



Home Care Financial Metrics

A Financial Primer for Home Care Cooperatives

2018

Financial Metrics to Know and Track

While a strong command of a cooperative's financials is not the only aspect of good management and governance, good management and governance can't be done without it. In a home care cooperative, both the administrator and the board of directors need to have a strong command of the coop's financial statements and key metrics. By tracking the cooperative's financial performance, management and the board can make informed decisions and identify key operational improvements based on financial metrics. Billable hours, revenue, gross margin, and other metrics can be tracked relative to budgeted projections to see if the cooperative is meeting its goals. Alternatively, if changes in the market or business operations have affected the cooperatives' performance, adjustments can be made to get the cooperative back on track.

In this financial primer, the ICA Group has outlined key financial concepts and metrics that need to be understood and tracked by home care cooperatives on a weekly, monthly and annual basis. While many of these metrics are important for all industries, we have also focused here on metrics that are specific to the home care industry.

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KEY HOME CARE METRICS

► **Total client hours**

To run a successful home care business you must have a clear understanding of how many client hours you need to maintain or grow current staffing levels, cover all business expenses, and set aside back-up funds for the business (for unexpected emergencies and/or growth). Co-ops should set weekly, monthly, and yearly goals for client hours that take these factors into account and then track actual client hours delivered over a time-period and project future client hours for the next time period. Projecting hours into the future will help ensure that the agency is on target to reach its projected goal, or if not consider corrective actions that may need to be taken to increase client hours or reduce other expenses.

► **Average Hourly Rate**

Rates must be high enough to cover a cooperatives' expenses, but also must be priced reasonably in comparison to competitors. Research your market's rates by calling competitors in your service area and/or visiting their websites. For cooperatives that work with Managed Care Organizations (MCO) or other public payers, it is critical that you know which rates allow your cooperative to be financially sustainable. Factors here will include the actual rate of pay of course, but also the number of client hours provided by each MCO or public payer. For rates that are unsustainable, you can either negotiate higher rates or reduce service hours to a level that is sustainable for your cooperative, while compensating with increased service hours to higher rate clients.

► Wages

In the home care industry, caregiver wages usually represent 50-60% of total expenses. This is also true in home care cooperatives and may in fact be higher given cooperatives' desire to pay higher wages to caregivers. As the largest single expense for a home care business, hourly caregiver pay is the largest determinant of gross margins, and ultimately profitability. In a high turnover industry, it is also imperative for a cooperative to understand how their hourly pay compares to industry averages. Additionally, tracking this metric on a weekly and monthly basis can show how changes in scheduling, hiring, and overtime affect the average wage rates, and, ultimately, profitability.

► Average Hourly Labor costs:

Other direct care expenses including worker's compensation, payroll taxes, and, possibly, benefits add significantly to a cooperative's direct cost of services. An average hourly labor cost metric bundles these costs and hourly wage rates together. This metric allows a cooperative to track how its direct caregiving expenses change over time, and how that impacts margins.

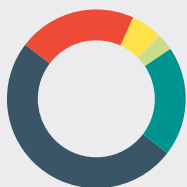
► Typical Fixed Costs

In a home care cooperative, typical fixed costs include: administrative staff expenses, rent, utilities, software licenses, and marketing expenses. A cooperative must earn a large enough gross margin to cover these fixed expenses, and, hopefully, earn a profit.

► Cash on Hand/Available Cash

A cooperative must be sure to have enough cash on hand to cover expenses in case of late payments or unexpected costs. It is important to establish a goal for available cash on hand and to track the amount of cash available on an ongoing basis. Lines of credit are another way to handle monthly cashflow but may be difficult for a cooperative to access.

► Key Industry Expenses*



Caregiver Wages	52.4%
Estimated Profit	20.3%
Caregiver Payroll Burdens	5.5%

Other Direct Care Expenses	2.9%
Operating Expenses	18.9%

A Closer Look—

Detailed Operating Expenses



Office Support Wages	7.9%
Other Operating Expenses	4.4%
Owner Salaries	3.2%
Rent, Maint, & Util	1.6%
Marketing Expenses	1.8%

* 2018 Home Care Pulse Home Care Benchmarking Survey

► **Receivables**

Average receivables days is the number of days the average client takes to pay their bill. A well-functioning agency should maintain a low average for collection days. Private pay clients typically pay in 14 days, while public pay clients can be 30 days or longer. For agencies looking to access outside financing, maintaining a low ratio of long-term receivables and debt will be important. This metric should be tracked on a per payer basis as well as for the cooperative as a whole.

► **Caregiver Turnover**

The caregiver turnover rate is the number of caregivers leaving the cooperative in a year and divided by the average number of caregivers employed during the year. Industry wide this rate is 67%. Having a lower turnover rate reduces hiring and training expenses and can lead to improved care quality. Tracking this number allows a cooperative to measure the effectiveness of recruitment and retention initiatives and make improvements where needed.

ADVANCED HOME CARE METRICS

Tracking key financial metrics will give a cooperative's management and board of directors a solid understanding of the financial and operational health of the cooperative. As a cooperative grows, though, and complexity increases there are more advanced financial metrics that must be tracked. The metrics in this section are divided up into three sections: income statement metrics, balance sheets metrics, and home care specific metrics.

Income Statement Metrics

► **Revenue by payer**

For any cooperative that receives revenue from both public pay and private pay clients it is critical to understand the overall percentage of the cooperative's revenue that is generated by each client type. This will help determine what the right client mix is for the cooperative and will allow management to set targets for either growth or reduction in different revenue categories, depending on the cooperatives needs and goals.

► **Travel Time and Mileage**

Some cooperatives choose to reimburse caregivers for travel time and mileage. This expense will vary based on where a client lives and how urban or rural a cooperative's service area is. When taking on a new client it is important to consider travel time and mileage in relation to the new revenue that the client will generate. If not closely monitored, new clients that increase travel time significantly can increase direct expenses and reduce margins.

► **Hourly gross margin**

By effectively tracking hourly revenue and direct costs, a cooperative will know its gross margin by taking the difference between those two metrics. The gross margin indicates the amount of revenue

available to cover the business's fixed expenses including: administrative costs, rent, insurance, and interest expense. Businesses with low gross margins must necessarily be higher volume businesses as they need more billable client hours to cover their fixed expenses. A healthy private pay home care agency should have a gross margin of around 40%, while public pay cooperatives typically have a lower gross margin of 30% on average, but also typically operate at a higher volume. If the cooperative has clients that pay at different rates, it should track gross margin at the client level.

BALANCE SHEET METRICS AND RATIOS

Quite often the information contained in the balance sheet can best be understood through a few different formulas and ratios. For cashflow management, it is crucial for any home care cooperative to track the three metrics outlined below.

Metric	Formula	Description
Average Days Receivable	$\frac{\text{Accounts Receivable}}{\text{Annual Revenue}} \times 365$	This formula allows a business to calculate the average numbers of days an account receivable is outstanding for the business.
Cash in Payroll Periods	$\frac{\text{Cash on Hand}}{\text{Payroll Expenses per Period}}$	This metric allows an agency to understand its ability to cover upcoming payroll expenses with its cash on hand. If this metric equals 1 then the business has exactly enough cash on hand to cover one payroll period.
Net Operating Working Capital	$(\text{Cash} + \text{Receivables}) - (\text{Payables} + \text{Accrued Expenses}^*)$	If a coop has significant accounts payable, cash on hand is not always the best measure of a coop's ability to pay its expenses. Net working capital is another measure of liquidity that is helpful in determining a business's ability to pay its liabilities and cover any unexpected expenses.

** Usually includes inventory, but inventory is generally not relevant in home care*

Home Care Specific Metrics

In the home care industry there are benchmarks that all agencies should track to measure their performance. While national benchmarks will not always be a perfect match for local markets, they should be used as a guideline to track the cooperative performance in comparison to the industry.

► Per Client Acquisition Cost

Client acquisition costs are important to track as they tell you how much money the agency is spending to bring in a new client. If it costs \$500 to bring on a new client, an agency needs to bill a

minimum of \$500 of work with that client to make up for marketing expenses. High client acquisition costs might be worth it if that agency can bring on a 24/7 client but might lose money for the cooperative if the client only needs a few hours of home care a week. This metric is important to track by marketing channel. For example, if a newspaper ad costs \$500/month and brings in three new clients, client acquisition costs for that marketing channel are \$167 – much cheaper than the industry average of \$590 per client.

► **Client Lifetime Value**

A measure of how much revenue, on average, a home care agency earns per client. Agencies that have clients stay on for longer periods of time will have a higher client lifetime value.

► **Caregiver Lifetime Value**

A measure of how much revenue, on average, a home care agency earns per caregiver. Agencies with better caregiver retention and longer caregiver tenure will have a higher caregiver lifetime value.

Metric	Formula	Benchmark*
Client Acquisition Cost	$\frac{\text{Total Sales and Marketing Expenses}}{\text{Number of New Clients}}$	\$590
Client Lifetime Value	$\frac{\text{Annual Revenue}}{\text{Number of Clients}} \times \text{Average Client Length of Services (in years)}$	\$8,051
Caregiver Lifetime Value	$\frac{\text{Annual Revenue}}{\text{Number of Caregivers}} \times \text{Average Length of Employment (in years)}$	\$12,243

* From Home Care Pulse's 2018 Benchmarking Survey

► **Metric Tracking Period**

Weekly	Monthly	Yearly
Client Hours	Client Hours	Client Hours
	Cash on Hand	Fixed Costs
	Average Hourly Rate	Caregiver Turnover
	Average Hourly Labor Cost	Revenue by Payer
	Receivables	Wage Rates
	Hourly Gross Margin	Fixed Costs
	Travel Metrics	
	Revenue by Payer	
	Caregiver Turnover	

