

BENCHMARKING: A COMPASS FOR CHANGE

BY RICHARD CHESNEY

Benchmarking is a tool that can point you down the right path towards change. Benchmarks can be valuable tools for predicting performance and determining opportunities. The caution is that they can also be misleading. Understanding a benchmark helps distinguish between what may be valuable to your business and a meaningless number. No agency has excess resources so you must be able to focus your efforts to get the results and return you are looking for. The right benchmark can help.

Whether you are at the beginning of a change process or measuring the results of changes you have already implemented, benchmarking should play a key role. Often change is driven from your home health agency's or hospice's need for sustainability, growth, and profitability. But whatever your reason, you need to have a tool to understand where you are today, and where you can go in the future. Benchmarking can help show you the way.

UNDERSTANDING BENCHMARKS

What is a good benchmark? A good benchmark is meaningful; that is, relevant to your local market and relatable to things your agency can affect. If the benchmark does not mean anything to your organization, then you are wasting your time and valuable resources.

Merriam Webster defines a benchmark as "something that serves as a standard by which others may be measured or judged." How you measure up may vary by the standard that you choose – so choose carefully.

To begin to understand the difference between a meaningful benchmark and a misleading one, you must understand the data. First, you need to know what is meaningful and relatable to the things you can affect. Then you need to understand what is behind the numbers. The numbers or statistics themselves may be meaningful and relatable, but they also must be relevant. If a benchmark statistic is not relevant to your organization, you may falsely believe you can change your performance in a way that is not possible in your local market. Knowing how your performance stacks up against others is fine as long as you understand why there are differences and how you can address those differences in your market to improve.

Market differences can weigh heavily on a benchmark's relevance so you must understand the variables that affect performance. A relevant benchmark will help you harness the opportunity that a benchmark suggests is available to you. Anytime you use data, you need to understand its source and its limitations. All data is not the same, and the old adage of garbage in/garbage out applies.



Plenty of benchmarks exist to measure agency performance, but some fail to capture essential aspects of things you can affect. To make it relatable, you must understand the factors and conditions influencing benchmarks. Think for a moment about a common benchmark like recertification rates. What can influence recertification rates within an agency?

Patient mix is a key factor in recertification rates. If you have a mix with a significant volume of patients with diagnoses of chronic conditions, you would expect a higher recertification rate. If your patient mix is more heavily weighted with acute patients, you would expect a lower recertification rate. Looking at the patient mix in conjunction with the benchmark can help you understand why there are differences. This can be referred to as disease-adjusting your benchmark.

You may also look at what point you admit your patients. Are your patients coming straight from the hospital, a rehabilitation unit, or a skilled nursing facility? The point in which your referral sources give you the patient may play a part in recertification rates. Do you have the types of specialty programs that attract patients with chronic conditions? Do you have the staffing to accommodate greater patient loads, or will increasing recertifications cause you to turn down new patients? Once you understand the factors at play, you can begin to see how you can affect them.

Here is an example. Since the introduction of PPS, chronic or multi-episode patients have become more profitable for some home health providers. The recertification rate is a good benchmark that can help you understand if your agency can benefit from this multi-episode patient group. This benchmark is defined as non-initial patient episodes divided by initial episodes for Medicare-covered home health services. The recertification rate can be a useful indicator of the prevalence of chronic, multi-episode patients in your market. If your agency's recertification rate is 31.5 percent, are you significantly underperforming on this benchmark? Should you be targeting a recertification rate more in line with the national average of 71.8 percent? Finding a relevant benchmark will help you dissect the factors that relate to your agency's specific performance.

In 2006, the national benchmark for recertification rates was 71.8 percent. This benchmark is an average that includes the best and worst performers across all different types of markets, and takes into account urban and rural areas, demographically diverse populations, and a multitude of varying state level Medicaid policies. However, about 80 percent of the states and territories were below the national average. The national recertification rate is an interesting statistic, but it may not be relevant to your local market.

The state level may be a better benchmark since the comparison takes into account the same Medicaid policy you operate under, and it is a geographically less diverse sample. In 2006, recertification rates by state varied from a low of 24 percent to a high of 287 percent. (*See Inset A*).

Let's say your agency is in Ohio. The state recertification rate of 54 percent differs from the national rate of 71.8 percent. However, of the 89 counties in Ohio, only one county was at the state average. In fact, 62 percent of counties fall below the state average. Ohio's recertification rates ranged from 13 percent to 198 percent. One or more large counties can sway the state benchmark. Knowing what the specific rates in the counties you serve is known as local market benchmarking, and may be the most relevant benchmark for you to look at.

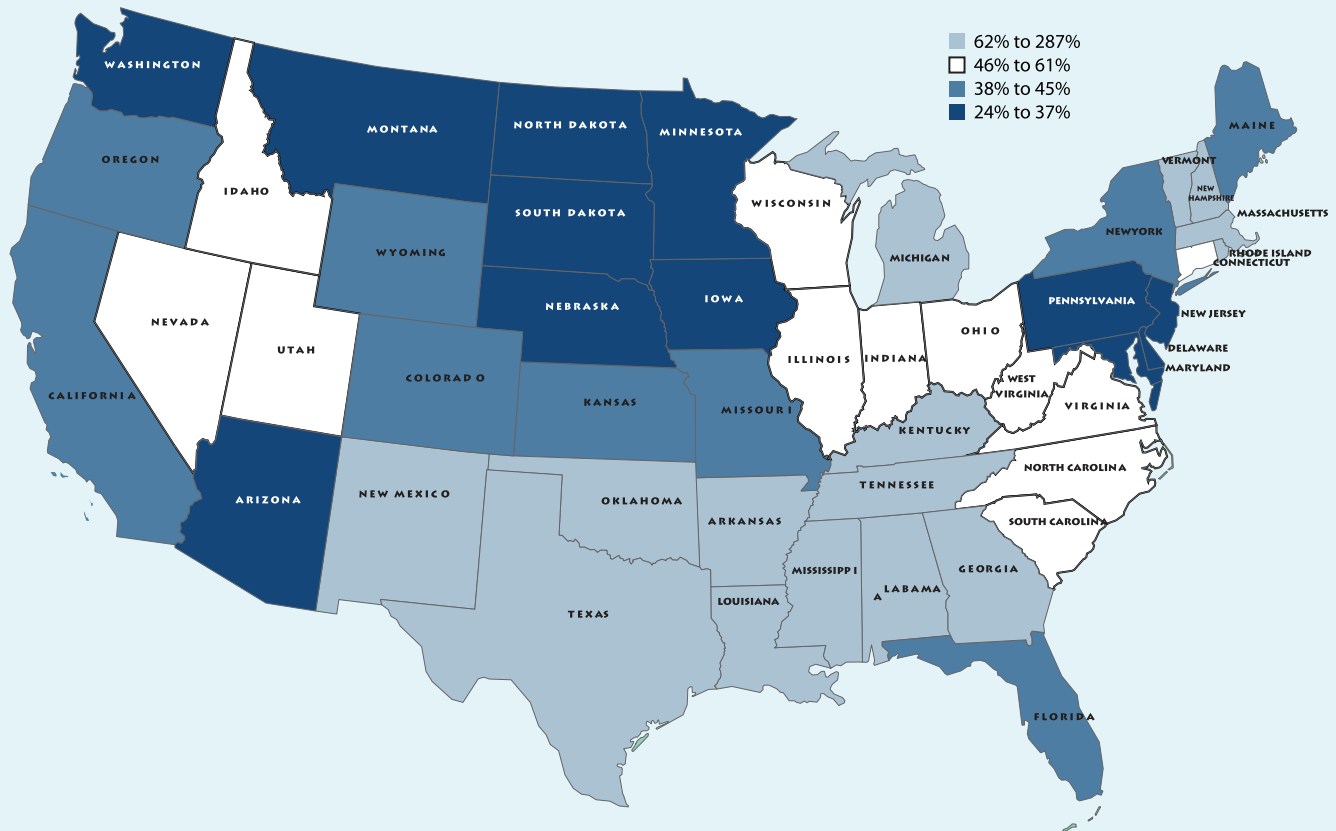
LOCAL MARKET BENCHMARKING

Never underestimate the relevance of your local market. The benchmark you decide to use must be one you (and perhaps more importantly, your staff) believe is a fair and realistic comparison to your agency. If you compare yourself to an agency, market, or geography that is so different from your own, you will not get an accurate picture of your performance, within the context of your agency's specific market conditions, and your staff may not accept the proposed changes, and consciously or unconsciously create barriers to change.

Benchmarks based on the performance of the agencies in your primary, secondary, or tertiary service areas are your local market benchmarks. The local market benchmarks are most often defined by county or by groups of counties. This can afford you the ability to weigh the affect of each agency on the benchmark by normalizing the data based on the volume that it does in the geography, not based on an unrelated population. Since local market benchmarking takes into account the specifics of your market, it can highlight opportunities that are actionable and more realistic. You must consider the numerous factors within each local market that influence a benchmark like the recertification rate, including physician practice patterns, health care delivery capacity and biases, socioeconomics, demographics, state Medicaid policy, and the overall health of the elderly population are just a few. Local market benchmarking can be very powerful in determining relevance.

Exercise caution to make sure your local market benchmark is inclusive. Some benchmarks are based on peer groups that may be in your market or are geographically diverse. It may include all agencies in your service area or none at all. If your benchmark is based on a peer group of organizations with similar ownership or size, variations may be due to financial incentives or scale that creates similar behaviors and the benchmark may not represent the true potential for change in your geographic market. The depth of the sample can affect the averages and quartiles you compare yourself to as we saw in the wide range among states and counties. This may create false sense of security that your performance is at the highest possible level.

Inset A: Recertification Rated by State



If your agency is significantly below the local market benchmark for recertification rates, you may have an opportunity to improve your performance and improve your revenues. To do so, you need to dig deeper and understand why.

For example, you currently have an annual volume of 1,500 admissions in your primary county and 1,973 episodes at your current recertification rate of 31.5 percent. In your secondary county, your volume is 200 admissions with a recertification rate of 25 percent. The local market benchmark is 40.5 percent in the primary county you serve, and 88 percent in the secondary. Just knowing you are 9 points and 63 points below the local benchmarks in your primary and secondary counties is not enough to stimulate change. Understanding why will be the key in pinpointing the specifics needed to effectively begin the change process. (See *Inset B*.)

If you improve your performance to your local benchmark level of 40.5 percent, you can increase your episodes by 135 to 2,108. For the 200 admissions you have in your secondary county, you could improve your episodes by 126. What should you do? What can you do? Where should you focus your efforts? What is the best way to utilize your resources? Getting behind the numbers will help shed light on what may be the best decision for your agency. You dig deeper and find your patient mix is comparable to that of your local market in your primary county, but your assessment process has a bias to discharge and a clinical philosophy to get them off the service. Making changes in your assessment process may help improve your recertification rates.

The secondary county tells a different story. Your patient mix is almost entirely acute in nature. Why are you not attracting chronic patients in a county that has a high percentage of chronic patients? You discover the other agencies in that county offer specialty programs geared to the top chronic diagnoses. Marketing alone will not help your agency unless

you add at least one specialty program. Looking a little deeper, you determined the primary reason for low volume in your secondary service area was that you lacked a cardiac program and that is why you did not get the chronic, multi-episode patients referrals in that market. By adding a cardiac program that is actively promoted by your marketing team, you may be able to affect your case mix, recertification rate, and increased referrals.

Now you have given yourself the ability to market smarter in the secondary county by focusing on the type of program that referral sources are looking for. This gives you the opportunity to grow your admissions overall, and that drawing just 100 patients more from that service area at the benchmark recertification rate could yield you as much as 188 episodes. That is about 40 percent more than the number of episodes gained by a small improvement on your primary population of 1,500. The relevant local market benchmark highlighted that your secondary service area holds a real opportunity for your agency. You are able to focus your resources to a specific effort, and that brings results.

The example highlights a number of changes that could be made. The benchmark helped you see the upside of making a change. Looking into the factors that influenced the benchmark helped you to understand what needed to be done to affect change, giving you the opportunity to pursue the right course for your agency.

USING BENCHMARKING TO AFFECT CHANGE

That brings us to the next important element of a good benchmark—that it must be relatable to things your agency can affect. This is the point of benchmarking, to give you information by which to make positive changes in your business.

Once you have a meaningful and relevant benchmark

Inset B: Table

	Annual Admissions	Current Recertification Rate	Local Market Benchmark	Potential
Primary County	1,500	31.5 %	40.5%	135 episodes
Secondary County	200	25.0 %	88.0 %	126 episodes*
Increase in chronic patients in Secondary County by adding cardiac program	100	88.0 %		188 episodes

* Current 200 patients are not of the chronic, multi-episode group and you can not affect their recertification rate. However, adding a specialty program that attracts new patients from that group can.

suited to your local market, you need to make sure you know the forces that affect it so you can make the right changes. In the case above, you saw there were different factors influencing the benchmarks in each county. The data helped show you the potential among the alternatives, and pinpoint the factors accounting for the differences. Isolating the factors affecting a benchmark is possible and not as complicated as you may think. In our example, a truer picture was seen by adjusting the benchmark for the impact of patient mix.

There are several key financial indicators used to look at an agency's performance. Your role is to learn as much about them as you can and how they impact your business; then find your most relevant benchmarks. The goal is to identify where you can improve as specifically as possible. Benchmarking can show you the way.

BENCHMARKING NON-CANCER HOSPICE ADMISSIONS

Increasing hospice admissions is at the top of many hospice administrators' priorities. Looking at increasing non-cancer admissions is one way to grow, and benchmarking can help your hospice see how much opportunity may be present in your marketplace and where to best focus your efforts.

Looking at your non-cancer hospice death rates compared to relevant benchmarks may help you better understand your market's maturity as well as help you discover market opportunities. (See Inset C.)

If your agency's non-cancer hospice death rate is below that benchmark, there are patients not getting the hospice benefit in your market compared to what's possible. At the local level, the difference may be even greater. You may also want to look at the

percentage of deaths on hospice and local mortality data to define your market penetration. Knowing if your agency is different or if it is in line with your market's norms is a critical piece.

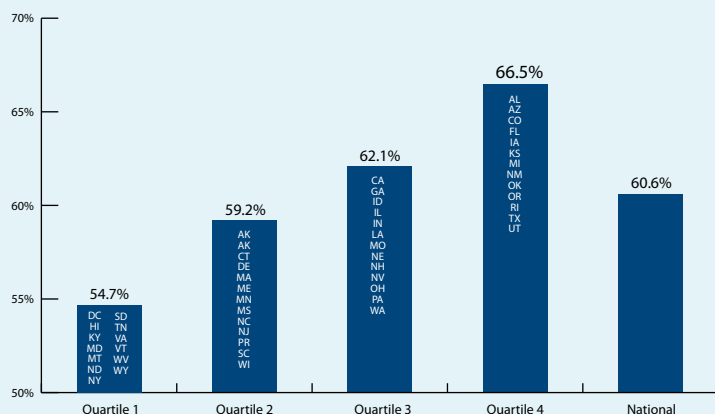
Once you look at the data, you can begin to see how you fit in. The next step is to understand what factors are playing into your position and your market. With any benchmark, you have to get behind the numbers so you can better define the problem. Do you need to do more within your market to promote hospice, or are there internal barriers preventing you from increasing admissions? The change associated with each is very different; so looking at the factors influencing the benchmark will help you pinpoint your answers.

Ask yourself:

- What types of physicians do we market to beyond oncologists?
- What settings do we actively market to; hospitals or skilled nursing facilities?
- How does our access policy define patients for treatment and transition?
- Do we have the resources to handle increased volume?
- What other factors play a role in my market?

Each factor can affect performance, but the weight of influence can be market specific. You may only be marketing to oncologists, or you may have a number of non-cancer specialty programs marketed across clinical specialties. Do you need a specialty program? If so, which one is most appropriate for your service area? Is the local teaching hospital draining referrals for their clinical trials? Benchmarking can help you see how these factors may be influencing your agency's performance. The key is to take a closer look at your market, its potential, and evaluate where the opportunities are so you can focus your resources and efforts where you'll get the results you're aiming for.

Inset C: Non-Cancer Hospice Death Rates



About the Author: Richard Chesney, MBA, is the founder and president of Healthcare Market Resources, Inc., a top provider of home health and hospice benchmarking and decision support data. He combines his operational, marketing, and finance experience at Fortune 100 Companies with his 20 years in the home care industry, which includes a senior role at a \$50 million dollar home health organization to

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