Leaders of all kinds of businesses use reports to help them manage their enterprises. One of the most common financial reports is the income statement or profit and loss statement, and if organized correctly, that report can be a very important resource for ophthalmic practice managers.

The profit and loss statement (P&L) is a report of the practice’s income (revenues) and expenses for a given period of time such as a year or a month. It shows the amounts spent on various categories of expenditures and whether there was a profit or loss for the period. It is an important tool for calculating ratios that help management understand the financial structure of the practice so that good business decisions can be made.

However, many practice administrators and doctors do not realize that their profit and loss statement can be customized to reveal the key figures needed to compare their results to national benchmarks. The typical format used by accountants is convenient for preparing a tax return, but often does not provide the categories that practices need for management and benchmarking purposes. Fortunately, your accountant or bookkeeper can change the revenue and expense categories on your profit and loss statement to match your needs.

Customizing P&L categories

We recommend that you consider the following adjustments to your P&L categories:

- **Staff expenses.** Since employee costs are usually the highest expense for an ophthalmic practice, it is important to be able to isolate your staff pay and benefit expenses. If you use the following categories you will be able to analyze employee expenses and benchmark them to national figures (these categories should not include provider expenses).
  a. Employee pay
  b. Employers’ taxes for staff members
  c. Employee benefit expenses
  d. Retirement contributions made by the practice on behalf of employees

- **Doctor/provider expenses.** We recommend having physician pay and expenses separate from staff costs and creating separate categories for employed providers and owner physicians. This facilitates overhead ratio calculations, as these expenses are not included in the overhead metric. The same categories noted above for the employees should be...
created for your providers. It is helpful to add categories for any physician discretionary expenses, most notably for continuing medical education.

**Optical figures.** In many practices, the optical operations reside in a separate corporation or LLC and have a separate profit and loss statement. For those practices where the optical is a part of the practice entity, we recommend that revenues and expenses be tracked in separate categories from the practice’s expenses so that an individual analysis of the optical can be made.

a. Optical revenues should have a separate line on the revenue portion of the practice profit and loss statement.
b. Optical cost of goods (frames and lenses) should be reported separately from other supplies.
c. Optical staff expenses should be in separate categories from practice staff expenses.
d. Contact lens purchases should not be included with frames and lenses, but should be tracked in their own category.
e. In many cases it will be helpful to allocate common expenses such as rent and utilities to the optical and the practice in proportion to their square footage.

**Ambulatory surgery center (ASC) figures.** ASCs are almost always corporations separate from the practice, and they would normally have a different profit and loss statement. In the case where they are a part of the practice entity, their revenues and expenses deserve individual treatment just as in the case of optical operations (as noted above). In either case, creating separate expense categories for regular and premium IOLs will help you compare your results to national benchmarks.

**Other profit centers.** A “profit center” is any part of a practice that has its own revenues and expenses and that can be analyzed as a separate business. Creating profit centers within your financial reports can provide quantitative information about the contributions of various operations within your practice and help you make good business decisions. For example, it is not common for a practice to maintain a satellite office for many years without realizing that its costs are higher than its revenues, resulting in a drain on the overall practice’s finances. For that reason, we recommend customizing your profit and loss accounts to enable you to look at each office as a profit center.

Other operations that are not integral to the ophthalmology practice, such as audiology services, should also be set up as individual profit centers.

**Tracking results**

With your revenue and expense categories set up appropriately, it will be much easier to track your results and compare them to national benchmarks.

These calculations will help you calculate staff payroll ratios:

**Non-burdened payroll ratio.** Look at your staff payroll figure, which is the gross payroll paid to your employees (not including providers), and divide that figure into your revenues (collections). The BSM healthy range (25th to the 75th percentiles) for this benchmark for general ophthalmology practices is 20–26%.

**Fully burdened payroll ratio.** Add your staff payroll, employee benefits costs, retirement contributions for employees, and any employers’ taxes paid in connection with staff compensation. Divide that sum into your revenues for the fully burdened payroll ratio. The healthy range for this measure for comprehensive ophthalmology practices is 26–32%.

The operating expense ratio (also called the “overhead ratio”) is probably the most commonly quoted benchmark, but also the measure that is most often calculated incorrectly. Operating expenses are those that are made to operate the practice, but should not include provider compensation or other personal expenses. However, doctor pay, bonuses, and retirement contributions for the providers are often sprinkled in among the other expense categories. If separate categories are created as noted above, it becomes easy to subtract those costs so the practice operating expense ratio is comparable to national benchmarks.

**Operating expense ratio.** Take all of your practice’s expenses, and subtract the providers’ salaries, bonuses, retirement contributions, and other doctor discretionary, non-operating expenses such as automobile leases. Then divide the remaining operating expenses by your total revenues to calculate the operating expense ratio. The healthy range for general ophthalmology practices is 48–68%.

**Takeaway**

Your practice’s financial reports are important tools for helping you make good management decisions. If you customize them to more easily give you the information you need, it will make your life simpler as you seek to understand your practice’s financial characteristics and to compare your results to national benchmarks.

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