Insider’s Guide To
Measuring
Private Duty Financial Success

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Goal #1
You will be able to compare your agency performance to key industry benchmarks

1. Gross Margin
2. Gross Profit
3. Total Revenue
4. Office staff salaries as % of revenue
5. Lead conversion
Goal #2
You will be able to identify at least 4 Business Tracking Tools

1. P&L
2. Aged Receivables
3. DSO
4. Dashboard/Key Indicators
5. Lead Tracking &Conversion
6. Satisfaction Surveys
7. Industry benchmarks
8. Budget

Goal 3
You will be able to identify 4 actions to improve business health

1. Increase revenue
2. Do not increase caregiver pay until rates are raised
3. Keep variable costs down
4. Maintain at least a 35% gross margin
5. Increase productivity
6. Efficient collections = low DSO = good cash flow
7. Exert tight control over caregiver costs
The Data Driven Organization

- Financial Parameters
- Benchmarks
- What your P&L is telling you
- Using your Key Indicator Reports to strategize
- Data that motivates and guides your staff

Business Model Tools

1. Big Picture – Measuring Size, Labor, Expenses & Profit,
2. Cash or Accrual?
3. Average hours per Care Recipient
4. QuickBooks P&L with Budget Projections
5. Chart of Accounts
6. Administrative Staffing Model
7. Lead Tracking
8. Accounts Receivable Management
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

Cash or Accrual

- Compare using the same format
- To compare gross margin, administrative staff costs, profit.
- DSO – accrue average revenue for adding and subtracting days to the month for the calculation.
How To Calculate Net Profit Margin

• Net Profit Margin (NP%) is after-tax net profit divided by net sales

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

• 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%

Big Picture - Profit

• According to industry standards the average profit 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 are you?

Profit

- 0-3% - Out the starting gate
- 4-10% - Steady Progress
- 11 to 15% - Proficient
- 16 to 19% - Healthy
- 20% & above - Vibrant

Establish Bill/Pay Rates for Target Gross Margin

How to calculate Gross Margin to establish your bill and pay rates

Bill – (Pay + Burden) / Bill

Example: $17 – ($9.50 + 15%)/$17

17-10.93/17= 35%

Consistency with this practice will yield great margins on your P&L

35% or above is a healthy gross margin
Calculate Gross Margin from Monthly P&L

- Accrual Total Revenue
- Subtract (Direct Labor + Burden + workers Comp)
- Divide by Total Revenue

Gross Margin – Benchmark 35% or above

QuickBooks P&L with budget projections

- Complete your budget and load it into QuickBooks so that your P&L reflects your comparison of actual to budget
- By the end of the 1st week after the close of each month, obtain QuickBooks P&L and a balance sheet by the end of the first week after the close of the month
- Yes! You really do need a budget!
Chart of Accounts

- Use a consistent chart of accounts that allows you to easily track labor costs, general & administrative costs, bottom line
- Separate administrative payroll/benefits/burden from caregiver payroll/benefits/burden
- Cash or accrual? Consistently compare your results

Direct Labor Expense

- Your greatest expense will be direct labor (CG salaries) It represents 65% (or less) + of your expenses

- **Control labor costs:** manage direct expenses, avoid overtime, strategize bill pay adjustments to maintain an acceptable GM

- Pay according to the appropriate salary scale
Average Hours Per Care Recipient

- How hard you are working??
- Total weekly billed hours divided by the number of invoiced CRs in that week
- Under 20 – inefficient
- Above 30 hours – very efficient
- Significant number of high hour care recipients will raise the average
- No established minimum hours will bring average hours down
- Count Live Ins as the number of hours actually worked 14? 16?

Administrative Staffing Model

You have to maintain adequate staffing for the following office functions

- Office oversight, billing, payroll, regulatory compliance
- Case coordination/scheduling
- Lead calls, assessments, start of care
- Caregiver recruitment, orientation and retention
- Caregiver and Care Recipient supervision in the home
- Marketing, advertising, networking, PR
Office Staffing and Assignments

Number of office staff is based on
• The # of franchisees, availability, strengths, experience
• Number of care recipients, required freq of supv visits, hours, geography
• Contract and regulatory requirements (eg. nurses for assessments)
• Division of labor, who does what
• The following is an approximation of what you will need

Care Coordinators

1 coordinator can serve up to 1200 hours
• Add a second care coordinator at 1,000 to 1200 hours
• Add a 3rd care coordinator at 2,000 hours
• Add a care coordinator for every 1,000 hours after that
Administrative Staff Equivalents

Numbers of staff
- 0 - 500hrs – 2 people
- 501 - 1200 - 3 people
- 1201 – 2000 – 4 people
- Add another person for every 1000 hours after that
- (exclude billing, accounts payable, marketing & cutting AP and paychecks)

Don’t Add Staff Too Soon
- Do NOT add administrative staff based on a sudden jump in hours, this may be temporary. Better to increase staff cautiously than to have to downsize if growth is not sustained.
- Do NOT add staff based on expected results from marketing plans or advertising. Wait until you achieve these results.
- Do add staff based on sustained growth. Be sure to redefine the roles and expectations of staff as you grow to increase efficiency.
Office Staff As a % of Revenue

- Office staff salaries and benefits should range
  - **12% to 16% of total revenue**

- High office staff costs are the 2nd most frequent cause of profit below industry standards.

- The #1 reason - direct salaries & burden above 65% of revenue

How am I doing with lead conversion?

- Up to 25% - Get coaching and apply techniques
  - improvement will be rapid
- 25 to 50% Acceptable
- 50% - Industry average
- 51% - 75% High proficiency
- Participate in Conferences, Use a consultant & learn how to improve your performance
**Aged Receivables & Cash Flow**

- Keep the revenue 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 billing & expenses
- Use 1 – 2 wks deposit on care
- Run Aged Receivables – have stiff collection practices
- Compare financials to budget

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**Cash Flow Over the Long Term**

- Manage your cash flow to fund business growth
- Short term strategy only - late payment of suppliers
- Long term this is not effective
- Project growth based on good cash flow
- Avoid the additional cost of lines of credit.
- Advanced planning is essential
DSO – Days Sales Outstanding

- DSO - the number of days worth of sales currently owed a business
- How long it takes you to collect your money
- Computed by dividing total accounts receivable by average daily sales.
- Divide account receivables by sales for a month, times the number of days in the month.
- Count the days from Monday to Friday in the month, 20 to 23.
- Factor in an additional day if you serve a lot of weekend clients.

DSO

- If you bill weekly, - DSO should be 14 days or less.
- For biweekly billing it should be 21 days or less.
- Prepay, your DSO will be 0.
- Medicaid billed once a month will increase the DSO
- Delays in VA or other contracts that pay 30 to 60+ days will increase DSO
- DSO calculations are important in the business that bills more than $1M per year
Managing Costs

- Variable Costs: costs that vary directly with sales revenue, in other words when sales rise or fall, they rise and fall.
- Fixed Costs: costs that are incurred irrespective of whether or not sales are made. Associated with the physical capacity of the business to provide service to customers.

- Important note: fixed costs are only fixed within a certain time frame. ALL costs are subject to change over the long term (e.g. rent may be fixed for 3 years, but it is likely to increase on renewal of the lease; interest rates can move)

Management Strategies

Increase three areas:

- Net profit margin
- Cash flow
- Return on investment (ROI)
Actions to Improve Business Health

- Increase sales revenue by increasing price and/or volume
- Keep variable costs down
- Achieve greater productivity from resources which are financed through overheads
- Ensure that tight control is exercised over caregiver costs

SO THAT

- Cash flow increases simultaneously with the increase in net profit

Your Monthly Report Card

- P&L Revenue,
- Benchmarks: Labor, profit, admin, marketing,
- comparison of performance on all categories to budget
- Key Indicators Report
- Lead tracking
- Lead Conversion
Data Sets Based on Size Business

- Small Company - $500,000
  - 1. Key Indicators
  - 2. Lead tracking
  - 3. Lead Conversion
  - 4. Monthly P&L

Data Sets

1M Company Data Sets
- Add referral analysis
- DSO
  - More sophisticated analysis tools - look at examples
- Customer Satisfaction, performance surveys, complaint analysis are meaningful
- Industry Benchmarks become much more meaningful
Data Sets

Over 3 M

- Add staff performance comparison for those who perform the same job i.e. lead conversion statistics.
- Process improvement in key areas
- Dashboards – Key indicators - departmental & company wide.
- Employees must be involved in measuring their own performance
- Daily and weekly measurements used to modify strategies frequently – slow leads, too many complaints in one category

We Did It!

- You are now able to compare your agency performance to key industry benchmarks (slide #2)
- You can easily identify at least 4 Business Tracking Tools (slide #3)
- You can now identify at least 4 actions to improve business health (Slide #4)

Note: List your “take aways” and action items for when you return to your office.
Congratulations!

You now have the tools necessary to
Measure Private Duty
Financial Success

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<th>Quarter __________________________</th>
<th>Weekly Scorecard</th>
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