

Taking Your Practice to the Next Level Through Benchmarking

By Charles R. Felder, PT, SCS, ATC, MBA

Physical therapy practices are facing increasing business complexity. Payors and patients are pushing for reduced payments while expenses continue to rise. During the 1980s and 1990s, it was easy to open and maintain a profitable practice. Increasing regulation and payor demands have made a once-simple business complex.

In today's environment, business skills are at least as important as clinical skills, and possibly even more so. Practices need to plan better, monitor more, and adapt faster to earn a profit. Many practices continue to do well, but many are struggling. Having the right information and knowing how to use it can make a significant difference in the practice.

Business benchmarking provides owners with evidence-based guidelines to support their key business decisions. It is all well and good to monitor company performance over time, but it can be quite eye-opening to compare the performance of your company to that of other similar companies. New patients and visits

are the lifeblood of any practice, but it is just as critical to focus on coding, charging, and collecting appropriately to keep the business viable.

Knowing how your company compares to its peers regarding income and expenses can assist you in planning, monitoring, and adapting. Cutting expenses only helps so much. Growing income and improving productivity are the keys to sustainable growth.

The following examples using data from *PT Benchmark 2008* provide insight into how practice owners and managers can use objective business data to improve the business aspects of their practice.

Facility expense is an important fixed expense. Table 1 indicates that company *Thought It Was Busy PT* either has a facility that is too big and too expensive, or has insufficient revenue per case and per visit. The expense side is above the median, while the

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income side is below the median. These objective data could guide the owners in taking appropriate actions to change these factors and improve profitability.

Any business needs to generate a reasonable profit to remain sustainable. Table 2 provides an example of where company *Is It Worth It PT* should focus its energy. Labor and fixed costs are above the median, while variable expense and profit are below the median. Management should focus on reducing labor cost, improving productivity, and reducing fixed expenses.

Productivity is the key income driver for any practice. Table 3 indicates that company *Giving It Away PT* should probably perform a treatment charge review, as it appears the therapists are undercharging, or it may have a poor payor mix. For example, Medicare pays \$118 per hour (based on reimbursement of therapeutic exercise CPT Code 97110 x 4 for company location), and the company revenue per hour is \$89 with 1.1 visits per hour.

Getting paid in a timely manner is an ever-increasing struggle for practices. Company *Great Staff PT* averages \$180K per month in

Table 1: Facility Expense and Productivity Analysis

| Description | Metric | Percentile Rank Compared to Peer Group |
|-------------------------|-----------------|--|
| Facility expense | 11.2% of income | 64th percentile |
| Revenue per square foot | \$120 | 15th percentile |
| Revenue per new patient | \$751 | 25th percentile |
| Revenue per visit | \$82 | 26th percentile |

Table 2: Expense and Profit Analysis

| Description | Metric | Percentile Rank Compared to Peer Group |
|------------------|-----------------|--|
| Labor expense | 68.1% of income | 71st percentile |
| Variable expense | 7.1% of income | 16th percentile |
| Fixed expense | 21.5% of income | 62nd percentile |
| Profit | 2.3% of income | 34th percentile |

Table 3: Productivity per Paid Hour

| Description | Metric | Percentile Rank Compared to Peer Group |
|---------------------------|--------|--|
| Charge per licensed hour | \$138 | 42nd percentile |
| Revenue per licensed hour | \$89 | 40th percentile |
| Visits per hour | 1.1 | 47th percentile |

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charges. Net accounts receivable (liens removed) total is \$320K, or 178 percent (53rd percentile) of the average monthly charges. These figures indicate that the accounts receivable staff is doing a good job. The owner's task is to monitor this area monthly to make sure that they continue to do well. Consistent cash flow is vital to a small business.

Practice owners should have a plan, a budget, and a consistent monitoring system, and then use the business evidence to guide their decisions. Knowing how you compare to similar businesses can strengthen your resolve and help you communicate with your staff.

To learn more about *PT Benchmark 2009*, our seventh annual study, which is being conducted during the spring of 2009, please visit www.HCSconsulting.com. ■

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Reference:

Charles R. Felder. *PT Benchmark 2008* (HCS Consulting, Inc., 2008).