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audiologic

# MANAGING with KPIs

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**One** of our favorite parts of the classic story “Alice’s Adventures in Wonderland” by Lewis Carroll, is when she met the Cheshire cat and she asked the cat, “Would you tell me, please, which way I ought to go from here?” The cat replied, “That depends a good deal on where you want to get to.” “I don’t much care where—” said Alice. “Then it doesn’t matter which way you go,” said the Cat.

**Obviously,** Alice has no goal or objective; she simply wants to move. If Alice was a business manager or business owner, she would face significant challenges moving her business toward success. An important element of managing a business is to set goals and measure your business performance against those goals. In this article, we will discuss and provide examples of specific types of goals designed to quantify steps your practice is taking to improve the overall business. Key Performance Indicators (KPIs) are measurements set by an organization to evaluate the success of a particular activity. Many industries and companies use KPIs because they provide a quantitative measurement of performance. Basically, KPIs will help you understand how well your practice is performing in relation to your goals and objectives or against industry indicators for comparison. Developing KPIs for each member of your business will help you understand if your practice is on track and where improvements may be made. Because KPIs are limited to what can actually be measured, it is critical that they be developed with the following main purposes: increase productivity and increase success.

KPIs can be divided into different categories such as financial, patient, sales, marketing, audiologic and employee. In many cases, a specific KPI can span multiple categories. Implementing KPIs into your practice can be overwhelming. How do you determine what is measurable? How do you know which types of KPIs will have a positive effect on your business. and if you choose the wrong one will it actually have a negative effect? How do you balance the clearly defined financial KPIs with the equally important patient outcome KPIs? In the next section, we will review examples of KPIs in several categories that may be applied to a hearing healthcare practice. The examples do not represent a full range of KPIs in each category but should be considered examples of fundamental KPIs.

## AUDIOLOGIC KPIs

The following are examples of Audiologic or Clinical KPIs

- Patient Outcome
- Quality of Services
- Quality of Products
- Referrals

### Patient Outcome

Patient outcome refers directly to the satisfaction of the patient. Hearing healthcare providers have an incredibly challenging task. Not only do we diagnose a hearing loss, we then must treat the hearing loss with hearing aids or medical referrals to the satisfaction of our patients. The process of explaining the diagnosis, recommending a treatment plan, selling the treatment plan, implementing the treatment plan and helping the patient adapt positively, all contribute to patient satisfaction. It appears as though this KPI is quite subjective; however, there are objective factors that may be

measured. As mentioned earlier, some of the KPIs will span several categories and patient outcome is no exception. It is easy to measure patient outcome by the return for credit rate and word of mouth referrals, but in order to truly implement a patient outcome KPI, it must be designed accurately to assess the patients' outcome. This could be in the form of a patient response survey that is given at specific time intervals, post fitting. Intervals could include: the conclusion of the trial period, six months post fitting and one year post fitting. Surveys could include questions about use of hearing aids, knowledge of provider, and more.

### Quality of Services

Although this category appears to be similar to the patient outcome, KPIs for quality of service may identify logistic processes and procedures that can be updated. For a formal measurement, this KPI may also be in the form of a survey, verbal or written, but should focus on the services provided by the entire office staff. This series of evaluations can start with the first phone call to your office and conclude with follow up appointments or drop in visits. Quality of Services KPIs evaluate the following: ease of talking to office staff, timeliness of a call-back if a message was left, satisfaction of the testing process (did the appointment start and end on time, were you finished on time). These KPIs focus on workflow and efficiency which are keys to a successful hearing healthcare practice.

### Quality of Products

Patient outcome and quality of service are affected both positively and negatively by the quality of products used. Product Quality KPIs are recorded in a number of ways including: number of hearing aids DOA (dead on arrival), number of repairs for each type of hearing aid, patient satisfaction with

| Appointment Analysis                          |   | Printed Date: 05/02/2013         |              | Reporting date: 04/01/2013        |              | Blueprint Solutions |  |
|---|---|----------------------------------|--------------|-----------------------------------|--------------|---------------------|--|
| <b>Analysis for Hearing test Appointments</b> |   |                                  |              |                                   |              |                     |  |
| <b>Number of Patients:</b>                    | 4 | <b>Sales Opportunities:</b>      | 100.00%      | <b>Avg. Scheduled Duration:</b>   | 60 mins      |                     |  |
| <b>Number of Appointments:</b>                | 4 | <b>3rd Party Present:</b>        | 50.00%       | <b>Avg. Actual Duration:</b>      | 51 mins      |                     |  |
| <b>Number of Opportunities:</b>               | 4 | <b>Opportunities Closed:</b>     | 50.00%       | <b>Avg. Time in Waiting:</b>      | 4 mins       |                     |  |
| <b>3rd Party Visits:</b>                      | 2 | <b>Avg. Patient Punctuality:</b> | 5 mins Early | <b>Avg. Provider Punctuality:</b> | 1 mins Early |                     |  |

Figure 1. This example of an appointment analysis shows average patient wait times as well as provider on-time statistics (Provider Punctuality). It also shows average processing time for hearing tests.

each type of hearing aid. After these metrics are collected and compared, it is possible that trends in quality will appear and support or change your hearing aid fittings.

## FINANCIAL KPIs

The following are examples of basic financial KPIs:

- Sales revenue (top line)
- Sales growth
- Gross profit
- Net income (bottom line)
- Accounts receivable

### Sales revenue

Sales KPIs represent the income the practice receives from the sales of goods and services. This measure can be divided into different income accounts, providing insight into sales of hearing aids, audiologic assessment fees, accessory sales, battery sales and fitting fees, just to mention a few. Furthermore, revenue can be broken down by clinic location and/or provider.

### Sales Growth

This KPI can be measured month-over-month, year-over-year, or current month against the same month last year. This measure should provide insight into whether your business is keeping up with market growth. In other words, are you gaining share or losing share in your market?

### Gross Profit

Gross profit is measured as revenue less cost of goods sold. A gross profit margin can be derived as a percentage of gross profit over revenue ( $\text{Gross profit margin} = \text{gross profit} / \text{revenue}$ ).

### Net Income

Net income will demonstrate how much money your practice has generated over a period of time. Net income is defined as total income less all expenses (operating, financing costs and taxes) – it is also referred to as the bottom line. Figuring the net income should provide a measure for the outcome of all efforts invested in your practice. Deriving the net income margin can be done by dividing net income with sales revenue ( $\text{net income margin} = \text{net income} / \text{revenue}$ ).

## Accounts Receivable

There is an old saying: “Cash is King.” That is still very true, and if you are not collecting payment at time of service or delivery, it is important to watch your accounts receivable or total amount owed to you by your patients. Ideally, your office management or accounting system should be able to provide this information broken down on an account receivable aging report, typically showing amount owed to you in 30 day increments.

The above KPIs are considered essential for measuring financial performance. Many other financial KPIs can be produced such as outstanding accounts payable, return on investment, write offs, and sales channel analysis (typically insurance vs. patient billing).

## SALES KPIs

Most revenue in hearing health care practices comes from the sale of hearing aids. Tracking hearing aid sales is therefore essential. Sales KPIs for hearing aids should be tracked in revenue and in units. In multi location and multi provider operations these KPIs should be broken down by location and provider.

### Unit Sales

Essential unit sales KPIs to track include:

- Gross units
- Return units and return percentage ( $= \text{return} / \text{gross units}$ ). The goal should be less than 10%.
- To create more clarity for returns, it makes sense to measure how many of the returns were caused because a different hearing aid was ordered for the patient. In other words, the patient did not leave without a hearing aid and should not be considered as having the same negative impact on the business as a return; however, time was still used for fitting multiple sets of hearing aids. These are referred to as exchanges. Exchange percentage ( $= \text{exchanges} / \text{gross units}$ )
- Net units ( $= \text{gross units} - \text{returns}$ )

As mentioned, these essential unit KPIs should be broken down by clinic location and/or provider. This typically results in interesting insight into provider performance and can be a foundation for incentive programs.

### Steven McDonald

| Invoiced            | Units | Returns | Net Units | Return % | Net HA Revenue | COGS HA     | Avg. COGS HA | Gross HA Profit | GP %   | ASP        |
|---------------------|-------|---------|-----------|----------|----------------|-------------|--------------|-----------------|--------|------------|
| January 2013        | 25    | 2       | 23        | 8.00%    | \$60,360.00    | \$15,668.00 | \$681.22     | \$44,692.00     | 74.04% | \$2,624.35 |
| December 2012       | 12    | 2       | 10        | 16.67%   | \$24,120.00    | \$4,480.00  | \$448.00     | \$19,640.00     | 81.43% | \$2,412.00 |
| November 2012       | 50    | 3       | 47        | 6.00%    | \$136,685.00   | \$35,513.00 | \$755.60     | \$101,172.00    | 74.02% | \$2,908.19 |
| October 2012        | 25    | 1       | 24        | 4.00%    | \$81,680.00    | \$23,090.00 | \$962.08     | \$58,590.00     | 71.73% | \$3,403.33 |
| September 2012      | 28    | 1       | 27        | 3.57%    | \$82,846.00    | \$17,400.00 | \$644.44     | \$65,446.00     | 79.00% | \$3,068.37 |
| <b>Group Totals</b> | 140   | 9       | 131       | 6.43%    | \$385,691.00   | \$96,151.00 | \$733.98     | \$289,540.00    | 75.07% | \$2,944.21 |

Figure 2. This is an example of a provider KPI report broken down by month. The report shows both unit and financial KPIs. This report is generated by Blueprint OMS. ASP is average selling price per hearing aid.

## MARKETING AND REFERRAL SOURCE TRACKING

While financial KPIs are critical to the success of a hearing health care practice, it is also important to measure the efforts required to achieve a certain sales level. To generate a sale, a patient needs to walk through the clinic front door, have a hearing loss and eventually be motivated to buy hearing aids. Prior to the patient contacting the average practice, there would be resources invested in enticing the patient to contact the practice, such as direct mail activities, advertising or internet presence. Being able to track the marketing or referral source will show the effectiveness of various consumer marketing activities.

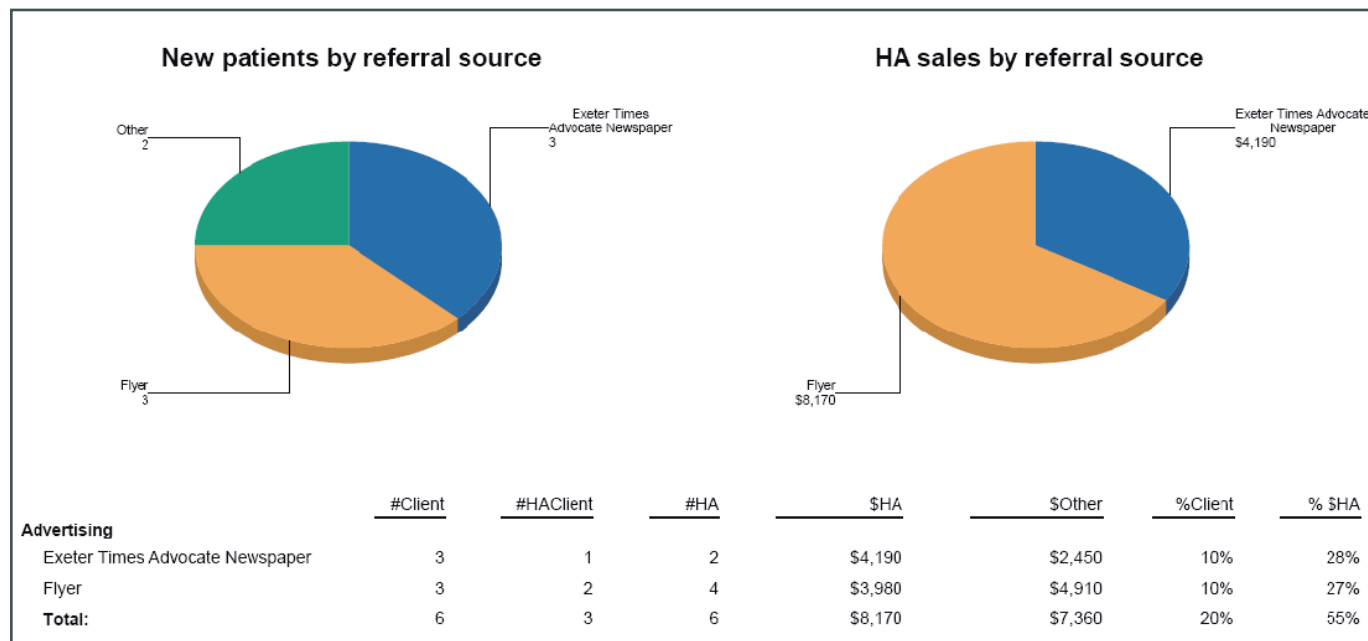


Figure 3. This shows an example of a tracking report. The report shows both the number of patients generated from each source and how many turned into hearing aid purchasing patients, along with the corresponding net sales revenue. A return on investment calculation can then easily be done by comparing the gross profit from each source with the cost of the marketing activity.

## Conversion Rates

Unfortunately, not all new patients who contact a practice buy hearing aids. Tracking how many of your sales opportunity appointments result in a sales (conversion rate) can provide valuable data that can help you predict how many sales opportunities you need to have on your schedule, at any given time, in order to meet your revenue targets. More and more practices are keeping a close eye on sales opportunities booked, and buying groups, such as AHAA, are heavily promoting this concept.

In a multi provider practice, comparing closing rates by provider can help evaluate each provider's performance and be a foundation for individual incentive programs. Another aspect of this is the binaural fitting rate (defined as how many of the patients who were candidates for two hearing aids actually ended up buying a binaural set).

The presence of a third party during the appointment, such as a spouse or family member, has a significant positive impact on closing rates. According to AHAA, the closing rate goes up by 68% if a third party is present. Tracking third party presence, and deliberately encouraging the patient to bring a third party to the appointment, can result in increased revenue.

| Closing Rate by Opportunity |                 | Blueprint Solutions       |          |            |            |              |            |             |            |
|-----------------------------|-----------------|---------------------------|----------|------------|------------|--------------|------------|-------------|------------|
| Printed Date: 05/02/2013    |                 | Last modified: 04/18/2013 |          |            |            |              |            |             |            |
| <b>Robert Johnson</b>       |                 |                           |          |            |            |              |            |             |            |
| <u>Manchester</u>           |                 |                           |          |            |            |              |            |             |            |
| <b>Hearing test</b>         |                 |                           |          |            |            |              |            |             |            |
| Appt. Date                  | Patient Seen    | 3rd Party?                | Ordered? | Units Sold | Revenue    |              |            |             |            |
| 4/24/13                     | Mauer, Joe      | Y                         | Y        | 2          | \$3,990.00 |              |            |             |            |
| 4/25/13                     | Smith, Ron      | N                         | N        | 0          | \$0.00     |              |            |             |            |
| 4/30/13                     | Dowell, Marilyn | Y                         | Y        | 2          | \$6,570.00 |              |            |             |            |
| Appt totals:                |                 | Appts.                    | Closed   | Closing %  | 3P %       | 3P Closing % | Units Sold | Revenue     | ASP        |
|                             |                 | 3                         | 2        | 66.67%     | 66.67%     | 100.00%      | 4          | \$10,560.00 | \$2,640.00 |

Figure 4. This closing rate report shows the number of sales opportunity appointments which resulted in purchased hearing aids. Data on this report is broken down by appointment type and provider. This report also shows the closing rate for appointments where third parties were present.

## Resell Rate

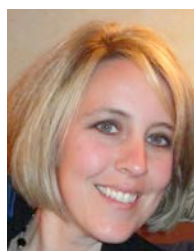
Selling new hearing aids to current patients with aging hearing aids can be very cost effective. Your clinic already has an established relationship with these patients. Your current patients also successfully experienced the benefit of amplification and are motivated from that perspective. With the right database, identifying these patients should be easy, and it is possible to track the resell rate from an overall sales point of view. The resell rate can also be calculated based on sales to a target patient group such as the number of patients with hearing aids 5 years or older.

## SUMMARY

Having clear goals and an easy way to track key performance indicators is fundamental for navigating a successful practice. It ensures that the clinic gets the most return on investment for its marketing activities, provides insight into employee performance and can even be a foundation for incentive programs. An office management system specifically developed for hearing healthcare clinics is the most efficient way to provide insight into a clinic's performance and ensures that management staff has the data needed to continue to move the clinic in the desired direction. To avoid the "Alice in Wonderland syndrome," a clinic must have a basic set of defined goals and the ability to measure the KPIs that are meaningful to the success of the clinic. ■



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