Key Performance Indicators for Practice Financial Health

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Introduction

Assessing performance is an integral aspect of actively managing a practice. One method of assessing performance is to compare your practice to the industry benchmarks or the use of Key Performance Indicators (KPIs). There are an abundance of KPIs available. Good KPIs are most helpful when they can act as a compass for determining what strategies to utilize to help the practice meet its desired goals.

Selecting which KPI to use depends on what you want to accomplish. It can be a challenge to know which ones will benefit the practice the most. In this article, we identify the KPIs that seem to be the most helpful when working toward a financially healthy practice.

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Profitability

Although most practices do not recognize this as a KPI, it is one of the most important performance indicators out there. Tracking it and using it for management decisions should be mandatory for every practice.

Profit and profitability is not what is shown on the tax return or your profit & loss statement. Determining your true profitability requires adjusting for the non-operating and/or non-recurring expenses as well as recognizing a *fair market* rent and a *fair market* salary for the owner. We consider a practice to be financially healthy when it is 14-18% profitable. However, recent trends show that the average practice is only 10-12% profitable. If you diagnose that you are not financially healthy, you can take steps to treat your practice to make it healthier.

COPS as a % of Revenues

This is an often underutilized KPI. The Cost of Professional Services (COPS) are the expenses associated with the drugs, surgical/medical supplies, laboratory costs, cremation costs, etc. and it is typically the largest group of expenses for most practices. The goal should be for this group of expenses to be between 22-25%, as a percent of revenues. A frequent reason that we see for dropping levels of profitability is when these expenses exceed 25% of revenues. It therefore bears close monitoring for any practice.

Income/Expense Ratios

When the practice's COPS as a % of revenues is higher than desired, then it may be helpful to use Income/Expense ratios to assess where the issue(s) may be within COPS. The ratios are a calculation of the expense that you have in a target category and its associated revenues. While there are many different ratios to select from, the following are the ones that we feel are particularly useful to measure. If your practice has significant sales of flea/heartworm products, prescription diets and/or you rely heavily on a reference lab for much of their diagnostic testing then these are key:

Category	Target Ratio
Prescription Diets	1.5
OTC/Flea/HW	2.0
Pharmacy	2.0-3.5
Laboratory	3.5-5.0 (combined in-house and reference lab)

For example, if your revenues from pet foods/prescription diets were $118,000 and the associated expense was $90,000 then the ratio would be 1.3 which is lower than the target of 1.5. It would be important to review your diet mark-ups, ordering procedures, computer tracking and inventory controls.

Staff/DVM Ratio

When staff costs are higher than expected or desired, it may be useful to examine the number of full time equivalent (FTE) non-DVM staff per FTE equivalent DVM. To calculate, the total support staff hours are divided by the total number of DVM appointment/surgery hours in a specific time period. For practices who staff/DVM ratio exceeds 4-4.5 range, they sometimes find it challenging to keep staff costs within their desired target as a percent of revenues. Once identified as an issue, you can focus on possible improvements in scheduling, job responsibilities, delegating, and overall team utilization.

Productivity Ratios

When staff/doctor ratios appear to be appropriate but staff costs still remain high as a percent of revenues, it could be a reflection of insufficient fees or inefficient workflow, i.e., if the expense is not the issue, the revenue may be. While sometimes a little more challenging to improve, it is better to realize this and then to work at overcoming these issues than to continually try to cut staff and potentially harm the quality of the service that the practice provides its patients. In order to discern if this might be the issue, here are several KPIs reference points:

Total Transactions/FTE DVM	>4,500
Total Revenue/FTE DVM	>$500,000
Medical Services Revenue/FTE DVM	>$400,000
Revenue per FTE Non-Vet Employee	>$130,000

Treatment Revenues as % of Total Revenues

It may help to refine the target area by assessing your revenues by category. This KPI diagnoses what you are actually doing in your practice. There are many practices that believe they are focused on providing services and practicing medicine. However, when we look at their revenues by category, they are more product-centric than medicine-centric. Below are a three areas to look at in your practice (excerpted from AAHA's recently published "Financial & Productivity Pulsepoints".)

	Average	75th Percentile
Dentistry	3.8%	4.5%
Lab	14.0%	18.2%
Imaging	3.3%	4.0%

Using KPIs for revenue centers can help a practice determine potential areas of opportunities. For example, if you can increase dental services through focused improvements in scheduling plus team and client education, then the increased revenues with the same expense base can improve the practice financial health.

Internal Compliance

Another method of identifying opportunities is by assessing your own compliance – are you doing what you recommend? This can be accomplished by reviewing your operational data. The following are the internal comparisons that we commonly utilize to help our clients self-critique their success in compliance of recommendations:

Fecals to Annual Exams

The Center for Disease Control recommends a fecal analysis be performed at least annually for every pet. For those pets that are at higher risk for intestinal parasites (outside pets, pets that frequent heavily pet-populated areas, etc.), they recommend more frequent checks. It would stand to reason then that a practice should be able to have as many fecal analysis as they have annual and new patient exams.

Dentals to Annual Exams

For the average small animal practice, 70% of their cat and dog patients are typically over the age of 3 years. We can further assume from industry research that it is likely that 60% of these pets have some stage of dental disease. If we assume then that 70% of annual exams of cats and dogs are over the age of three and that 60% of these patients have dental disease then approximately 42% of the cat and dog annual exams need a dental treatment. Compare this number against the number of dental treatments actually performed.

Medical Progress Exams to Medical Exams

This is a useful comparison to assess both owner compliance and doctor compliance in making the recommendation for a patient re-check exam. Where this number should fall will largely be dictated by a practice's medical protocols.

Average Fee to Actual Fee

Another useful internal comparison is comparing the *average fee* charged to the *actual fee* on the practice's price list. Average fees charged are most easily determined using a practice's annual detailed sales or income by treatment report. Simply divide the annual income from that service by the number of times the service was performed that year and compare to its actual fee. Start with the practice's top services. Sometimes a practice's revenues are suppressed not from an insufficient fee schedule but rather from the frequency in discounting or providing a service at no charge.

Average Client Transaction

There are a number of sources that publish the Average Client Transaction (ACT). Per AAHA's most recent "*Financial & Productivity Pulsepoints*", the average ACT was $127 with the 75th percentile hovering around $150.

While it can be useful to compare against industry standards, demographics, types of services offered and local economic challenges may prohibit a practice from being comparable to industry standards. Because of this it is often more useful to compare this year to last year within your own practice. A practice should see growth in its ACT each year that reflects at a *minimum* their fee increase or an inflationary increase. However a practice focused on reaching its performance goals should expect to see much higher growth year to year in this KPI.

Client Numbers

This is more than just "active client" which can vary widely. Instead, review the number of invoices from year to year. Are they increasing? Having higher revenues but lower invoices may be an indicator of an underlying problem.

You should also review your new client numbers. This KPI can be very sensitive to marketing efforts, the presence of online reviews (positive or negative) and your presence in the community. If new client numbers are decreasing, it could be that a new marketing strategy is needed or that the practice needs to consider expanding/changing its service mix to attract more customers. A healthy practice that is keeping up with loss from normal client attrition should strive to see more than 20 new clients per doctor per month.

Conclusion

For many practices, monitoring these KPIs may require refining the type of data they collect. More detailed separation of income and expense data is often a first necessary step. You may need to explore the capabilities of your practice management software or possibly need to make changes within it to help get you the information. However, once in place, you can get the data you need to make change.

You do not need to track every KPI that is available. Choose the KPIs that focus on your targeted financial or performance goals. You may have routine KPIs that you always check and then specific KPIs that you monitor to address an identified problem you are trying to fix. The routine measuring and monitoring of KPIs can be a very successful strategy in keeping your practice healthy.

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