

# PRACTICE PERFECT

BUSINESS OPERATIONS & FINANCE

## Boost Practice Efficiency, Part 14: The Uses (and Abuses) of Benchmarks

BY CHRIS MCDONAGH, SENIOR EDITOR

**B**enchmarks are points of reference that you can use to gauge how well—or how poorly—you and your practice are doing. Your analysis of these benchmarks becomes even more useful during times of change. “In this current climate, you cannot manage a business without good, accurate information,” said Derek A. Preece, MBA, a senior consultant with BSM Consultant Group, which is a nationwide practice management company. “You should monitor your financial and patient flow results on a regular basis. To try to run a practice without good information is like trying to drive down the highway with your eyes closed—it virtually always results in disaster.” (See the Dr. Anon Y. Mous case study on next page.)

You can apply benchmarking to your practice’s data in two complementary ways. Use internal benchmarking to see how benchmark data within your own practice has changed over time, and use external benchmarking to compare your numbers against those of other practices.

### Internal Benchmarking

“We have always done a lot of year-to-year benchmarking,” said Gregory S. Brinton, MD, MBA, a founding partner of Retina Associates of Utah and an AAOE board member. “At the start of each year, we estimate what we expect our figures to look like. If the actual numbers don’t match our estimates, then we try to understand why. For instance, one year we saw our payroll go up. When we looked at it, we realized that we were paying a lot of overtime. We calculated that if we hired one more employee, we would cut overtime to such an extent that we would actually save money on payroll.”

“It is very important to compare numbers over the years so that changes and trends can be identified and managed,” said Mr. Preece. “When you spot a trend,” added Dr. Brinton, “the next step is to figure out whether you can do something about it.”

### External Benchmarking

“There is enormous value in comparing your practice’s benchmark data with that from similar practices,” said Dr. Brinton. “Suppose, for instance, the amount you collect per staff member is going down. If you have access to data from other practices, you will know if that trend is true throughout the ophthalmology world, in which case it could be due to external factors beyond your control. Or perhaps you’ll

### The Benchmarking Survey

The screenshot shows a web form titled "The Benchmarking Survey". At the top, it features the AAOE logo and the text "AAOE Certified as a provider of Ophthalmic Executive Solutions". Below the logo, there is a paragraph of text explaining the survey's purpose: "Your ophthalmology practice is invited to register to submit practice performance data in the 2008 Annual Year Benchmarking Survey (2008) group sponsored by The American Academy of Ophthalmology (AAOE) and the American Society of Ophthalmic Executives (AAOE). Only 2008 data is allowed per practice. Therefore ONLY one individual per practice may be designated as the authorized data entry person (respondent), and only one user login will be issued to each per practice. Before registering, ensure that you are the authorized data entry respondent for your practice. If you have questions related to registering your log in or about the survey, contact [practice@aaoe.org](mailto:practice@aaoe.org)".

The form itself is titled "Practice Demographic Information" and includes the following fields:

- Practice name:
- Practice address 1:
- Practice address 2:
- City:
- State:
- Zip:
- Practice type:
- Number of offices:
- Practice subspecialty:
- Metropolitan Area:
- Number of office locations:

At the bottom of the form, there is a "Submit" button.

**SUBMIT YOUR DATA BY JUNE 30.** The Academy/AAOE Benchmarking Survey provides a convenient way to compare your practice to similar practices, but if you want to participate you must submit your practice’s 2008 data no later than June 30.

**Why use benchmarks?** “It’s like the old adage,” said Dr. Brinton. “At some point, you have to stop, take a breath, and ask, ‘Are we sawing at the right tree? Is the saw sharp?’ And benchmarking is the best way that I know to do that.”

**How to get started.** For a step-by-step guide, view the Webcast at [www.aae.org/benchmarking](http://www.aae.org/benchmarking), where Mr. Preece will walk you through what you need to do.

**Your data will remain confidential.** Reports from the Benchmarking Survey will only display aggregate data; no user will ever be able to view single data sets.



Each month, Practice Perfect addresses one of the AAOE’s seven key competencies of practice management.

discover that the trend is specific to your practice, in which case addressing the problem would be a priority.”

### Gathering Your Data

“I started gathering benchmarking data when our practice opened in 2001,” said Traci Fritz, COE, who has been managing the Michigan practice of a young ophthalmologist with two locations and seven employees. “I created a basic template that included information from the practice management system’s monthly financial report, the profit and loss statement, the referral source report and the procedure code report. It’s not that time consuming—I spend less than one hour a month working on it—and after eight years, the data are becoming increasingly valuable because now I can look back and spot trends,” said Ms. Fritz, who is the 2009 chairwoman of the AAOE.

**A standardized template for collecting, and comparing, data.** The Academy/AAOE Benchmarking Survey is a simple tool for gathering and comparing data. It includes up to 36 data elements that are used to calculate 41 benchmarks. Most practices have been able to collect these data in less than two hours. Once you have submitted data and they have been approved, you can use an online reporting module to compare your benchmark data to those of other practices. Furthermore, you can filter a report so that, for instance, it only includes practices that have a certain subspecialty focus and are in a particular region. (But the report will only display results if at least 15 practices meet your filtering requirements.)

### Dos and Don’ts of Benchmarking

Be careful when using benchmarks.

**Your practice is unique, so don’t put too much focus on the average values.** “Every practice has unique characteristics that make it different from the ‘average’ or ‘median’ practice,” said Mr. Preece. “And that is why you should virtually never make specific decisions based on trying to hit an average benchmark value. You should

## Benchmarking in Action: Dr. Anon Y. Mous

**D**r. Anon Y. Mous’s first inkling that something was wrong came when his manager told him that he would be paid only a third of his usual salary. That is all there was in the bank after the staff had been paid. His reaction was disbelief, followed by alarm and frustration. He arranged a meeting with his office manager and his accountant and began asking questions.

According to the accountant, recently a large proportion of the practice’s collected revenues had been spent on operating expenses—90 percent, 84 percent and 89 percent in the previous three months, respectively—leaving less money than usual for his salary. Dr. Mous asked what the normal percentage should be, but his accountant wasn’t sure. His office manager had only recently been promoted to that position, and she didn’t know either, so Dr. Mous decided to do some investigating.

He began his research on the Academy Web site, where he learned about the Academy/AAOE Benchmarking Survey. He asked his manager to register for the online survey and to gather the necessary data. His accountant provided a profit and loss statement for 2008, and with a procedure code report printed from the practice management system, she was able to complete the survey and run some reports.

When Dr. Mous compared his practice with other anterior segment practices, he found that his overhead ratio was well above the median (62 percent), at least in the last three months. He also noted that his accounts receivable percentages for “buckets” older than 90 days were far higher than other practices, so it was clear that his high overhead ratio was at least in part due to low collections. A renewed effort to submit clean claims to insurers and extra attention to denied claims increased his collections in the following months, allowing him to again draw his full salary.

—Derek A. Preece, MBA

spend less time worrying whether your practice’s benchmark measure is too high or too low, and spend more time trying to understanding why you are at the level you are at. You should then ask whether that’s where you need to be for the type of practice that you want to have.”

**Take a look at the big picture, and don’t fixate on just one benchmark.** “Benchmarks are useful as one of many pieces of information that help you to understand your practice, but don’t tie your management to any single benchmark,” said Mr. Preece. “It is easy, for instance, to fall into the trap of thinking that the less you spend in overhead, the more profitable your practice will be,” said Dr. Brinton. “But that isn’t always the case. A practice that has a low overhead may also have a low net profit. Maybe if the practice hired an extra employee for \$50,000 per year, they could bring in an extra \$200,000—sometimes you have to spend more to earn more.”

**Understand the data before you leap into action.** “Benchmarks are

useful for pointing out areas that may need further investigation,” said Mr. Preece. “The investigation might lead you to make certain changes, but only after the problem is clearly understood. For example, if your employee payroll ratio is higher than average, it would behoove you to understand why. But you shouldn’t decide to fire half the staff based on that one benchmark.”

**Make sure you’re comparing oranges with oranges.** “Every practice calculates things differently, which means comparisons can be very misleading,” said Dr. Brinton. “One of the strengths of the AAOE Benchmarking survey is that it provides practices with criteria on how to get the data. This means the data from different practices will be comparable. And when you have data from a whole group of practices, and you know that they have all used the same protocol to calculate those figures, then you suddenly have a lot of power in that data.”

*NEXT MONTH: Tips for efficient office flow.*