

Considerations for Benchmarking

By Dexter W. Braff



The practice in which a company measures how it compares to others across a variety of financial, operating, and clinical statistics – a.k.a. benchmarking – can be an extremely powerful tool to identify strengths and weaknesses and provide direction and motivation throughout an organization to improve overall performance. But in order to get the most out of a benchmarking program and best understand and interpret the results, there are several issues management should keep firmly in mind.

Uniformity of Data Input.

It goes without saying that the less uniform the collected input-data, the less reliable the resultant financial, operational, and clinical benchmarks. For the most part, this not a problem for the benchmark vendors that do an outstanding job of collecting, analyzing, and presenting data that is derived from OASIS and claim submission data sets – data sets that have substantial internal consistency. That is, generally speaking, the guidelines for OASIS and claim submission data are clear, all companies seamlessly contribute data, mechanisms are in-place to insure data-input consistency, and companies are compliant. As a result, PPS related benchmark data is some of the richest and most valuable information we have seen.

Things become more problematic as we move away from consistent PPS data sets

to less internally consistent and hence less reliable data, notably cost reports and self reported data. While under cost-based reimbursement, cost reports and their detailed data regarding expenses, personnel, visits, etc. were the lifeblood of a firm's reimbursement (and often prepared by highly trained external experts), under PPS, their importance, and hence reli-

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ability has waned substantially. As such, expense and profitability data – data we might add that helps Congress evaluate reimbursement adequacy – at best, needs a lot of “scrubbing”, and at worst, is so compromised as to be minimally useful. Moreover, companies that focus predominantly on non-Medicare sectors such as private duty and Medicaid, do not have the built-in data mechanisms PPS has to

offer, and must rely largely on collections and interpretations of self-reported data to develop benchmark statistics. And with little consistency regarding accounting practices (cash vs. accrual), revenue recognition, categorization of direct vs. non-direct expenses (to determine gross profit margins – a highly overlooked but critical financial statistic), and owner's compensation (which varies widely and can distort profitability measures), just to name a few, such derived benchmarks are troublesome.

A solution? While the volume of data collected and analyzed is often substantially more limited, we have seen groups of companies that do not see themselves as competitors, develop “benchmark consortiums” where they work together to standardize and collect various financial, operational, and clinical statistics to develop more internally consistent, and hence meaningful benchmark data.

The Limitations of Averages.

Quite often, benchmark data is reported as averages. But one has to remember that by definition, an average is a calculation that includes the best – and the worst – performance statistics. Better, perhaps, to compare your company to the best performers rather than a figure that essentially represents the middle of the pack. As such, some of the most motivating and informative benchmarks are not based on averages. Rather they are

based on the upper quadrant of performers and calculated at the 75th percentile – the financial, operating, or clinical statistic at which 75 percent of the reporting companies performed less well. Accordingly, firms at the 75th percentile and above represent the best performers in each benchmark measure. Once again, the Medicare benchmark vendors have done an excellent job accounting for the limitations of averages, often reporting benchmarks at the 25th, 50th, and 75th percentiles. But with averages being the simplest and easiest measures to understand and recall, they are often the most recognized and reported “rules of thumb” that companies compare themselves to. Perfectly reasonable – as long as agencies remember that beating such a statistic does not necessarily define excellence.

Benchmarking Against Yourself.

While benchmarking performance

against other companies is extremely beneficial and informative, given the challenges regarding uniformity of data input and benchmarking against averages, a good benchmarking initiative includes benchmarking against yourself.

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That is, for every critical financial, operational, and clinical statistic, you not only compare yourself to an external benchmark, but you track your own performance in each statistic, over time, with the past serving as a benchmark against future performance. Since you are relying on your own data, it will always be consistent, and averages don't even come into play. Moreover, such internal benchmarking encourages companies to continually seek improvements in performance regardless of how it compares to others.

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