment.

If borrowed funds cost > 36.5%, then buyer should delay payment until net due date.

PAYMENT TERMS DECISION

or

Should I switch to direct debit?

If direct debit offering = 2.5%.....

Net monthly drug expense: \$ 250,000

1% earlier pay discount: \$ 2,500

Assumes current terms
of 1.5% 45, net 60

Less cost of discount: \$ 411
(interest lost)

Assumes cash
management interest
income of 1.5% on
floated \$

Benefit of discount: \$ 2,089

Annualized benefit: \$ 25,068

BASIC EQUATIONS

- $\text{PROFIT} = \text{REVENUE} - \text{COST}$
- $\text{REVENUE} = \text{PRICE} \times \text{VOLUME}$
- $\text{PROFIT} = (P \times V) - (\text{FC} + \text{VC})$
- *MARGINAL* $\text{PROFIT} = (P \times V) - \text{VC}$
- WE NEED TO ADDRESS BOTH COST & VOLUME TOGETHER
- ALSO CONSIDER CAPACITY, LABOR AND OTHER OPERATING COSTS

CAN YOU SAVE OR COST-CUT YOUR WAY TO PROSPERITY?

(NOT LIKELY)

REVENUE OPPORTUNITIES – EARN IT!

- LAB – net \$160,000
- RETAIL PHARMACY – net \$59,000
- CLINICAL TRIALS – net \$80,000
- ACCURATE CODING – additional \$40,000
- PAYER REIMBURSEMENT INCREASES
- PAYER PRODUCTIVITY IMPROVEMENTS

PAYER CONCERNS

- QUALITY CARE
- COST – EFFECTIVE CARE
- PROVIDER COMPARISONS
- GUIDELINE, REGIMEN OR PATHWAY COMPLIANCE OPPORTUNITIES
- PREDICTABLE COSTS
- MEMBER RETENTION
- MEMBER GROWTH
- FINANCIALLY SOLVENT PROVIDERS

SAMPLE DATA FOR PAYERS

- ER & HOSPITAL DIVERSION RATES
- # REFERRALS TO SUPPORTIVE CARE
- # PTS ENROLLED IN PAPS?
- GUIDELINE, REGIMEN OR PATHWAY COMPLIANCE OPPORTUNITIES
- PREDICTABLE COSTS – DRUGS, CHAIR TIME
- ADMIN. BURDEN DOCUMENTATION
- PAYER DRUG SPEND WITH YOU
- BILLED CHARGES VS REIMBURSEMENT

MICROECON 101

- IS THE GOAL TO TREAT THE OPTIMUM # OF PATIENTS TO MAXIMIZE REVENUE OR PROFIT?
- THE OPTIMUM # OCCURS WHERE PATIENT VOLUME, REVENUE PER PATIENT AND COST PER PATIENT PRODUCE THE HIGHEST PROFIT, NOT THE HIGHEST REVENUE

COST TO VOLUME RELATIONSHIP

Patient Volume	Marginal Revenue	Total Revenue (PV x MR)	Marginal Cost	Total Cost (MC+TC)	Total Profit (TR-TC)
0	0	0	0	50	-50
1	20	20	15	65	-45
2	20	40	10	75	-35
3	20	60	8	83	-23
4	20	80	7	90	-10
5	20	100	6	96	4
6	20	120	4	100	20
7	20	140	4	104	36
8	20	160	6	110	50
9	20	180	10	120	60
10	20	200	12	132	68
11	20	220	16	148	72
12	20	240	20	168	72
13	20	260	22	190	70
14	20	280	25	215	65
15	20	300	30	245	55

DATA FOR ILLUSTRATIVE PURPOSES ONLY

METRIC BENCHMARKS

TOTAL GROSS CHARGES PER FTE DR.-

EXTERNAL

\$2,724,064

PRACTICE X

\$3,200,000

TOTAL MEDICAL REVENUE PER FTE DR. –

EXTERNAL (median)

\$1,741,700

PRACTICE X

\$2,300,000

Illustrative only

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ABSENT. HRS/STAFF HRS.	4.40%	4.43%	0.7%

PRODUCTIVITY METRICS

CAPITAL & LAND PRODUCTIVITY: PRACTICE Z

	<u>YR 1</u>	<u>YR 2</u>	<u>% CHANGE</u>
CHARGES/FTE STAFF	\$408,179	\$393,706	-3.5%
COLLECTIONS/STAFF HRS.	\$109.19	\$128.13	17.3%
TOT. EXPENSES/CHARGES	75%	58%	-22.8%
INCOME/EXPENSES	106%	104%	-1.5%
INTEREST/NON- DR EXPENSES	2%	2%	0%

CODING PATTERNS

<u>CPT</u>	<u>DESCRIPTION</u>	<u>Tot CYxx # done</u> (per FTE Physician)
99212	Office/outpatient visit, est	20
99213	Office/outpatient visit, est	1159
99214	Office/outpatient visit, est	720
99215	Office/outpatient visit, est	17
99241	Office consultation	0
99242	Office consultation	7
99243	Office consultation	37
99244	Office consultation	85
99245	Office consultation	40

DATA IS FOR ILLUSTRATIVE PURPOSES ONLY

RVU DATA

	Dr A		Dr B		Dr C		Dr D		Dr E		Dr F	
	# done	RVUs	# done	RVUs	# done	RVUs	# done	RVUs	# done	RVUs	# done	RVUs
2008	2847	6891	2704	5600	2569	5898	2768	7690	2843	5960	2348	6299
2009	2820	7052	3066	6515	2621	5907	2598	6685	2968	7452	2635	6727
% tot dr done 09	16.9%		18.4%		15.7%		15.5%		17.8%		15.8%	
% tot dr RVU 09	→ 17.5%		16.2%		14.6%		16.6%		18.5%		16.7%	
<i>CY09 W2</i>												
W2 as % of tot DR pay of \$\$\$	→ 0.0%		0.0%		0.0%		0.0%		0.0%		0.0%	

	PA-1		PA-2		<u>Total Drs only</u>		<u>Total RN</u>		<u>Grand totals</u>	
	# done	RVUs	# done	RVUs	# done	RVUs	# done	RVUs	# Done	RVUs
2008	794	1974	420	1021	16079	38338	74467	79462	91760	120795
2009	1545	3567	1585	3667	16708	40338	56926	79821	76764	127393

Note: RNs stopped recording 99211 in 2009

RVU DATA APPLIED

		<u>Tot RVU</u>	Practice X BHOA internal 09 CF	CMS 09 CF (rounded)	CMS 10 CF (rounded)
Total costs CY09	→	\$30,159,070	120,795	249.67151	37
Tot Costs - drug costs	→	\$9,575,393	120,795	79.269779	
Tot costs less drug & all Dr. costs		\$3,432,514	120,795	28.416027	
<u>Total chair & bed hrs</u>		<u>cost/chair hr</u>			
(37 x 8) = 296/d x 250 days	74,000	\$407.56			
30,159,070/74,000= \$407/hr					
Tot costs less drugs/chair hrs		\$129.40			

SOURCES OF BUSINESS

<u>PAYER CLASS</u>	<u>CHARGES</u>	<u>PAYMENTS</u>	<u>ADJUSTMENTS</u>
MEDICARE	47%	43%	43%
HBS	15%	15%	14%
BC	15%	15%	17%
COMM	10%	16%	14%
PPOs	7%	6%	6%
MedAssist	6%	5%	6%

SOURCES OF BUSINESS

<u>PROCEDURE GROUP</u>	<u>CHARGES</u>	<u>PAYMENTS</u>	<u>ADJUSTMENTS</u>
CHEMO →	44%	47%	39%
NON- CHEMO →	29%	28%	27%
INFUSION & INJECTION →	9%	7%	12%
ANTI- NAUSEA →	7%	8%	7%
E&M – OFFICE →	6%	6%	3%
HOSPITAL →	3%	3%	2%
LAB & OFFICE PROCEDURES →	3%	3%	8%

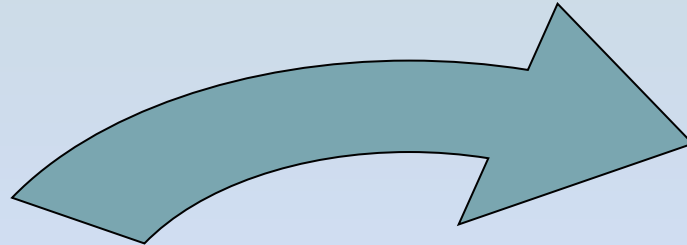
TAKE AWAY MESSAGES

- SOUND STRATEGIC MANAGEMENT IS CRITICAL FOR CONTINUED SUCCESS
- KNOW AND UNDERSTAND YOUR NUMBERS & YOUR PROCESSES
- *APPLIED* KNOWLEDGE IS POWER
- UNDERSTAND BASIC ECONOMICS, AND FINANCE FOR YOUR BUSINESS
- TAKE RESPONSIBILITY FOR YOUR BUSINESS, YOUR DATA AND YOURSELF

MORE TAKE AWAYS

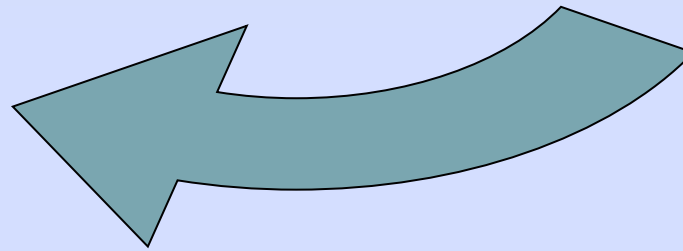
- YOU CAN'T REMAIN PROFITABLE OR EVEN VIABLE WITHOUT POSITIVE CASH FLOW
 - CASH RULES
- FOCUS ON YOUR LARGEST COSTS:
 - ORDERING, CARRYING AND PURCHASING
- NO INCREASE IN ANY PROCEDURE CODE WILL BE LARGE ENOUGH TO REPLACE \$ LOST TO DRUG REVENUE
- YOU CAN BE ONLY SO PRODUCTIVE, SO BUSY, AND SO LUCKY, THEN WHAT?

TAKE AWAYS



**GOOD JUDGMENT COMES
FROM EXPERIENCE**

**EXPERIENCE COMES FROM
BAD JUDGMENT**



- **NO ASSUMPTION ESCAPES CHALLENGE**
- **NO PART OF THE COMPETITIVE ARENA IS EXEMPT FROM THE DYNAMIC VOLATILITY & VARIETY OF IDEAS & EXPERIENCES**



QUESTIONS



AND



DISCUSSION