Performance Metrics for Urgent Care

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A successful urgent care venture requires understanding how well a center is performing over time, relative to budgets, and relative to industry benchmarks. Thus, urgent care entrepreneurs and operators need greater transparency than is provided by the monthly profit and loss statement. They need a consolidated view of financial and operational metrics that helps them pinpoint process, systems and staffing deficiencies requiring management intervention. Therefore, it's no surprise that a frequent inquiry to the Urgent Care Association of America (UCAOA) is "which metrics are most important to track for an urgent care center?"

Business consultants have long advocated creating "scorecards" or "dashboards" that help managers determine whether an organization's performance is meeting the expectations of owners, employees, customers, and other stakeholders. The following sections describe key financial and non-financial metrics that provide urgent care operators with a multi-faceted view of their center's performance.

Start with the Income Statement

Understanding the performance of any business starts with understanding the financial statements. Whether produced internally using desktop bookkeeping software or externally by a professional accountant, every urgent care operator should receive a standard financial package—Income Statement, Balance Sheet, and Statement of Cash Flows—on at least a monthly basis. Identifying meaningful management metrics begins by understanding these reports—particularly the Income Statement, which includes:

Summary Income Statement		
Income Component	Income Statement Line Item	Accounts Included
Revenues	Gross Revenue	Revenue from Patient Services Revenue from Ancillary Services Miscellaneous Revenue
	Net Revenue	Gross Revenue minus contractual allowances, account adjustments and refunds, charity care, and write-offs for bad debt.
Expenses	Operating Expenses	Personnel Costs Laboratory and Radiology (including over-read) Medical Supplies Facilities and Maintenance Expense Travel and Auto Expense Advertising Expense Depreciation/Amortization
	Non-Operating Expenses	Interest Expense Management Fees Corporate Expenses Unrelated to Clinic Operations Charitable Contributions Income and/or Franchise Taxes
Operating Income	Calculated: Net Revenue Minus Operating Expenses	
Net Income	Calculated: Net Revenue Minus Operating and Non-Operating Expenses	
EBIDTA (Earnings Before Interest, Depreciation, Taxes and Amortization)	Calculated: Net Income Plus Interest, Depreciation, Taxes, and Amortization	

In reflecting upon the Income Statement, a cliché in business is that management should remain focused on the "bottom line" (meaning, "Net Income"). But Net Income is skewed by factors like how the business is financed and the corporate tax structure that do not reflect the performance of day-to-day operations. Expenses that are not directly related to the urgent care center's "purpose" of treating patients are called "non-operating expenses." An urgent care operator needs to understand how revenue coming in exceeds the amount of expenses paid to generate that revenue—and by taking out non-operating expenses; such is reflected in "Operating Income."

Operating income is the *most important* line on the Income Statement because it's a direct reflection of how well management influences revenue and controls expenses. Longitudinally, operating income is expressed as a percentage of Net Revenue—this ratio called "Operating Margin."

EBIDTA goes a step beyond Operating Income to report the cash flow produced by operations. "Non-cash" adjustments like amortization and depreciation reduce Net Income but do not expend cash. Say, for instance, a center spends $10,000 for a new piece of equipment that is expected to last five years. Net income will be reduced by $2,000 per year—although the entire cash outlay occurred when the purchase was made. By taking out such "non-cash" adjustments to Net Income—EBIDTA reflects the true economic production of operations. As a result, EBIDTA is the primary measure used in valuing urgent care centers for sale. In performance reporting, EBIDTA is frequently expressed as a percentage of Net Revenue—called "EBIDTA Margin."

Augment Financial Reporting with Operations Metrics

Financial reports like the Income Statement are based on transaction data passing through the accounting system so they represent the historic "summation" of a center's performance. In order for a manager to know specifically where to focus his or her attention, financial data needs to be further expressed in the context of a center's operations. The following metrics, calculated using the financial statement and operational data, illustrate the drivers of Operating Income:

Center Operations Metrics		
Operations Metric	Calculation Method	Affected By
Visits Per Day	Count of patient visits (billable encounters) during the month divided by number of operating days (days the center was open for business).	Advertising and Promotion Patient Satisfaction (Repeat Visits/Word of Mouth) Seasonality/Flu Epidemic
Gross Revenue Per Visit	Total patient charges divided by total count of visits.	Practice Fee Schedule Provider Coding Acuity of Presenting Patients
Net Revenue Per Visit	Net collections—calculated as gross revenue minus contractual allowances, adjustments and write-offs—divided by count of patient visits.	Payer Mix or Payer Contracted Rates Registration/Eligibility Verification Processes Billing/Collections Practices
Operating Expenses per Visit	Operating expenses divided by count of patient visits.	Procurement Practices Cost Awareness and Conservatism
Operating Margin	Operating income divided by net revenue.	Visits per Day and Revenue per Visit Operating Expenses per Visit
Personnel Counts	Total number of full-time equivalent (FTE) physicians, contractors, medical and non-medical support staff.	Staffing and Scheduling Recruiting
Personnel Efficiency Ratio	Number of visits divided by FTEs.	Acuity of Presenting Patients Provider and Staff Efficiency and Experience

Additional Details of Calculating Operations Metrics

When reporting patient visits and revenue, there is a risk that activity changes of component business lines (i.e. urgent care, occupational medicine, immigration physicals) or specific products (i.e. sports physicals, flu shots) will mask trends in the overall business and skew month-over-month and year-over-year comparisons. Consider the following examples:

- The center runs a promotion on high school sports physicals for $25. An influx of patients raises the visit count (denominator). But because the $25 generated by a sports physical (numerator) is less than the $150 realized from an urgent care visit—the report would show a decline in net revenue per visit. This result obscure issues in coding, payer reimbursement, or billing/collections processes.
- Workers compensation and group health insurance visits are combined in patient revenue. The State implements a reduction in the workers compensation fee schedule resulting in a decrease of net revenue per patient. Simultaneously, the center experiences an increase in an important group health contract. Because revenue remains flat, management fails to realize the financial impact of the reduced workers comp reimbursement.

The solution to these issues is to break down visits and revenue by major service lines and products. These may be reported as a "visit mix" or "revenue mix" percentage of total visits or revenue. Although this adds complexity to management reporting, the value is added insight to the operator on the revenue contribution of various business drivers. By contrast, because most expenses accrue to the center's overhead, it's typically not possible to calculate expenses attributable to specific products. Detailed analysis on the cost of delivering individual services is an exercise that should be performed on a periodic basis but it's more information than is practical for management reporting.

Unless a center is open 365 days per year, typically operating days (days the center was actually open for business) are used in "per day" calculations as opposed to calendar days. Use of actual operating days can become cumbersome if reporting for multiple locations that are open different days, but the value is an apples-to-apple comparison of daily activity.

When calculating personnel counts, consider breaking down the number of FTEs by major job function such as physicians and physician extenders, support staff including nurses, medical assistants and technicians, and non-clinical staff such as front office specialists and the center manager. If staff members are cross-trained between the front and back office, allocate them (=1 FTE) by the percentage of time spent in each function (i.e. 50% FTE Medical, 50% FTE Non-Medical).

Contract personnel are typically included in FTEs counts for their respective job functions. However, if reliance on contract labor is due to extreme volume fluctuations (i.e. a flu epidemic) or problems in recruiting and retention—some operators find it useful to report contract labor separately. Personnel efficiency ratios can likewise be calculated by job function to pinpoint scheduling and efficiency problems among providers, medical support staff, and in the front office.

Integrate Non-Financial Metrics

The metrics discussed thus far represent measurable, numerically quantifiable activities. But there are additional, more subjective measures that represent how a center is performing relative to factors important to patients and employees. Like financial and operational metrics, these should be reported and followed on a monthly basis. Examples include:

Non-Financial Metrics		
Non-Financial Metric	Calculation Method	Affected By
Quality Metric	Varies depending on methodology used but typically evaluates the consistency or quality of services delivered using variety of factors defined internally or by external accreditation agencies.	Training Operational Processes and Systems Documentation
Average Patient Wait Time or Length of Stay in Clinic	From the billing system, identify the average time that elapses between sign-in and discharge.	Efficiency of Providers and Staff Staffing Levels Efficiency of Operational Processes
Patient Satisfaction Metric	Varies depending on methodology used but typically evaluates patient's satisfaction with their visit and likelihood to return and/or recommend the center to others.	Communication of Wait Times Courtesy of Providers and Staff Accuracy of Diagnosis, Billing, and Documentation
Employee Turnover	Terminated employees during a period divided by beginning headcount, excluding contract labor.	Management Style Staff Affinity to Management Salaries and Benefits Staffing Levels/Workload Advancement Opportunities Operational Processes and Systems Training, Recruiting, and Human Resources
Employee Satisfaction Metric	Varies depending on methodology used but surveys typically evaluate employee's satisfaction, job engagement and likelihood to recommend the center as a good place to work.	

Billing and Collections Metrics

Unlike "cash and carry" retailers and other service businesses, urgent care centers that bill insurance do not receive cash for the entire cost of services right away. There is typically an in-house or outsourced billing and collections function that converts the center's patient "revenue" to "cash" by "working" Accounts Receivable. Timely and complete billing and collections is a center's

lifeblood—after all, a center can't meet its payroll obligations using "Accounts Receivable." To provide much needed transparency to management, billing and collections metrics should be incorporated into the monthly reporting package:

Billing and Collections Metrics		
Billing/Collections Metric	Calculation Method	Affected By
Accounts Receivable Balance	Total Balance of Accounts Receivable	Terms of the patient financial policy. Verification of patient demographics. Verification of benefits eligibility. Collection of co-pays, co-insurance and past due balances at time of service. Data entry errors at front desk or in charge entry. Payer mix and payer reimbursement processes. Speed, accuracy, and effectiveness of billing and collections processes. Date at which late patient accounts are sent to collections.
Accounts Receivable Turnover Ratio	(Gross Revenue minus Cash Collections) divided by (Accounts Receivable Balance)	
Days Sales Outstanding	(Total Balance of Accounts Receivable) times (Operating Days per Period) divided by (Gross Revenue minus Cash Collections)	
Average Days in Accounts Receivable	Operating Days per Period divided by Accounts Receivable Turnover Ratio	
Collections as a Percent of Net Revenue	Cash Collections divided by Net Revenue	
Accounts Receivable Productivity	Cash Collections divided by Average Accounts Receivable Balance	
Bad Debt Adjustments to Gross Revenue	Bad Debt Adjustments divided by Gross Revenue	
Cost of Collections	Amounts Paid to Attorneys and Collections Agencies divided by Amount Collected	
Zero EOBs	Count of insurance explanations of benefits (EOBs) per period with zero reimbursement to the provider. (Or as a percentage of total visits).	
Returned Mail	Count of returned patient statements divided by number of patient statements mailed.	

Longitudinal Reporting: Trend Analysis

After identifying which metrics to include in the monthly reporting package, the urgent care operator gains management insights by evaluating changes in metrics over time, relative to budget, and relative to industry benchmarks. Appendix 1 provides a sample set-up of the urgent care operating statement that incorporates these three analytical methods.

Urgent care revenue is generally determined by patient volume and the rate of reimbursement per patient. Expenses may be dependent upon volume (called "variable expenses") or they may be "fixed" (unchanging, regardless of volume). Both fixed and variable expenses are subject to inflation. Trend analysis evaluates metrics over time to illustrate changes in revenues and expenses components to give the urgent care operator an idea of whether the business is performing better or worse, as well as the reasons why.

For example, the metric Operating Income Growth—calculated by dividing the current period's operating income by that of the prior period—shows whether the center is becoming more or less profitable over time. Understanding changes in the component parts of operating income—a manager can clearly assess, for instance, that the center is *more profitable* due to increased reimbursement under an important payer contract, or alternatively *less profitable* due to the rising cost of employee benefits.

Variance to Budget

The simplest explanation of a budget is that it's *an "educated guess," based on past performance, of how an urgent care center will perform in the future.* Because budgets are used to allocate resources and hold managers accountable for generating revenue and controlling costs—it's important each reporting period to evaluate a center's performance relative to its budget. Because things happen during the course of operations that management could never anticipate, rarely will actual and budgeted numbers align perfectly. But seeing the discrepancies can lead the urgent care operator to ask probing questions, such as:

- What factors are affecting overall volume through the center including:
    - Sales and marketing efforts
    - Repeat visits due to patient loyalty

    - Competition
    - Flu epidemic
- Have there been any changes in payer mix or contracted rates among our major payers?
- Are we seeing any significant changes in patient acuity, ratio of new vs. established, or provider coding patterns?
- What trends are we seeing in employee turnover, staffing efficiencies, control of overtime and use of contract labor?
- How well are we managing non-personnel expenses including billing, lab, and radiology expenses?
    - Is there any unnecessary or excessive utilization we can curb in the center operation?
- What inflation are we seeing in the cost of employee benefits, electric and gas utilities, information technology or supplies?
    - Can we competitively bid or shop our vendor products to attain greater cost savings?

Metrics rarely provide the answers directly but they have tremendous value insofar as helping management identify the "right questions" to ask and then pointing them to potential solutions.

Ratio Analysis

Ratio analysis entails understanding the relationship between two or more items in the financial statements. For example, to understand how well an operator is managing the various expense components of a center, each may be reported as a percentage of Net Revenue:

Expenses Reported as a Percentage of Net Revenue
Total Salaries and Benefits
Total Personnel Costs
Total Lab, X-Ray and Medical Expenses
Sales, Marketing and Advertising Expense
Other Operating Expenses
Operating Income

When expenses are expressed as ratios, a center's performance can more easily be compared to that of other centers—providing external validation and a "sanity check" for the center's management. UCAOA, the Medical Group Management Association (MGMA), the American Academy of Family Practice (AAFP), and other groups frequently publish benchmarks that can be used to gauge the management of an urgent care practice.

Conclusion

Running a successful urgent care operation requires access to timely, accurate, and actionable performance data. Understanding the metrics that represent operational performance—as well as the *drivers* of operational performance—enables the urgent care operator to create a monthly reporting package that effectively tracks performance over time, relative to budget, and relative to industry benchmarks.

Appendix 1: Urgent Care Operating Statement

	Quarter or Month							Year to Date						
	Actual	Budget	Variance	%	Prior Year	Variance	%	Actual	Budget	Variance	%	Prior Year	Variance	%
Revenues														
Gross Revenues														
Minus Contractual Allowances														
Equals Net Revenues														
Operating Expenses														
Salaries and Wages														
Benefits Expense														
Contract Labor														
Recruiting Expense														
Total Personnel Costs														
Laboratory Expenses														
Radiology Expenses														
Medical Supplies														
Total Lab X-Ray and Medical														
Travel and Auto														
Sales and Marketing														
Postage and Courier														
Printing and Office Supplies														
Telecommunications														
Professional Services														
Insurance and License														
Malpractice Insurance														
Bad Debt Expense														
Facilities Expense														
Equipment Costs														
Depreciation Expense														
Billing Expenses														
Total Operating Expenses														
Amortization Expense														
Operating Income														
Operating Income %														
Non-Operating Expenses														
Interest Expense														
Management Fees														
Gain/Loss on Asset Sale														
Pre-Tax Income														
Pre-Tax Income														
Pre-Tax Income %														
Earnings Before Interest, Taxes, Depreciation and Amortization														
EBIDTA Additions: --Interest Income/Expense --Depreciation & Amortization --Income Taxes														
EBIDTA														
EBIDTA %														