

Optometry Coding & Billing Alert

Reader Question: P&L Statements Could Offer Treasure Trove of Information

Question: I read your article on benchmarking last month with great interest (Vol. 14, no. 6) and have started to create some of my own analyses. I had a consultant create profit and loss (P&L) statement for me earlier this year—is there any benchmarking information I can glean from that data as well?

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Answer: Absolutely. Any information that you have access to can be helpful in benchmarking your practice against itself at various time points.

"Profit and loss statements can track a number of key metrics," says **Andrew Maller, MBA, COE**, principal and consultant with BSM Consulting in Phoenix. "One would be the operating expense ratio or overhead ratio, which are the total expenses before provider compensation divided by revenue. It's a great indication of overall practice efficiency and the management of your expenses." The inverse of that is to evaluate your net operating income ratio, he advises. "After expenses are paid, how much is left to cover compensation for providers?" These two metrics are great starting points when you're reviewing your results for the first time.

"Other things you can evaluate from profit and loss statement are staffing costs, Maller says. "This is typically your highest expense category — track that in relation to revenue." According to Maller, staff payroll expenses, including wages, payroll taxes, and benefits, often represent somewhere around 25 to 30 percent of practice revenue. Using this result as a starting point, it's often easier to diagnose whether your practice is staffed properly.

Once you create a summary of these data points, then keep track of the numbers either on paper or in a spreadsheet so you can use the information for comparison when you re-calculate the numbers later this year. If you see your numbers go up and down, then you'll have a good way to track the health of your practice.