



Understanding Financial and Operational Benchmarks in the Oncology Office Setting



For the first time, we have the opportunity to compare data from Onmark's 2006 and 2007 Office-Based Oncology Business Benchmarking Surveys. OBR recently conducted exclusive interviews with the principal creators of the survey—John Akscin (OTN, Onmark's parent company), Tom Barr and Elaine Towle (Oncology Metrics)—and we present some of the survey findings here to elucidate financial and operational benchmarks and trends in the management of today's oncology practice.

Introduction

Onmark, an OTN company, is a group purchasing organization focused on community-based oncology practices. It has more than 2400 members and represents over 4000 oncologists in the US. Recognizing the paucity of published data demonstrating financial and operational trends in today's oncology practices, Onmark designed and commissioned a user-friendly survey to collect business operations data from its members. The Onmark Office-Based Oncology Business Benchmarking Survey was established in 2006 when Onmark members were invited to respond to a series of questions designed to collect key operational and financial data from 2005.

As John Akscin, VP of Government Relations for OTN/Onmark stated, "We constantly tell practices to focus on improving financial and operational efficiency. Yet it has been challenging to find reliable benchmarks for practices to compare themselves against. This survey provides practices with a practical tool that they can use to understand how they are perform-

ing compared to national standards and to identify opportunities for improvement."

Tom Barr, Chief Operating Officer of Oncology Metrics llc, Ft. Worth, Texas says, "It is very valuable for oncology practices to compare their financial and operational statistics to those of other practices in an anonymous, unbiased, and publishable way." He went on to add, "And it is even more valuable that we can now compare data year over year to establish benchmarks and identify trends."

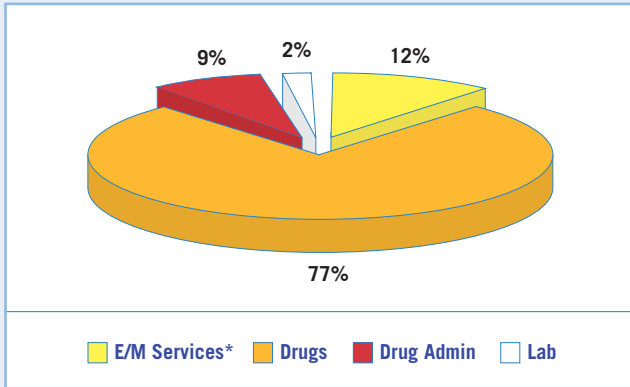
The survey was established in 2006 when Onmark members were invited to respond to a series of questions designed to collect key operational and financial data from 2005. This year's survey collected the same data from 2006, with 138 responses from practices in 35 states. 2005 survey data were recently published in the January '07 issue of the *Journal of Oncology Practice* and the April '07 issue of *Community Oncology*.

Oncology Metrics was engaged both years to develop, conduct and analyze the survey to ensure confidentiality and remove bias. "This will continue to be an annual survey with consistent questions in order to establish core benchmarks and trends in community oncology practices year after year," said Elaine Towle, Director of Consulting Services at Oncology Metrics.

In this issue of *Oncology Business Review* we review some key 2006 data and begin to establish benchmarks and trends by comparing it with 2005 data. The accompanying analysis and interpretation were discussed and agreed upon by Oncology Metrics and OTN/Onmark. As part of OBR's dedication to involving readers in our editorial, we welcome your feedback and comments on the data presented here.

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Financial Observations



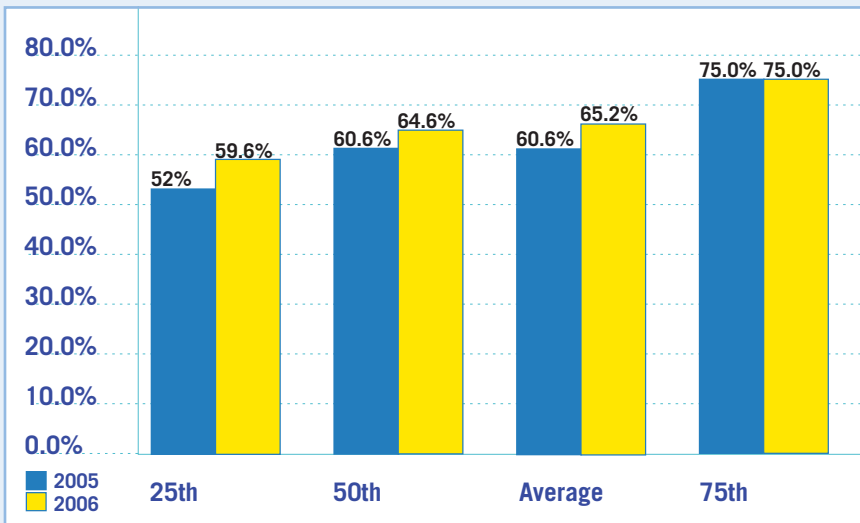
'06 Revenue Mix (38 Practices Reporting)

In the 2005 data, practice revenue from drugs was 73%. That percentage increased to 77% in the 2006 data. According to Barr, this increase could be due to several factors.

- 1) Newer, more expensive drugs being used.
- 2) Many new therapies don't replace existing ones (add-ons) which drives up the total cost of therapy.
- 3) Patients are living longer.

2006 drug administration services revenue (9%) is roughly the same as it was in the 2005 data (10%). John Akscin noted, "It is surprising that there wasn't more movement in revenue from drugs to administrative services. The data emphasize that, despite sweeping changes at CMS, drugs are still the revenue driver in the practice."

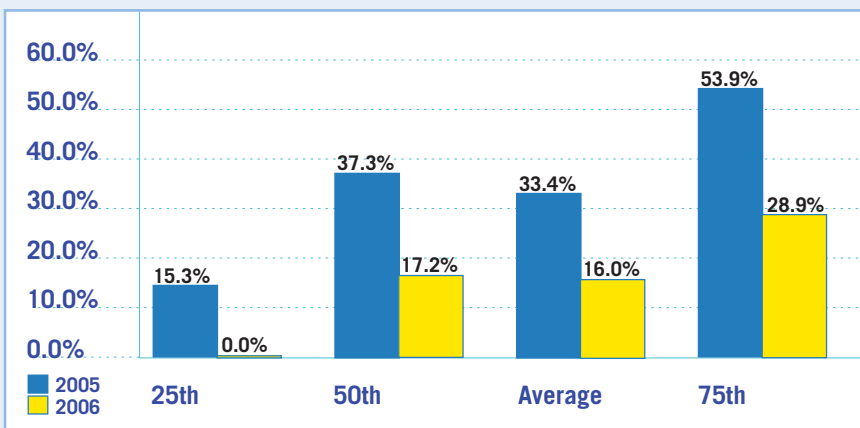
*New patients 1.5%, Est pt visits 6.5%, Other E/M 4.0%



Drug Cost as % of Total Cost (2005 & 2006)

Drug costs as a percentage of total practice costs were 65% in '06 compared with 61% in '05, which again reinforces the continued impact of drugs to the practice. Barr commented that, "This correlates well with Oncology Circle data"* and reinforces the validity of the Onmark survey."

*Oncology Circle is a panel of 35 community oncology practices from which Oncology Metrics regularly draws market research data.

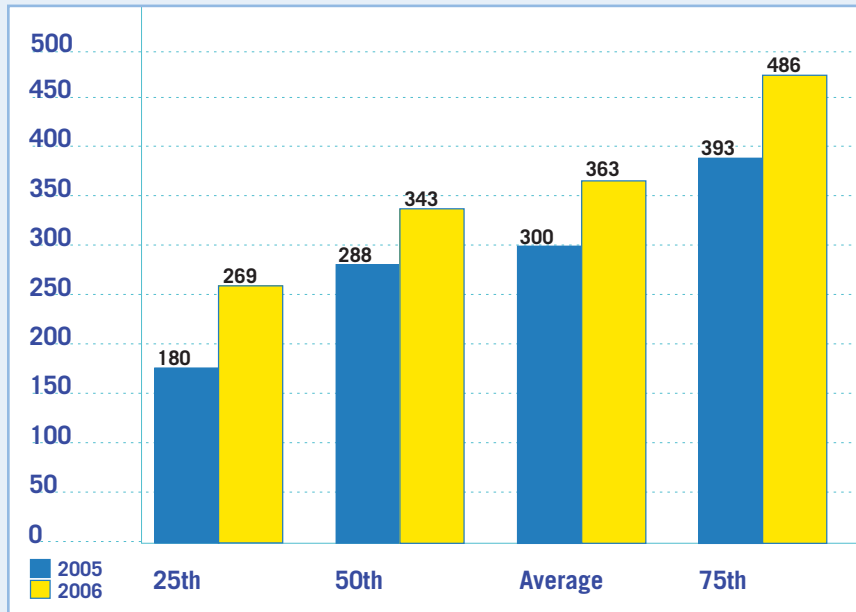


Drug Margin as % of Drug Cost (2005 & 2006)

There was a precipitous drop in drug margins from '05 to '06 with average margins decreasing from 33% to 16%, respectively. Although this drop is alarming, it is one component of a very large number, and 16% margins should be enough to operate a business. Variables such as market share, payer mix, contracts, and patient mix (uninsured or underinsured) contribute to the calculation and make the margin unique to each practice. "This statistic demonstrates that practices must operate efficiently and aggressively pursue optimal pricing to maintain the 16% margin," said Towle.

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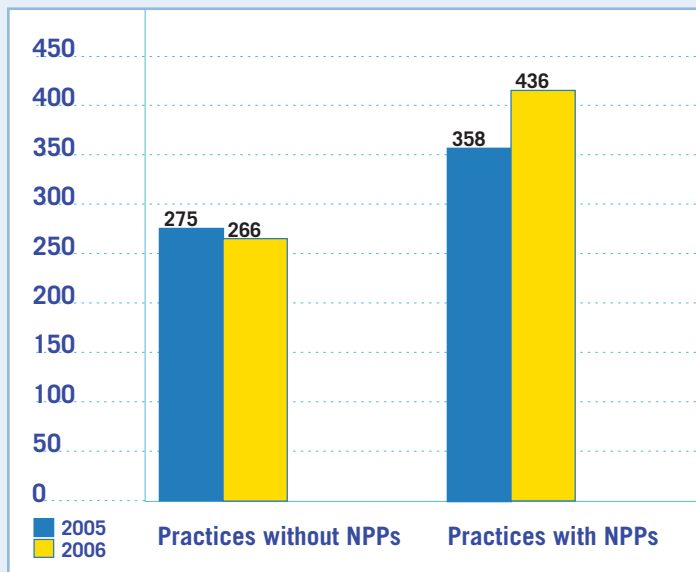
Operational Observations



New Patients / FTE* Hem-Onc (2005 & 2006)

It appears as though hem/oncs in the Onmark network are getting more aggressive about finding new business. For several years the benchmark for a “busy” hem/onc was 300 new patients per year. This graph demonstrates that new patients are the business driver for a practice, and that practices recognize new patients are needed in order to survive. It also demonstrates why access to oncology offices has become more challenging.

*FTE = Full-Time Equivalent



New Patients / FTE Hem-Onc; Impact of NPPs on Physician Productivity (2005 & 2006)

According to Akscin, “Non-physician practitioners, such as nurse practitioners and physician assistants, can play a key role in increasing hem/onc productivity, perhaps allowing more time to market the practice and increase the number of new patients.” Towle added, “This is also important given the results of the ASCO Workforce Study showing that the incidence of cancer is expected to grow as baby boomers age while the number of oncologists is expected to grow at a slower rate.”

Summary of Key Findings

- Drugs remain the financial driver in a practice in terms of revenue and expenses.
- Drug margins as a percentage of drug cost decreased significantly from '05 to '06 while revenue from administrative services remained flat, which creates an alarming situation. Community oncology continues to educate Capitol Hill and CMS that the “balance”

of exchanging over-reimbursed drugs for under-reimbursed services still falls short. According to this study, drug margins dropped to 16% in '06, but the buy-and-bill model is still viable and partially explains why adoption of the CAP model has been extremely low amongst oncology practices.

- The economic prosperity of the oncology practice depends on their ability to attract new patients. Making

use of non-physician practitioners will increase productivity while freeing up the physicians to market the practice. If the trend continues, when a patient visits an oncologist's office, the patient will frequently see a non-physician practitioner and not the oncologist. Of course, this is already the norm in other specialties such as OB-GYN and orthopedics.

Additional findings from the 2007 Onmark Office-Based Oncology Business Benchmarking Survey are expected to be published in the July 2007 issue of ASCO's *Journal of Oncology Practice*.

In Conclusion

Most industries, especially multi-billion dollar industries, have established benchmarks which shed light on how companies are performing relative to others in the field. By analyzing this survey data and triangulating with other data sources, community oncology practices may be able to make informed decisions or take informed actions to benefit their business over time.

Akscin reiterates through his "Migrated Thinking"© concept that successful physician practices including oncology practices must continue to focus on using technology wisely and improving the efficiency of their daily operations.

The success of this survey in establishing solid benchmarks is dependent upon widespread participation in the coming years. If your practice is an Onmark member, you are encouraged to participate in this survey annually. While recognizing that a practice manager's time is very valuable, the time invested in participating in this survey can benefit your practice, as well as those of friends and colleagues challenged by similar financial and operational issues. **OBR**

For further information regarding the Onmark Office-based Oncology Business Benchmarking Survey you can contact:

Monique Weston, Onmark, Director of Marketing, monique.weston@onmarkservices.com

John Akscin, OTN, Vice President Government Affairs, john.akscin@otnnet.com

Elaine Towle, Oncology Metrics, Director of Consulting Services, etowle@oncomet.com

Tom Barr, Oncology Metrics, Chief Operating Officer, tbarr@oncomet.com



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