



The Seven Practice Assessments

Use these benchmarks to evaluate your practice.

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This article is excerpted from 31½ Essentials for Running Your Medical Practice, by John Guiliana, Hal Ornstein, and Mark Terry (American Association for Physician Leadership, 2011) Copyright © 2024 by American Association for Physician Leadership®.

Once your practice is up and running—or if it's been up and running for a while—it's a good idea to regularly ask yourself: How am I doing? If the patients come in and leave happy and satisfied, if money is getting made, bills are getting paid and your staff seem content with their jobs, from 20,000 feet it looks like things are going well.

But it's a good idea to use objective standards to regularly find out if your practice is really doing well, or even if it's doing as well as you think it is. There may be some leaks you're unaware of: Your practice could be doing better or could be headed for trouble.

To understand your practice, you need to know what your practice is. The benchmarks for a plastic surgery practice are not the same for a dentist, a family practitioner or a podiatrist. In addition, within your specialty, do you know what your subspecialty is? For instance, if you are a dentist, are you in general dentistry? Do you focus on children? If you're a podiatrist, do you focus on the diabetic patient? On athletic medicine? On gerontology?

Knowing what you want your practice to be helps define how you're doing in terms of achieving those goals. A corollary to that is: What do your patients want?

A patient's needs will vary, de-

pending not only on your specialty, but your subspecialty. This helps to focus the goals of your practice. It's a somewhat soft type of benchmarking, where the focus isn't on financial figures, but on patient satisfaction. If you can determine what patients want, you can determine whether you're providing it. You can then determine the best ways to provide that care.

sourcing, and costs of services calculated through activity-based costing or other methods. Basically, anything you hire to be done or send out to be performed.

6) Product—This includes revenue per hour, encounters per hour, encounters per procedure, revenues per FTE, and payer mix.

7) Client Satisfaction—Besides

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Practice Assessments

There are seven practice assessments that should be analyzed when considering overall benchmarks. They are:

1) Financial Soundness—These include gross charges, net collections, accounts receivable, debt-to-equity ratios, and current assets to current liabilities.

2) Overhead Expenses—Overhead expenses include occupancy costs (rent or mortgage), equipment, supplies, staff, and benefits.

3) Managed Care Costs—These include capitation rates, quality assurance, and utilization management issues.

4) Patient Encounters—How many patients do you see daily? How many new patients? How many encounters per physician per full-time equivalent (FTE)?

5) Services—These include sub-contracted or sub-capitated services or carve-outs, ancillary services, out-

a more general sense of client satisfaction, you need to look at assessing client satisfaction by segregating patients by type of insurance and studying your rate of patient turnover.

These are all categories that should be considered when looking at benchmarks; then you need to decide which categories you want—or need—to analyze.

Benchmarks

All benchmarks are not created equal. As a result, some of them are more important than others. For instance, many physicians place great stock in the number of new patients. Others may focus on how many patients are seen.

Per Visit Value

We think a significantly more important benchmark is the per visit value (PVV). The PVV is determined

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by dividing total collections by total patient visits:

$$\text{Total Collections/Total Patient Visits} = \text{Per Visit Value}$$

The average PVV will vary depending on specialty. For instance, in podiatry, the number you see cited the most is \$99, although some sources cite \$90.

Although this is a very basic benchmark, it's one that has ramifications in every type of business, whether it's an on-line business (per click value) or a restaurant (per customer

receivable to be 90 days outstanding.

This particular benchmark can be taken one step further, to days in receivables, which is defined as how long the average claim takes to be paid. The equation for that is:

$$(\text{Total Accounts Receivable/Gross Annual Charges}) \times 365 = \text{Days in Receivables}$$

Miscellaneous

There are a number of benchmarks a physician can use to get a handle on how their practice is doing. One is simply to track

class (BOC), not "average," which often means mediocre.

And although numbers are useful measures of your practice's success, they don't necessarily measure what's most important: patient satisfaction. There are potentially three questions that need to be asked that have nothing to do with numbers:

- 1) *Are you improving patient care?*
- 2) *Are you improving your quality of life?*
- 3) *Are you increasing the bottom line?*

Patient satisfaction is Number One. But other questions that are important are: Are you, the physician, happy? Are you fulfilled? Is your profession doing for you what you thought it should or want it to?

Too often, the answer is: No.

But perhaps, if they took the time to look at their practice data and figure out how to interpret the numbers, physicians would become empowered to respond appropriately and turn their practice—and their fulfillment—around.

The question is: How is your practice doing? Hopefully, the answer is: Better than yesterday, and we're going to try and make it better tomorrow.

Action Step: Monitor your practice data monthly, quarterly, and annually. Create simple spreadsheets for assessment and identify areas of concern. Write action plans for improvement. Appoint appropriate team members to help with each of these areas. **PM**

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value), for example. PVV provides a value of how productive you are.

However, because we're physicians, it doesn't always come down to a dollar amount. You need to look at what you're doing for each patient—not just injections, not just visits or ancillary care, but vascular testing, neurological testing, physical therapy in your office, and dispensing products in-office.

Payroll Ratio

Payroll ratio is calculated by taking your total staff payroll—not just salary of support staff, but the salaries and payroll taxes and benefits, such as 401(k)s, and totaling them (for just the support staff)—and dividing that number by annual collections. This provides the payroll ratio and, if your practice is operating efficiently, it should be somewhere between 22% and 26% of collections.

$$\text{Total Staff Payroll/Annual Collections} = \text{Payroll Ratio}$$

Accounts Receivable

Accounts receivable (A/R) will also vary from practice specialty to practice specialty, but one rule of thumb is that a practice's total accounts receivable is less than two months' worth of gross charges. For example, if your practice is billing \$65,000 per month, the practice should have a total A/R of less than \$130,000. In addition, you will want less than 15% of the total accounts

trends—are new patients increasing or decreasing?, for instance.

- Is the volume of x-rays increasing or decreasing?
- Is the volume of sutures increasing or decreasing?
- Is the volume of injections increasing or decreasing?

It can be done with almost anything in your practice, but the key is to then superimpose the data, which is where practice management software can come in handy. How do these relate to each other? Do new patients require more x-rays?

If the practice management software you use is capable of capturing diagnoses, and patients by diagnoses, that provides useful information. For example, you can benchmark the injections with the diagnosis of injections. You can benchmark x-rays for the diagnoses that apply to x-rays.

Drawbacks To Benchmarks

Each individual practice specialty has different benchmarks. Typically, the specialty's professional organization, such as the American Academy of Family Physicians or the American Academy of Podiatric Practice Management, conducts regular surveys that then become the yardstick that you measure your practice against. The problem with this is that there is often an inherent problem with these surveys—they report average or median values. You want your practice to be the best, or best of



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Hal Ornstein, DPM, was Founder and Chairman and Chief Executive Officer of the New Jersey Podiatric Physicians and Surgeons Group, LLC. In Howell, New Jersey, Dr. Ornstein passed away in March of this year.