

Financial Benchmarking Update for Dermatology Practices

Successful practices use benchmarking to compare their performance to others, assess their own performance over time, and plan for the long-term.

BY ROBERT THORNE, CPA

BSM Consulting and Allergan, Inc. have completed another year of administering their financial benchmarking survey and database program. Since 2000, Allergan and BSM have worked together to gather, collate, analyze, and publish financial benchmarks for the benefit of dermatology practices. The benchmarking program provides a useful set of metrics to enable practices the ability to compare their operating results to those of dermatology practices included in our database.

The gathering of 2012 data marks the thirteenth year that BSM and Allergan have administered the benchmarking survey and collected financial data from participating practices. Members of the Allergan Practice Consultant (APC) team work with each practice to gather and review specific data. The data is then sent to BSM where a team of experienced financial analysts compile the information and prepare and analyze a financial benchmarking report for each practice.

DATABASE PARAMETERS AND LIMITATIONS

This update includes the database results for 2009, 2010, and

2011 with current results through November 30, 2012. The number of participants with reportable results includes 132 practices for 2009, 122 practices for 2010, and 99 practices for 2011. The decrease in the number of participating practices is primarily due to their mix of revenue. Dermatology practices with more than 50 percent of their revenue generated from cosmetic services are now participating in our medical aesthetic database program. The database results included in this article focus on practices providing dermatology services.

Table 1 illustrates the geographic breakdown of participating practices while Table 2 provides a breakdown of practices by the number of physicians.

When comparing the changes year to year, it is important to understand that each metric cannot be treated as a stand-alone indicator. Although several key metrics are examined, the best of each category may not be from the same practice. This gives merit to the fact that one metric cannot be used to correlate the results of other metrics. There are several underlying factors that may need to be considered when comparing the trends of productivity and

TABLE 1: GEOGRAPHIC BREAKDOWN OF PARTICIPATING PRACTICES

Location	2009		2010		2011	
	No. of Practices	Percentage	No. of Practices	Percentage	No. of Practices	Percentage
East Region	46	34.9	40	32.8	24	24.2
South Region	45	34.1	44	36.1	42	42.4
Midwest Region	11	8.3	7	5.7	5	5.1
West Region	30	22.7	31	25.4	28	28.3
Total	132	100.0	122	100.0	99	100.0

TABLE 2: SURVEY PRACTICE MIX

Survey Practice Mix	2009		2010		2011	
Solo Practice	50	37.9%	44	36.1%	39	39.4%
2-3 MDs/DOs Groups	59	44.7%	55	45.1%	40	40.4%
4 or More MDs/DOs	23	17.4%	23	18.8%	20	20.2%
Total	132	100.0%	122	100.0%	99	100.0%

KEY BENCHMARK DEFINITIONS

Net Collected Revenue per FTE Physician—The total physician-collected revenue divided by total full-time equivalent physicians. A full-time physician is assumed to work 1,664 hours or more per year.

Net Collected Revenue per FTE Non-Physician Provider—The total non-physician provider collected revenue divided by total full-time equivalent non-physician providers. Non-physician provider includes physician assistants and nurse practitioners (FTE is calculated at 2,080 hours per year).

Net Collected Revenue per Aesthetician—Total licensed aesthetician-collected revenue divided by total full-time equivalent licensed aestheticians (FTE is calculated at 2,080 hours per year).

Net Collection Ratio—Net collected revenue divided by adjusted charges.

Operating Expense Ratio—Total expenses (cost of goods sold and operating expenses) divided by the total net collected revenue as reported on the practice’s financial statement or tax return. Operating expenses exclude provider compensation, bonuses, retirement contributions, automobile expenses, depreciation, and other non-operating costs.

Non-Provider Payroll Ratio—Gross non-provider payroll divided by the total net collected revenue as reported on the practice’s financial statement or tax return.

Rent Expense Ratio—Total rent or lease expense divided by the total net collected revenue as reported on the practice’s financial statement or tax return.

Marketing and Advertising Ratio—Total marketing and advertising costs divided by the total net collected revenue as reported on the practice’s financial statement or tax return.

FTE Support Staff per FTE Provider—Total FTE support staff divided by the sum of physicians and non-physician providers.

Patient Encounters per FTE Provider—Total patient encounters divided by the sum of physicians and non-physician providers.

Net Collections per Encounter—Net collected revenue divided by total new and established patient visits.

Net Collected Revenue per FTE Support Staff—The total net collected revenue divided by the sum of full-time equivalent support staff employees. A support staff employee includes office staff, licensed aestheticians, and non-physician providers working in a support capacity (i.e., those not producing revenues independently). A full-time support staff employee is assumed to work 2,080 hours per annum.

Days Sales Outstanding—Adjusted accounts receivable divided by net collected revenue divided by the number of calendar days in the period.

efficiency results, including: the lack of consistency of data reporting, calculation of full-time equivalent (FTE) physicians, the cash reporting method of accounting, and inconsistency with chart of account classification. Table 3 shows the mean and median results for each of the past three years for 13 key benchmarking metrics.

2011 RESULTS

Here are several highlights gleaned from the 2011 data:

- Before examining specific productivity and efficiency results, BSM analysts decided to examine the average Total Collected Revenue figures to see if practices are still feeling the effects of the prolonged economic slump. It was found that the revenue stream from 2009 to 2010 showed a slight increase of 1%, but 2010 to 2011 shows a more optimistic change of 12.4%. Please keep in mind that over the next year the number of practices with reportable results for 2011 may increase,

TABLE 3: BSM/ALLERGAN FINANCIAL BENCHMARKING SURVEY RESULTS

Performance Indicator	2009		2010		2011	
	Mean	Median	Mean	Median	Mean	Median
Collected Revenue per FTE Physician ¹	\$1,208,051	\$1,086,883	\$1,226,991	\$1,086,373	\$1,284,840	\$1,162,768
Collected Revenue per FTE Non-Physician Provider ¹	\$528,551	\$511,074	\$556,822	\$530,290	\$589,784	\$573,993
Collected Revenue per FTE Aesthetician ¹	\$147,768	\$125,662	\$145,241	\$117,560	\$161,972	\$121,143
Net Collection Ratio, % ²	102.5	101.1	100.7	100.9	101.7	100.0
Operating Expense Ratio, % ³	53.9	52.9	53.8	54.6	54.1	54.8
Non-Provider Payroll Ratio, %	18.5	18.1	18.1	17.7	18.6	18.8
Rent Expense Ratio, %	5.6	5.2	5.5	5.0	5.4	5.1
Marketing and Advertising Ratio, %	1.1	0.7	1.2	0.7	1.1	0.8
No. of FTE Support Staff per FTE Provider	6.00	5.92	5.94	5.70	5.22	4.93
Patient Encounters per FTE Provider	4,510	4,295	4,450	4,079	4,470	4,151
Net Collections per Encounter	\$278	\$229	\$283	\$248	\$290	\$258
Collected Revenue per FTE Support Staff	\$229,625	\$214,115	\$233,380	\$219,805	\$233,457	\$220,530
Days Sales Outstanding	24	22	24	24	27	27

1. The results include actual net collected revenue of the providers working in the practice. The cost of goods sold is included in revenue.
2. The net collection ratio includes receipts for services and/or goods that may not be included in the practice management system. This may be one factor attributing to the net collections ratio being greater than 100 percent.
3. The operating expense ratio excludes provider compensation, bonuses, retirement contributions, auto expense, depreciation, and all other expense determined to be non-operating costs.

and all metrics discussed within this article may adjust upward or downward.

- The productivity of each practice focuses on the providers working within the practice, and as with most dermatology practices, the primary providers are the physicians.
- From 2009 to 2010 the average Net Collected Revenue per FTE Physician increased by 1.6% and the change from 2010 to 2011 showed an increase of 4.7%.
- The non-physician provider revenue had an increase over the last two years with a 5.3% increase from 2009 to 2010 and a 5.9% increase from 2010 to 2011.
- The licensed aestheticians' productivity was down 1.7% from 2009 to 2010; however, there was a significant increase of 11.5% from 2010 to 2011. We currently have an FTE count for aesthetician of 79 for 2011 versus 91 for 2010.
- It also appears that most of the practices have experienced an increase in their retail sales revenue which averages about 5.1% of the practices total revenue.

Please see the sidebar for explanations of how the individual benchmarks are calculated in Table 3.

CONCLUSION

The BSM/Allergan benchmarking program provides valuable information for practices to compare and evaluate their operating results. We have found the more successful practices are diligent in gathering and measuring results and comparing data to similar practices. In addition, these practices incorporate benchmarking into their budget forecasts and business planning process.

It is important to note that results may change as we continue to add new practice information to the database; therefore, comparison of practice results will vary over time. The results shown are to be used in the context of this article and cannot be relied on as a comparison of a practice's overall performance. ■

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