

Case Study: How an Ophthalmic Practice Tackled Its Profitability Problem

Although ophthalmologists collect ample patient data before making a diagnosis, they often lack the resources to collect enough business data before making key decisions about their practice. In the case study below, a physician owner of a practice, Dr. Conch,* thought, “Our employee costs are too high—we need to cut those somehow.” If she had acted on that 1 perception, she might have terminated staff, cut employee benefits, or reduced pay rates—responses that could have damaged her practice. Instead, Dr. Conch and her practice manager, Mr. Duenas,* gathered facts before acting. They used free resources from the Academy—the **Academetrics Benchmarking Tool** and **Academetrics Ophthalmic Salary Survey**—which provided critical context that helped pinpoint the underlying issues.

Identifying the Problem

Dr. Conch is the managing partner of a practice with 5 full-time comprehensive ophthalmologists and 25 full-time support staff.

Revenue summary. Revenues for the practice in 2017 (not including optical) were \$3.5 million, \$1 million of which was paid to the employees as wages. Over the course of the year, the doctors had 17,500 patient encounters in their office, including all of the Evaluation & Management and Eye codes that were billed and all postoperative exams.

Academy/AAOE Benchmarking Resources

The American Academy of Ophthalmic Executives (AAOE), the practice management arm of the Academy, sponsors 2 programs that allow you to track your business data against benchmarks from other ophthalmology practices.

The Academetrics Benchmarking Tool allows you to compare your financial and patient flow data with benchmarks calculated from participating ophthalmology practices.

The Academetrics Ophthalmic Salary Survey, developed in conjunction with the Outpatient Ophthalmic Surgical Society, helps you see how your staff salary rates compare with other practices.

Both resources are free to those practices that participate by adding their information to the confidential database any time throughout the year.

For more information, visit aao.org/benchmarking where you will find details about and instructions for using both the Academetrics Benchmarking Tool and Ophthalmic Salary Survey.

High staff costs? Concerned that the practice is spending too much revenue on staff members, Dr. Conch approaches her new practice manager, Mr. Duenas, about reducing that cost.

The practice administrator's dilemma. Mr. Duenas is alarmed because he knows that the most obvious solutions could harm the practice. Specifically, cutting staff wages or benefits might cause staff turnover, which tends to increase costs as new employees struggle to learn the operations of the practice. Alternatively, laying off staff could hamper the practice's ability to provide good service to patients, likely resulting in attrition of patients, and, conse-

quently, further reduction in revenues. As a new manager, Mr. Duenas realizes that such a path is not conducive to keeping his job either!

Accessing Helpful Resources

To better understand the practice's financial situation, Mr. Duenas goes to aao.org/benchmarking and registers for both the Academetrics Benchmarking Tool and Ophthalmic Salary Survey (see “Academy/AAOE Benchmarking Resources,” above). First, he enters into the 2 surveys his practice's 2017 data, including numbers from the profit-and-loss statement, payroll, and billing reports. After entering all relevant information, he compares his data to the aggregated numbers in the databases. Here, he begins to identify the real challenges for the practice.

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Getting Specific Feedback

Staffing ratios. Mr. Duenas first looks at the staff payroll ratio (employee payroll divided by total collected revenue) and finds that it is 28.5%, which is high—in the 75th percentile for ophthalmology practices that submitted approved data to the survey. The practice's total collections per full-time employee is only \$140,000, which is very low—barely above the 25th percentile on the Academetrics Benchmarking Tool. "So maybe Dr. Conch is correct that we spend too much on staff," he thinks.

Investigating further, he sees that his practice's ratio of staff members to doctors is 5.0 (25 staff members divided by 5 doctors). Interestingly, he finds that figure to be low—less than the median figure from the survey and just above the 25th percentile. "So, if we don't have too many staff members but our payroll ratio is high, are we paying employees too much?" he wonders.

Salaries. Turning to the Academetrics Ophthalmic Salary Survey, Mr. Duenas looks at the pay rates for each of his staff members and finds that—although some are paid a little above the median for their positions and others are paid a little below—overall, his employees are compensated within the normal range for their specific jobs.

Thinking through what he has learned so far, Mr. Duenas realizes that the 2 ratios he is most concerned about—the staff payroll ratio (28.5%) and collections per employee ratio (\$140,000)—share practice collections as a common factor. Going back through the benchmarking survey reports, he checks how the practice's collections stack up against those of other practices.

Problems With Productivity

Upon comparing his practice's collections data against benchmarking data, he discovers a few startling facts.

Revenue seems low. His 5 comprehensive ophthalmologists produce \$3.5 million per year in collections, an average of \$700,000 per full-time doctor, which is well below the 25th percentile for other practices. Wondering why his numbers are low, he notes that the

practice had 17,500 encounters (an average of 3,500 per doctor) for the year, which is also below the 25th percentile.

Per patient collections are subpar. In addition, the doctors' average collections per encounter is \$200, which is less than that of a typical comprehensive ophthalmologist. So, his doctors are not seeing as many patients per year as their peers, and they are collecting less cash per patient. The result: a significant shortfall in revenues.

Taking action. His next tasks are clear. First, he needs to help the doctors increase the number of patients they see each year. Then, to see if he can help them raise per-patient collections, he plans to review CPT codes that have been used to bill patient encounters to see if "downcoding" is responsible for below average per-patient collections.

Improving the practice's revenues will decrease the staff payroll ratio and raise collections per full-time employee, plus help the doctors increase earnings.

Looking further. Mr. Duenas realizes that he can examine other ratios to learn more about the practice's situation. For example, he can compare the number of patient encounters per front desk and back office staff to indicate whether he is under- or overstaffed in those areas. In addition, he can check accounts receivable ratios to determine whether the practice is collecting money effectively, and he can check optical shop ratios to evaluate how well that operation is doing.

Compare Your Practice

This case is just 1 example of how the Academetrics Benchmarking Tool and Ophthalmic Salary Survey can tell a story about the inner workings of a practice. These benchmarks provide valuable information for making appropriate, disciplined decisions to both improve your practice and inoculate it against poor choices made in the absence of good, comparative data.

*Doctor and administrator names are fictitious.

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