Insider’s Guide To
Measuring
Private Duty Financial Success

Pat Drea, COO
Visiting Angels
pdrea@visitingangels.com

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

\[ \text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Sales}}\% \]

- Profitability Ratio – how good is your agencies profit

EXAMPLE:
- Net Profit = $100,000
- Sales = $500,000
- Net Profit % = ($100,000/$500,000)\% = 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

\[
\text{Bill} - (\text{Pay} + \text{Burden}) / \text{Bill}
\]

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 offices, 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

Key Indicator Reports
Examples
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.

Call to Action

Take back to the office

1. One benchmark you will use to improve performance
2. A business Tracking tool(s) or improvement
3. One or more business health strategies to implement
Congratulations!

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

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