A Guide to Achieving the Return on Your **Medical Group Investment**

Advisory Board’s Approach to Advancing Physician Enterprise Value

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Introduction to Advisory Board’s Framework

Shifting Focus From the Medical Group as a Loss

Medical groups invest more than $240,000 per employed physician each year.¹

As a health system leader, how can you measure and increase the value of those investments?

Answering this question requires understanding the finances of individual practices themselves, as well as their downstream financial impact on hospitals and other health system assets.

However challenging that is, the benefits to the entire system go beyond tracking revenue losses and gains.

KEY ADVANTAGES

Financial
Document cross-continuum physician profitability and return on investment

Clinical
View how patients are moving through the system to advance care coordination strategies

Strategic
Apply practice and provider-level data to project network growth needs and goals

Four Areas of Focus for Advancing Physician Enterprise Value

1) Address System-Wide Integration Challenges
   Reality of Medical Group Integration Often Lags Behind Hopes
   • Check initial expectations against current reality
   • Pinpoint barriers to value creation and system profitability

2) Attribute Downstream Revenue to the Medical Group
   Consensus Around Methodology for Patient Encounters
   • Divide revenue between medical group and health system
   • Appropriately assign credit among multiple providers

3) Calculate and Track the Physician Enterprise Value
   Common Measure to Portray Both Physician and Hospital Profitability
   • Monitor comprehensive medical group investment and trends
   • Understand PEV² performance and scale rating

4) Leverage Analytics to Improve Investment Performance
   Performance Insight to Drive Medical Group Growth Strategies
   • Apply PEV scale to understand alignment challenges
   • Make changes to operations, structure, and growth efforts

¹ For benchmarks on employed medical group practice performance, go to advisory.com/mgsc/medicalgroupbenchmarks.
² Physician Enterprise Value

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1. Address System-Wide Integration Challenges

Today’s health system that used to employ 50 physicians may now have a medical group in the range of hundreds, if not thousands, of physicians. While the promise of integration carries with it a myriad of potential benefits, many systems recognize over time that the advantages of integration are much harder to achieve in practice.

<table>
<thead>
<tr>
<th>Expectation of Medical Group Integration</th>
<th>Reality for Many Health Systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health system investment will be outweighed by downstream contribution</td>
<td>Data insufficient to demonstrate medical group value, practice decisions made without view of system margins</td>
</tr>
<tr>
<td>Integration will serve as a mechanism to tighten referral networks, coordinate system-wide care, and improve quality</td>
<td>Low provider engagement and operational obstacles for staff leave referral networks far below optimal performance</td>
</tr>
<tr>
<td>Medical group will be the foundation for a financially sound, well-integrated network of providers to execute on system goals</td>
<td>Lack of rigor in market assessment and acquisition due diligence can lead to runaway acquisition costs and hamper financial performance in the future</td>
</tr>
</tbody>
</table>

Financial Data Expands Medical Group Possibilities

In order to tackle such integration challenges, health systems and physician leaders must develop a clear and comprehensive understanding of medical group performance that spans beyond operating losses. A critical place to start evaluating alignment opportunities is by gathering meaningful data around facility-based financial performance.

This data can be the backbone of efforts to demonstrate the holistic value of the medical group, serve as an analytical framework to gauge the value of newly acquired practices, and inform the coordination of patient care and referral pathways.

However, not all health systems are immediately set up to conduct this analysis and many are faced with operational barriers that include the following:

- **Health systems, medical groups, and physicians do not have a transparent, agreed upon methodology to attribute the profits from downstream activities.**
- **Medical group leaders do not have a single metric to reflect both upstream and downstream financial performance.**
- **Practice leaders lack financial performance standards that ensure sustainable investment and encourage prudent management.**

Source: Medical Group Strategy Council interviews and analysis.
2. Attribute Downstream Revenue to the Medical Group

Priority Activities for Attributing Downstream Revenue

- Analyze hospital and ambulatory data from billing and decision support systems with a six-month attribution horizon
- Use evaluation and management (E/M) codes to evaluate active patient management and attribute downstream patient encounters
- Allocate the revenues in proportion to the percentage of E/M codes billed to each provider within the relevant period

Limit Analysis for Relevance to Downstream Encounter

Based on findings from our most progressive members using Crimson Medical Group Advantage, we suggest applying a six-month time frame to all E/M encounters in your analysis. This is to maintain relevance based on some measure of proximity to the downstream encounter.

Core Strategic Decisions to Make in Attributing Revenue

The data above is difficult to get a handle on. But it's even harder to use that data in practice and decide what revenue and contribution margin get credited to which investments.

There is no right answer for revenue attribution, but it is necessary to:

- Ensure that all relevant factors can be easily gathered from the source data systems
- Follow a well-articulated attribution methodology on which all parties agree in advance
3. Calculate and Track the Physician Enterprise Value

Case in Brief: University Physician Partners¹
- Academic health system with six hospitals and a multispecialty medical group
- System had two family medicine practices in medical group that had very similar investment per provider ratios
- Reviewed physician enterprise value (PEV) and saw a 3x difference in downstream contribution between the practices, which warranted immediate intervention

A Comprehensive Metric for Medical Group Value

<table>
<thead>
<tr>
<th>PEV Scale</th>
<th>Investment Performance</th>
<th>Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; 2</td>
<td>Not Sustainable</td>
<td>Needs Turnaround</td>
</tr>
<tr>
<td>2 – 3.5</td>
<td>Underperforming</td>
<td>Significant Opportunity Indicated</td>
</tr>
<tr>
<td>3.5 – 5</td>
<td>Suboptimal</td>
<td>Meaningful Opportunity Indicated</td>
</tr>
<tr>
<td>&gt; 5.0</td>
<td>High Performing</td>
<td>Maintain Performance</td>
</tr>
</tbody>
</table>

¹) Pseudonym

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4. Leverage Analytics to Improve Investment Performance

Once a health system understands where it falls on the PEV scale, the next step is moving the needle on the numerator (contribution margin) and denominator (investment). Advisory Board has researched the attributes of a high-performing medical group, and there are a number of key levers that help close the gap in PEV performance.

Each of the following variables can be addressed on its own—but they are very much interdependent. Addressing them comprehensively will yield exponentially greater improvements across the system.

Continue to Track PEV and Bend the Needle Over Time

Example Report from *Crimson Medical Group Advantage*

Health system and physician enterprise leadership can use this tool to:

- Track investment and downstream contribution
- Drill down from the aggregate to the physician level
- Use opportunity calculator to project scenarios by testing performance variables in real time (e.g. *What happens to the contribution margin when you raise productivity by 2% at Practice A?*)

This organization is at a 2.9 PEV, just below the average scale, with much opportunity for improvement.
Learn More About Physician Enterprise Value

Speak to Our Experts

For more information on how we can help you advance medical group profitability for the health system as a whole, please contact our team.

John Deane, MPA
Chairman
Advisory Board Consulting

John oversees transformational engagements to improve health system performance by driving value through the medical group.

Adam Bryan, MBA
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Adam leads financial analysis, modeling and benchmarking, and forecasting services to enhance system and medical group ROI.

Advisory Board Resources and Support

To learn more about the topics discussed in this guide, please refer to the following related resources from Advisory Board:

- **Get Deeper on Medical Group Analytics**
  Technology experts are on hand to discuss your organization’s goals and how to use Crimson Medical Group Advantage to drive strategies that include maximizing your investment and downstream contribution.

- **How to Maximize Physician Enterprise Value**
  This on-demand webconference shares best practices to teach executives how to assess the return on practice investments and unlock new opportunities for financial improvement.

- **Medical Group Benchmarking Initiative**
  Medical groups face unprecedented financial scrutiny, yet struggle to accurately assess performance relative to peers. Participate in the 2017 survey and receive benchmarks compared to strategically similar groups in addition to similar size.

- **How to Attribute and Make Sense of Downstream Contribution**
  This research brief outlines three operational barriers to the effective use of downstream data in practice management and offers strategies for addressing those challenges.