Do you Measure up? Improve your Practice's Profitability by Participating in Benchmarking Studies

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Benchmarking is the process of analyzing practice business data and applying that information to achieve business growth and improvement. It also helps with earlier detection of existing and potential problems. The benefits of benchmarking can be significant and become a vital part of your internal practice feedback system, allowing consistent monitoring of performance and identification of efficiencies and opportunities.

Your practice should use both internal and external standards in its benchmarking approach. Internal standards include the practice's financial statements, productivity and accounts receivable information. They can be compared against themselves by "trending" information or by comparing internal standards of your practice to external standards. In contrast, external standards are benchmarking tools or information from sources outside your practice and can be obtained from your individual specialty society, as well as a number of national medical associations. These standards are a good comparison indicator to how you measure up against other practices similar in size or specialty.

The first step of the benchmarking process is to determine exactly what you would like to benchmark. Factors such as geography, age, size and style can impact your practice and should be examined to determine accurate data. An excellent start to your benchmarking process is to use the following six measures that are in effect, the "vital signs" of your practice and are readily available from your internal records.

Average Gross Charges
When combined with other indicators, this is a meaningful benchmark factor and measures how hard and efficiently the physicians are working. Since medical services are discounted by insurers, it is not a good gauge of how much money they are generating, but when used within the same specialty group, can be a useful tool to evaluate production patterns.

Average Net Receipts
This number represents the total cash receipts deposited in the bank for all services rendered, reflecting the amounts paid after discounts, contractual adjustments and write-offs. By comparing net receipts to gross charges and trending over time, billing effectiveness, potential collections issues and internal security can be determined.

Gross Collection Ratio (GCR)
This ratio gives a first look at billing efficiency and effectiveness and is calculated as net receipts divided by gross charges. It shows how much is received on every dollar charged. However, it needs to be assessed with care as the ratio is dependent on the payor mix and fee schedules.

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Net Collection Ratio (NCR)
This calculation is determined by dividing net receipts by gross charges less adjustments. This measurement is more sensitive than the gross collection ratio as an indicator of billing effectiveness but the two measures should be monitored together to gain a proper billing assessment. For example, if a practice's NCR is almost 100 percent, while their GCR is around 60 percent, this may indicate that the practice is not charging enough. Insurers will pay only up to what practices ask for up to their maximum allowances. If the GCR is high but the NCR is low, this could indicate a serious problem with collections. On the other hand, if the GCR is low relative to the benchmarks, the practice may be charging too much. Ideally, collection rates should be between 90 and 100 percent after write-offs are taken. For a thorough and complete evaluation, you should understand your payor mix and what the reimbursement rates are in the market in which you practice. Ultimately, how much you collect out of what you are entitled to, according to your contracts, requires close monitoring of contractual and non-contractual write-offs.

Overhead Percentage
This percentage includes the non-physician expenses of the practice. The ratio used is expressed as a percentage of overhead expense divided by total revenue. To obtain the clearest picture of non-physician overhead, physician compensation, payroll taxes, benefits and retirement contributions, as well as dues subscriptions and CME expense should be excluded from total expense.

Average Physician Compensation
Care should be taken in selecting benchmark data for comparison for this metric as there are many different nuances in how the data is collected, defined and reported. For example, compensation data is reported by geography, specialty, percent of capitation revenue, etc. Physician compensation can be compared to production data to determine how well your compensation plan is working. Each of these benchmarking indictors can be easily tracked and analyzed by putting together a spreadsheet comparing the practice (or sub-group) to the benchmark and then calculating the comparison. Ideally, your benchmarking efforts will show that your practice is best in class and areas in which your practice's bottom line could benefit from adjustment.

The above examples are just a few of the many benchmark indicators that can be used to assess your practice. Benchmarks can not only be used to measure financial soundness and overhead expenses but also managed care factors, patient encounters, services production and client satisfaction. Each practice is unique and there may be other factors that should be considered as well. Benchmarking should be performed at least once a year or more frequently if possible.