



# Key Performance Indicators in Private Practice Optometry

The future looks bright for private practice optometry. In recent years, studies indicate that revenue growth for independent eye care providers has exceeded overall market growth. Achieving this growth in an increasingly competitive market requires careful financial oversight and skilled management of practice operations. Taking a fact-based approach to financial decision-making provides a solid foundation for growth, and involves tracking key performance metrics on a consistent basis. A discussion on what these key metrics are, how to measure them, and how they contribute to practice growth will empower the independent optometrist to take control over practice finances and set ambitious goals for growth. In addition, identifying key expense categories to ensure that the practice's resources are being appropriately allocated will provide further guidelines for promoting and managing growth.



## Managing Key Expense Categories

Primary expenses can be divided into seven basic categories to help practice owners understand their total expenses for each individual category. Taking the time to understand these categories can give you the tools and potential to take power over your practice's financial health. Use the following key expense categories to create benchmarks for practice expenditures, referencing the recommended percentage of total expenses for each category to determine an appropriate budget.

**29%**

Cost of Goods Sold

**21%**

Staff Expenses

**6%**

Occupancy Costs

**4%**

Examination  
Equipment

**1%**

Marketing and  
Promotion

**8%**

General Office  
Overhead

**30%+**

Doctor's  
Compensation

# Key Performance Indicators (KPIs)

Use the following metrics to track practice performance in key areas. The necessary data is already collected by most practices, and can be tracked on a monthly, quarterly, or yearly basis depending on practice goals.



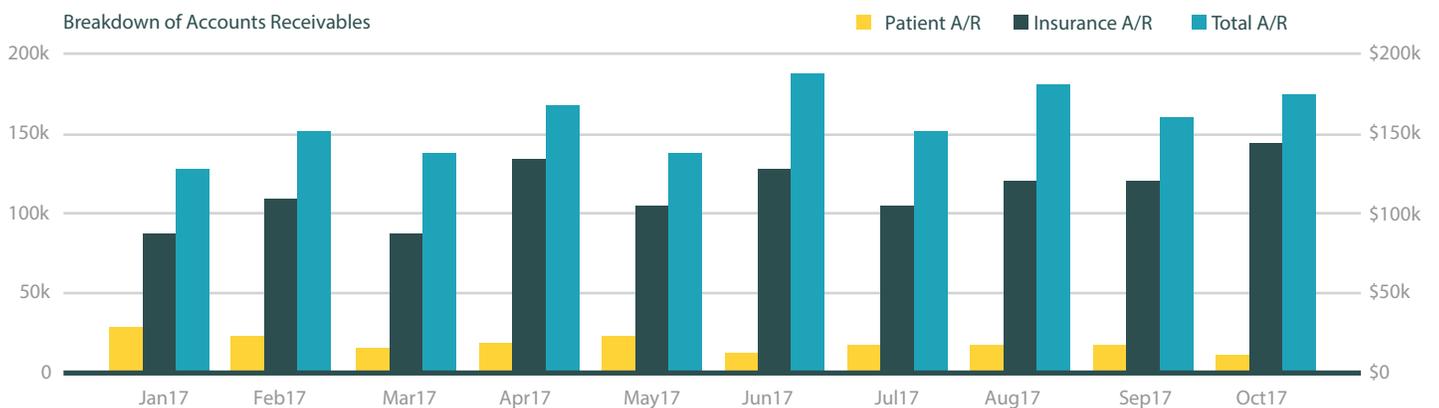
## Accounts Receivable

Outstanding invoices are divided between two categories of accounts receivable: Patient and insurance. By keeping track of these two categories you are also monitoring core operations within your staff such as insurance verification procedures, billing processes, and their communication to patients on financial policies.



A large patient accounts receivable can indicate that the practice's payment policy needs to be revised or more strongly enforced so that patient fees and co-pays are collected on the date of service. Accurate verification of patient insurance to avoid confusion and unexpected balances for patients will help keep patient accounts receivable at a desirable level.

High balances for insurance accounts receivable can indicate errors in front-desk data processing or inefficiencies in billing, whether within the practice itself or through a third-party billing company. Establishing clear, concise procedures for both front desk and billing staff on data processing and billing protocol will help to maintain a manageable insurance accounts receivable balance. It is also important to monitor billing due dates as older balances often become increasingly difficult to collect.





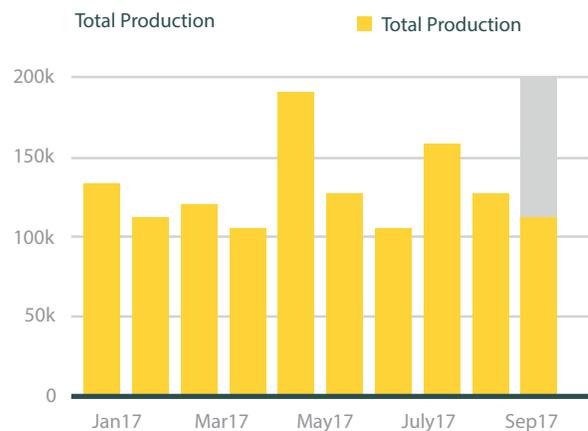
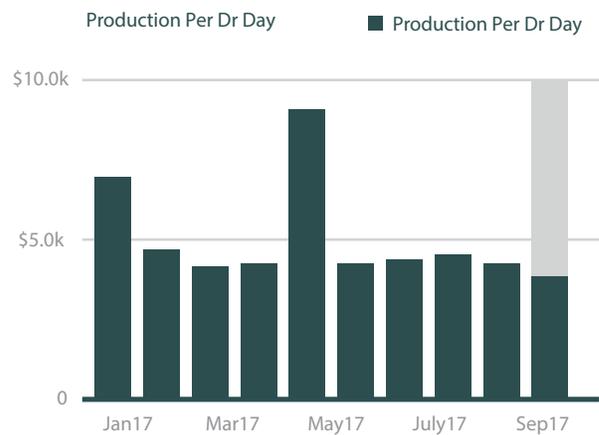
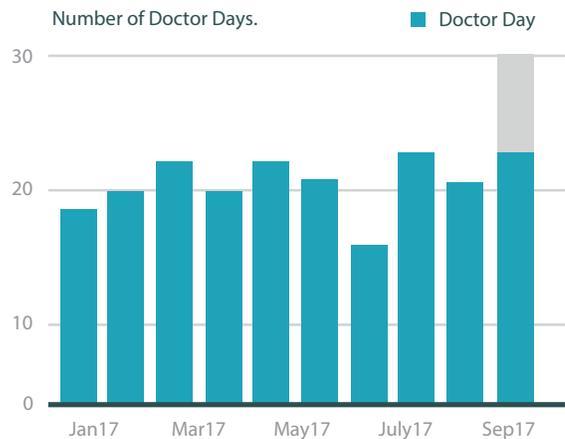
## Total Production and Production by Doctor Day

Within your office it's important to keep track of total production, which is the value of your work performed or the total of all services billed before any adjustments. By tracking your total production you can learn what your actual adjustments are in comparison to collections.

In turn, this allows you to spot areas that may need attention or additional training such as coding accuracy and service scheduling.

Watching your total production is important as it represents a major key performance indicator that assists you in becoming aware of your actual adjustments in comparison to Collections. It also allowed leeway to identify where your practice has inefficiencies. By tracking your office's total production, you'll have the opportunity to see any problems within the office's patient flow and even gage the value for each of your providers based on their revenue contributions.

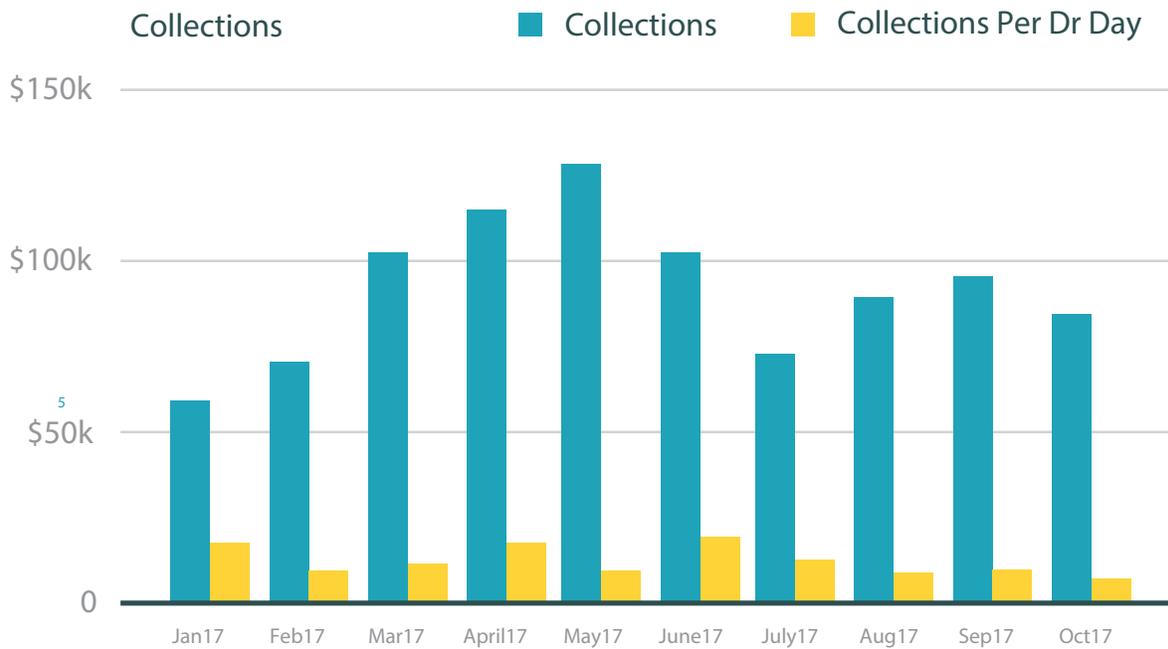
Tracking the total production contributed by all doctors and the total number of doctor days in a given month allows for calculation of production per doctor day. Divide total production by the number of doctor days per month to determine this critical measure of provider efficiency.



# Collections, Collections per Doctor Day



Total collection amounts are often tied directly to practice cash flow therefore tracking and monitoring them are important to maintaining your practice's operations. Tracking collections per doctor day as a metric is important as well, allowing you to watch specific providers and staffing; Linking your practice's revenue directly to each doctor's time. It also helps in predicting your budget and can aid in balancing the optometrist's time in accordance to a handful of financial metrics.



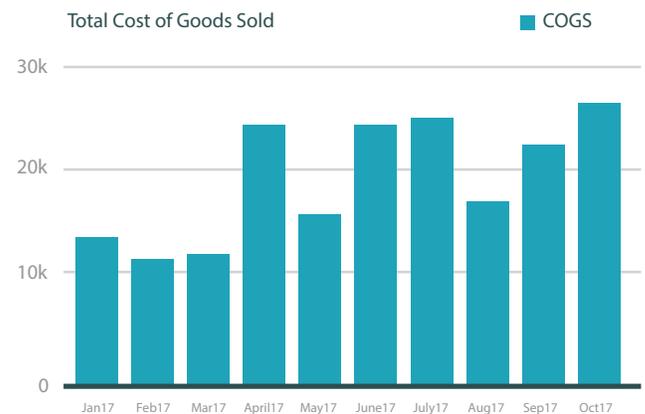
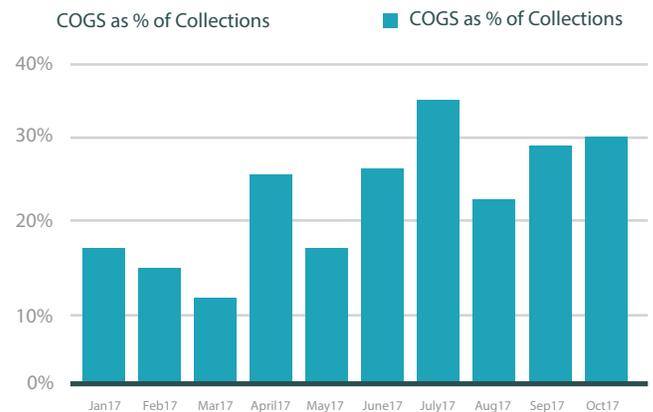
Analyzing collections per doctor day can help identify inefficiencies in front desk procedures or patient communications. Consultants recommend consistently collecting payments at the time of service and researching accurate co-pay amounts for patients to avoid mistakes. Compile the total dollar amount collected in a given month, and divide total collections by the number of doctor days in the month to determine collections per doctor day.

# Total Cost of Goods Sold and Cost of Goods Sold as a Percentage of Collections



Tracking the total cost of goods is an important metric to follow as it allows for the calculation of gross profits when subtracted from total revenue. It analyzes how product related expenses impact your practice's profitability. The total cost of goods should make about 29% of your monthly expenditure and should not exceed it as your gross profit will decrease. Tracking the expenses of lenses, frames, and other goods carefully is vital to keeping your net income in line.

Divide the total cost of goods sold by total collections to determine the cost of goods sold as a percentage of collections.



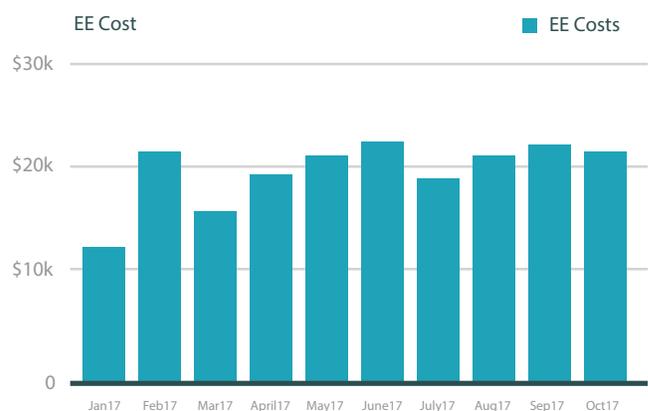
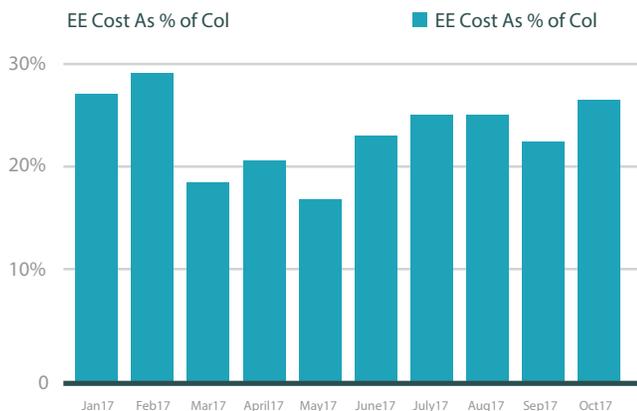
# Employee Costs and Employee Costs as a Percentage of Collections

The second largest category of expense for many practices is the cost of employees which means monitoring this metric is fairly important. Consultants recommend keeping employee costs at 21% or less of your practice's total monthly expenditures. These expenses cover things such a necessary training hours, payroll, and benefits to name a few. Exceeding 21% may mean that your practice is over staffed or over paying its employees.



Monitoring employee costs as a percentage of collections allows for the measurement of staff productivity, which shows the total dollars generated by each employee every hour. If this metric is too high, it may indicate inefficiency among employees or excessive overtime hours. Higher netting practices have high levels of staff productivity. Consultants recommend improving productivity among employees by offering merit-based rewards for good performance, and analyzing the employee schedule to detect any instances of overstaffing.

Determine the total cost of all employees and divide by total collections to calculate employee costs as a percentage of collections.

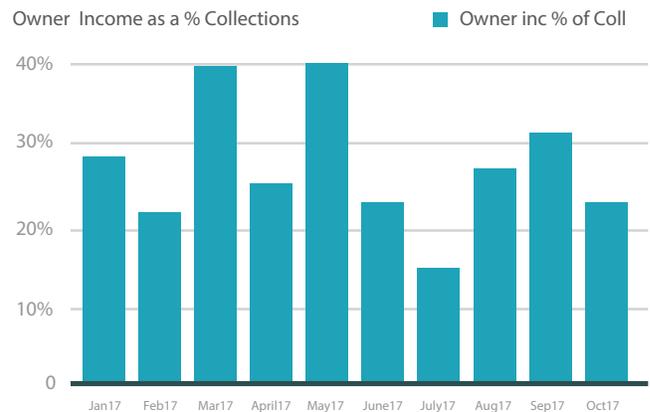
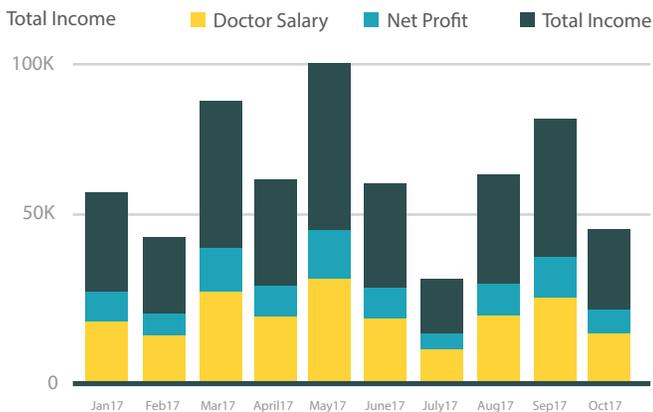


# Total Owner Income from Doctor Salary Plus Net Profit and Owner Income as a Percentage of Collections.



This performance indicator shows the owner’s total income in proportion to the total collections in a given month, a metric of the utmost importance for monitoring the financial health of both the practice and the owners. Essentially an indicator of the practice’s efficiency, this metric reveals the practice’s ability to transform revenue into profit. Analysts emphasize the importance of tracking this metric because it gives a vast amount of information about the financial status of the business in one simple number. It incorporates many essential financial components of the practice, such as net revenue and cost of goods sold, into a single metric. In the figure below, the left graph illustrates the relationship between the doctor’s salary, the net profit, and the total owner income.

Total owner income is calculated by adding the doctor’s salary and the net profit. Adding the doctor’s salary to net profit for a given month and then dividing this amount by total collections yields the owner income as a percentage of collections.



# Implementing Key Performance Indicators

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Staff engagement with the practice's goals is pivotal in its success beyond simply tracking key performance indicators. Reviewing and discussing these metrics on a regular basis can make or break a practice and consultants recommend involving staff in learning how to monitor them. Assigning the responsibility of tracking a specific metric can give your employees a good perspective on the back end of your practice. It can even increase morale and motivation when successful metric improvement is linked to bonuses! Enlisting full staff support in monitoring key performance metrics will ensure that practice goals for financial growth become a reality.

Caro & Associates offers specialized accounting services designed specifically for optometry practices. Their team of professionals has an in-depth understanding of the unique dual business structure of most optometry practices, with both a clinical practice and a retail optical boutique. They provide full-scale accounting support by maintaining a detailed

knowledge of day-to-day operations, billing methods, applicable tax deductions, and bookkeeping procedures in optometric practices. Caro & Associates prioritizes educating themselves on cutting-edge industry trends in order to mitigate practice tax burdens and improve the practice's bottom line.

As the managing director of Caro & Associates, LLC, Jose M. Diaz Caro specializes in providing client-focused accounting services that are uniquely tailored to each business's individual needs, including those of optometry practices. After graduating from the University of Washington business school, Jose gained valuable experience working with small businesses in Seattle's financial sector. He discovered an unmet need for customized, responsive accounting services, and his talent for delivering unique financial plans through active listening and open dialogue won him many loyal clients. With a foundation of strong ethics and good humor, Jose is passionate about reducing the stress of financial management and empowering optometry practices to make the right decisions on their paths to financial success.



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