How to Measure your Financial Success in Private Duty Home Care

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The Data Driven Organization

- Establish Data Management and Reporting
- Compare to Financial/Operational Benchmarks
- Know What your P&L is Telling You
- Use your Key Indicator Reports to Manage
- Use Benchmarks to Set Staff Goals/Incentives
Data Tools

- Big Picture: Measuring Size, Labor, Expenses & Profit
- Cash or Accrual?
- Average hours per Client
- P&L with Budget Projections
- Chart of Accounts
- Administrative Staffing Model
- Lead Tracking & Database Reports
- Accounts Receivable Management
- Your Monthly Report Card

Big Picture Size

According to industry standards private duty companies fall into these categories

- Small: Up to $3m annual revenue
- Medium: Above $3m to $10m annual revenue
- Large: Above $10m annual revenue
Financial Benchmarks

- Net Profit Margin
- Gross Margin
- Cash Flow
- Accounts Receivable/Collections
- Average Bill Rate
- Median Revenue
- Budgeting

How To Calculate Net Profit Margin

- Net Profit Margin is after-tax net profit divided by net sales

  \[\text{Net Profit Margin} = \left(\frac{\text{Net Profit}}{\text{Sales}}\right)\%\]

- Profitability Ratio:
  How good is your agency’s profit

EXAMPLE:
Net Profit = $100,000
Sales = $500,000
Net Profit % = \left(\frac{100,000}{500,000}\right)\% = 20\%
According to industry standards the average net profit margin for a private duty company is 15% to 20%

Private duty companies in the early stages of development are working toward the goal of a 15% profit

By fine tuning operations, private duty agencies can achieve a 20% or higher profit

Where Is Your Agency?

Net Profit Margin
- 0-3% - Start up
- 4-10% - Steady Progress
- 11 to 15% - Proficient
- 16 to 19% - Healthy
- 20% & above - Vibrant
Gross Margin Calculation

- Total Revenue (accrual basis)
- Subtract (Direct Labor + Payroll Burden + Workers Compensation)
- Divide by Total Revenue

**Gross Margin Benchmark = 35% or above**
**Average* = 38%-39.5%**

* Source = the Home Care Pulse 2014 Private Duty Benchmarking Study
Establish Bill/Pay Rates For Target Gross Margin

Bill Rate – (Pay Rate + Burden + WC) / Bill Rate

- Example: $20 – ($11.00 + 15%)/$20
- 20 - 12.65/20 = 37%
- Consistency with this practice will yield great margins on your P&L
- 35% or above is a healthy gross margin

Cash Flow

- Keep the cash coming in ahead of payroll and expenses
- Virtually every agency experiences a time when there is a cash flow gap
- Frequency of billing = more frequent than payroll & expenses
- Use 1 - 2 weeks deposit on care if necessary
- Compare financials to budget
Cash Flow Over The Long Term

- Use late payment of suppliers as a short term strategy only
- Minimize expenses
- Use revenue-growth incentives for compensation
- May need to use a line of credit
- Increase bill rates when market allows
- Growth will increase cash flow as long as gross margin is 35% or above

Accounts Receivable

- Monitor Receivables weekly
- Have strict collection practices and enforce them
- Demand deposits for slow payors
- Charge interest
- Attorney letters are very effective
- Discharge from care if necessary (with proper notice)
Average Bill Rate

- Ensure your bill rates reflect your local market and are in line with competitors
- Shop your competitors annually
- Don’t be afraid to be at the top of the range if your quality supports it

Average hourly bill rates nationally
- 1-2 hour visits: $25
- 3-5 hour visits: $21
- 6-11 hour visits: $21
- 12-24 hour visits: $20

* Source = the Home Care Pulse 2014 Private Duty Benchmarking Study

Median Revenue

<table>
<thead>
<tr>
<th>Years in business</th>
<th>Revenue</th>
</tr>
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<tbody>
<tr>
<td>1 full year</td>
<td>$259,842</td>
</tr>
<tr>
<td>2 years</td>
<td>$464,000</td>
</tr>
<tr>
<td>3-4 years</td>
<td>$968,000</td>
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<tr>
<td>5-6 years</td>
<td>$1,500,000</td>
</tr>
<tr>
<td>7-9 years</td>
<td>$2,010,603</td>
</tr>
<tr>
<td>10+ years</td>
<td>$2,003,702</td>
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</tbody>
</table>

* Source = the Home Care Pulse 2014 Private Duty Benchmarking Study
Operational Benchmarks

- Lead Conversion
- Staffing Size
- Average Hours per Client
- Average Client Service Length
- Customer Service Ratings
How Am I Doing With Lead Conversions?

- Percentage of Prospects/Leads turned into Clients
- Up to 25%: Get coaching and apply techniques; Improvement will be rapid
- 25 to 50%: Acceptable
- 30%: Industry average
- 51% - 75%: High proficiency
- Participate in Conferences, Use a consultant & learn how to improve your performance

Median Sales Close Ratios 2013

- Inquiry to Assessment 38.8%
- Assessment to Admission 80.6%
- Inquiry to Admission 31.3%

* Source = the Home Care Pulse 2014 Private Duty Benchmarking Study
You have to maintain adequate staffing for the following agency functions:

- Office management: operations, billing, payroll, regulatory compliance
- Scheduling
- Intake, assessments, start of care
- Caregiver recruitment, orientation and retention
- Caregiver supervision in the home/Quality visits
- Marketing and Community Relations

Number of office staff is based on:

- Strengths, experience of staff
- Number of clients and hours, required freq of supervisory visits, geography
- Contract and regulatory requirements (e.g., nurses for assessments)
- Full vs. part-time
- Division of labor, who does what
- Budget/financial performance
Administrative Staff Equivalents

Numbers of staff

- 0 - 500 hours = 2 people
- 501 - 1200 hours = 3 people
- 1201 - 2000 hours = 4 people
- Add another person for every 1000 hours after that
- (exclude RN and Quality Assurance positions)
- 1 Scheduler can manage up to 2000 Hours; add a scheduler for every 2000 hours

Office Staff Costs as a Percentage Of Revenue

- Office staff salaries and benefits costs should range from 12% to 16% of total revenue
- High office staff costs are the 2nd most frequent cause of profit below industry standards
Average Hours Per Client

- How hard you are working???
- Total weekly billed hours divided by the number of invoiced Clients in that week
- Under 20 = inefficient
- Above 30 hours = very efficient
- Significant number of high hour clients will raise the average
- No established minimum hours per visit or visits per week will bring average hours down

Average Client Service Length
2013 (in months)

Percentile Ranking

* Source = the Home Care Pulse 2014 Private Duty Benchmarking Study
Customer Service

- Must measure it
- Use internal or external survey methods
- At least annually
- Quarterly is better
- Take corrective action in weak areas
- Hold staff accountable

Begin With The End In Mind

- Establish your chart of accounts and database to deliver the data
- Produce timely and accurate monthly financial statements
- Develop an annual budget
- Set up your dashboard of benchmarks
Monitoring Tools

- Review Budget vs. Actual – monthly
- Monitor the Dashboard – monthly
- Compare results to Benchmarks - monthly
- Accounts Receivable/Collections – weekly
- Results vs. Goals for employees
- Customer Service Surveys
- Results of Quality & Supervisory visits

Navigating The Results

- Evaluate the results
- Identify the problem areas
- Drill down
- Implement a corrective action plan
Actions to Improve Business Health

- Increase revenue by increasing bill rates and/or volume
- Keep overhead costs down
- Achieve greater productivity from resources which are financed through overhead
- Use part-time employees
- Ensure Caregiver wages are in line with market and manage all labor costs
- Adjust revenue source mix – private pay, medicaid waiver, VA, LTC
- Improve customer service

Strategies for Managing Overtime Costs

Starting January 1, 2015…..

- There is no way to avoid paying caregivers overtime for over 40 hours worked in a week
- The impact will probably be less than you think
- 16 states are already required to pay overtime and they have successful businesses
- Build your strategies now so you will be ready for 2015
Strategies

- Schedule multiple caregivers on clients over 40 hours of service in a week
- Pass overtime costs to clients with a bill rate of 1 ½ times the regular bill rate (ensure your service agreement states this policy)
- Schedule shorter shifts
- Pay a reduced rate for travel and training time – at or above minimum wage
- Manage caregiver time when assigned multiple clients to avoid overtime
- Use scheduling software to alert you when a caregiver nears overtime hours
- Avoid or minimize travel time

Cost of Passing all on Overtime

Costs By Raising Bill Rate

- Review a 13 week period.
- Calculate the total amount of revenue billed for the 3 month period of time (accrual method)
- Calculate the total number of hours per caregiver over 40 hours per week for the 3 month period
- Multiple these hours by your *0.5 X your bill rate – multiply by your bill rate
- Divide this number by the number of hours billed for the *13 week period
- This is the amount of increase you need to add to your bill rate to cover the cost of overtime.
## Example

### Cost of Passing all Overtime Costs by Raising Bill Rate

<table>
<thead>
<tr>
<th>Reg</th>
<th>O/T</th>
</tr>
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<tbody>
<tr>
<td>1,596</td>
<td>100</td>
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| Number of Weeks | 12 |
| Total Hours | 13,190 |
| Hourly Invoice Rate [Reg.] | $22.00 |

2. Total Revenue Billed $204,100.00

3. Total Overtime Hours 390 hrs. per week * 13 weeks

4. Total Increase in Billing Due to Overtime 4,290.00 (390 hrs * $22.00)

5. Hourly Increase due to Overtime 0.32 (4,290 / 13,190)

6. Total Bill Cost of Overtime 0.32

### New bill rate to cover cost of Overtime

| Overtime | $22.32 (original rate + additional cost of $0.32) |

## Caregiver Recruitment Strategies

- Estimate the number of caregivers you will need to add to minimize overtime
- Use your estimated caregiver hours over 40 hours per week to determine how many additional caregivers you will have to recruit
- Most established offices will need to add approximately 1/3 more caregivers to minimize overtime