November 30, 2015

To: Leslie Mead, the Cooperative Development Foundation

From: The ICA Group

Re: Financial and social benchmarks for home care cooperatives

The following are a series of information points related to the issue of financial and social benchmarking in the home care industry. While financial benchmarks are relatively easy to identify, there is no common consensus surrounding the optimal social impacts for the industry. The effort is additionally hampered by the fact that much of the data that might demonstrate longer term outcomes of home care work (lower hospital readmissions etc.) are not typically going to be available to agencies.

That said, we do have suggestions for some metrics that home care grantees may begin to track using data they should already have. In addition we suggest that the Foundation develop some additional data collections tools such as standard employee and customer surveys to encourage grantees to begin collecting results in a common framework.

## Measuring Benchmarks

Companies need to determine what metrics they can reasonably track and what data can provide them with a financial, operational, or marketing advantage. We have divided benchmarks into financial and operational metrics and health and social metrics, although many these metrics overlap. Generally, the following areas should be tracked:

- Current and future business performance (net income, number of clients, growth trends)
- Impact on Workforce (average earnings, hours, benefits, training, satisfaction, turnover)
- Health and Social Outcomes
- Workforce Metrics

- Customer/Client satisfaction (individuals receiving care, not organizations paying for services)

Whatever metrics are tracked, the board or leadership team needs to be committed to actively reviewing and acting on the data collected and to communicating the importance of this data collection to all stakeholders. It cannot be overstated that data that is not collected will not be used, and benchmarks that are not understood and embraced will be of no use to the companies trying to implement their use.

## Financial and Operational Benchmarks

Financial and operational benchmarks that should be tracked by home care cooperatives are similar to those tracked by any small business and include the following.

### Current and Future Business Performance

- **Revenue**: Total revenue by various billing categories.
- **Total Billable Hours**: The total number of hours you billed your clients.
- **Inquiries**: The number of people who inquired about your services. Each agency should develop a threshold for what counts as an inquiry (i.e. left name, contact info).
- **Admissions**: New clients who started services.
- **Discharges**: Clients who cancelled services.
- **Net New Clients**: Calculated as admissions minus discharges.
- **Inquiry to Admission Close Ratio**: The percent of inquiries that became clients, calculated as Total Admissions divided by Inquiries.
- **Client Turnover**: The percentage of clients that cancelled services (for any reason). Calculated as Discharges in a period divided by the average number of clients (clients at beginning of period plus the clients at end of period, divided by 2).
- **Caregiver Turnover**: The percentage of caregivers that quit or were terminated. Calculated as total terminations divided by the average number of caregivers. (Calculating this on at least a quarterly basis is recommended).
- **Client Acquisition Cost**: Calculated as the total sales and marketing costs (including salaries for sales staff) divided by the number of new clients.
- **Sales per Indirect Care Staff**: Calculated as total revenue divided by the number of office and admin staff.
- **Budget projections to actual:** A comparison of your expected revenues and expenses compared to your actual revenues and expenses.
- **Accounts Receivable**: The average number of days it takes a customer to pay their bill. Track by payer source, generally, the shorter the period, the better.
- **Overtime**: Percent of total wages that are overtime. While overtime generally cannot be billed to clients, if the agency is offering health insurance, it may be less expensive to use overtime strategically.

- **Gross Margin**: The percentage of total revenue being paid to caregivers. While conventional companies look to reduce this figure, that often means keeping wages low.
- **Average billable hourly rate (By payer source):** Total revenue by payer source divided by the total number hours by payer source.

Companies should be measuring not just end numbers at intervals, but also ideally trends over time.

### Impact on Workforce

The following measures from home care cooperatives will hopefully exceed the industry and market averages and so can be used to recruit and retain workers.

- Hours of work/worker/week. Compare to what workers want to be working. Percent of workers desiring FT work who got 30+ hours per week.
- Turnover (%)
- Percent and dollar amount of revenue returned to workers
- Per hour value of patronage rebate
- Percent of workers who are owners
- Track if worker compensation is above industry and market average.

## Non-Financial Metrics

The health care industry has recognized the cost savings associated with treating people in their homes rather than hospitals and nursing homes. To this end, there is interest in integrating home care into the larger health care system. However despite the clear and dramatic cost savings (not to mention client preference) of in-home care, there is not (yet) any economic incentive for home care companies to monitor health outcomes or other social metrics. Trends, in fact, have gone the opposite direction over the past five years, as federal and state budgets have shrunk.[1]

Many home care companies want to track this data so that they can make the case for higher reimbursements, improve care, and elevate the work of direct care workers in an the industry currently suffers from high turnover rates and work force shortages. Yet in the current financial scenario, they cannot afford to do so. Many industry groups, including home care companies, hospitals and public officials have also recognized the importance of these issues and have begun talking about them. But agreement has not been reached regarding a common set of metrics or how reimbursements will work.

[1] IBIS World Industry Report 62161. Dmitry Diment. "Home Care Providers in the US." November 2015.

## Recommendations for Social Impact Indicators

At this time, there is no agreement about one set of health and social metrics that all home care companies should be tracking. Collecting data to show the efficacy of home care workers is additionally challenging because much of the data would need to be supplied by other state and federal agencies who can track readmissions, ER visits, etc. Currently, these systems are not set up to share data and while home care companies should be part of a discussion about these issues, they do not have the leverage nor the economic means to lead these efforts.

However, when we look at one of the most innovative groups in health care reform, the Institute of Healthcare Improvement (IHI), we see a clear place for home care workers to be part of a solution that improves patient health and experience and reduces costs. Home care companies need to be looking at groups like these and finding where their work intersects with other efforts to improve care and reduce costs.

Another reason to track these social impacts is to attract philanthropic dollars. Most grants will ask companies to track a number of impacts and any historical data that a company can provide will make new data that much more valuable.

From interviews with industry experts and review of industry reports, we see two areas where non-financial impacts should be measured: health outcomes and workforce development. In the area of health and social outcomes, we recommend focusing on authorized vs. billed hours, and in financial impacts, looking at metrics around turnover.

### *Health and Social Impacts*

Currently, home care workers cannot provide professional assessment of clients, but they can provide observations that can assist other members of healthcare teams in determining when to intervene. Any home care company that can figure out how to bundle services together and show that they can limit re-hospitalizations or emergency room visits, will have a clear market advantage in working with hospitals and managed care organizations who are or will soon be penalized for poor health outcomes, such as hospital readmission within 30 days.

#### Authorized hours vs. billed hours

As noted before, home care companies do not have access to some data that would help them measure outcomes. However, one promising area to track is authorized hours vs. billed hours because the home care company could collect this data themselves.

"Authorized hours" means the number of hours authorized or requested, whether from a public or private funding source. Companies can track how many authorized hours were requested in a given month and compare to billed hours. When the billed hours are less than authorized hours, the company should attempt to track why the gap. Reasons may include:

- Inadequate staff to meet demand
- Clients simply cancelled
- Clients were hospitalized so did not need home care
- Clients who were supposed to be discharged from hospital need to stay longer
- Clients transitioned to nursing home so did not need home care

Any gap between authorized and billed hours is revenue that has not been realized. Tracking these metrics can help the company make operational decisions, but also build up some data around health outcomes that a company may be able to use later.

## *Workforce Development*

Many home care companies, whether or not they are cooperatives, are concerned about work force issues because of the high turnover and workforce shortages that plague the industry. These workforce issues are also related to training and health outcomes and are part of conversations at the state and national level. Tracking these outcomes would allow companies to show how training and professional development can lead to lower turnover. These outcomes will also help companies apply for philanthropic dollars, especially if a company can show promising trends.

### Reducing Turnover

Reducing turnover is one of the best ways for a company to save money. On average, each employee that leaves costs about 75% of her annual salary, or about $12,000 in this industry. With turnover as high as 67% in some areas of Wisconsin, turnover is both an operational and financial problem for all home care companies.

Turnover is due in large part to the low pay, lack of benefits, and sporadic hours of home care. Home care companies can track some of the following metrics with the goal of using this data 1) understand their specific turnover issues, 2) use data to increase efficiency of recruitment strategies 3) use the data at state and regional groups to argue for more work force development support and 4) demonstrate to potential funders the need for workforce development funding. Metrics to track include:

- Number of applicants received vs. viable candidates
- Time to hire from first contact
- Track percent of employees that become owners
- Average number of hours worked per month and how many at full time (more than 30 hours)
- Track turnover rate for aides with a goal of X%.

If a company has the capacity to not only measure, but also analyze and act on other metrics, the following are offered for consideration:

- Demonstrate that at least X percent of those enrolled are on track to maintain continuous employment for three months or more and for one year or more.

- Demonstrate that monthly income earned during the first six months of employment averages at least $X so that average annual salaries reach $X.
- Analyze whether any factors (including age, gender, employment status prior to enrollment, language abilities, history of criminal justice involvement, parental status, referral source, employer and educational history) correlate with who is leaving and who is staying.

## Recommendations for Client and Workforce Satisfaction Surveys

Some companies perform annual surveys of both clients and employees. We recommend that companies engage in these surveys. If existing surveys or metrics can be found from a state or regional groups, companies should use these so that their data can be shared and compared. In Wisconsin, groups such as the WI Personal Services Association and the WI Long Term Care Workforce Alliance are working on developing direct care competencies.

We recommend that foundations develop a standardized tool for the industry so that they can compare potential grant recipients, as well as track grantees' progress.

In terms of employee survey, a simple worker satisfaction survey to measure satisfaction over previous job, or satisfaction with coop over previous agency experience would be helpful for making the coop case.

A simple survey that can be deployed is the "Net Promoter Score." The Net Promoter Score is a widely accepted business intelligence metric designed to capture both the absolute and relative performance of an organization is one question. Customers are asked the question "Considering your overall experience with [Agency], how likely would you be to recommend them to a friend or colleague?" It is calculated by subtracting the total percentage of detractors, those who selected answers zero through six, from the total percentage of promoters, those who selected nine or ten. While there are limitations with the survey, it can be completed very quickly and the data can be tracked over time, by region and payer source.  The firm Home Care Pulse administers this and other surveys to private duty home care companies.

## Financial Sustainability

The Home Care Pulse 2015 Benchmarking survey provides a snapshot of the financial sustainability of the private duty home care industry. Their 2014 survey reported that the median home care firm had revenues of $1.54 million, while the 20$^{th}$ percentile had revenues of $744,891 and the 80$^{th}$ percentile had revenues of $3.09 million. In the first year of operations, the median revenues were $357,500, while the revenues for the 75$^{th}$ percentile were $658,648 and the 25$^{th}$ percentile was $247,418. Given this, start-up firms should expect to achieve at least sales of $250,000, but will be better off is their projected revenues are at least $350,000.

There is no simple measure of the 'correct' gross margin, but for private duty agencies, the Gross Margin are in the 38% to 40% range.  Home care cooperatives should keep in mind that the higher the pay rate or benefits offered, the lower the Gross Margin will be, so this may not be as effective a measure for goal attainment for worker cooperatives as for conventional companies.  A better metric for worker-owned cooperatives might instead track the ability of the enterprise to manage all non-staff expense.