

Do you know the Operational & Strategic Causes of Bottom Line Losses in your Employed Physician Enterprise?

As operators of employed Physician Enterprises, we have all been faced with answering the question: “Why do our employed physicians lose money in their practices while their private practicing colleagues manage to break even?” Often this question is posed to practice operators by Board Members, CEO’s, CFO’s and other leaders that are ever concerned with optimizing financial and operational performance of their Healthcare organizations.

Sure, there is often the usual response that “these physician practice losses are more than offset elsewhere in the healthcare organization”. Although often true, such offsets come from profits generated through hospital admissions, surgeries, ancillary testing. Utilizing these profits as offsets to Physician Enterprise losses serves as a drain to precious financial resources that could have otherwise been invested in new facilities, technologies and clinical service offerings. Clearly, this type of answer only ignores the true factors contributing toward Physician Practice financial losses and often accepts that potentially sub-par performance in these Practices is somehow acceptable and justified.

While there are always important strategic decisions that a Hospital or Health System can make that results in financial benefits to the overall organization as a whole, understanding the unfavorable impacts that such decisions can have on the financial performance of the employed Physician Enterprise can provide valuable information aimed at a better understanding and explanation of their inherent bottom line losses. Examples of such strategic factors may include: decisions regarding Payor Mix, redirection of ancillary services away from the Physician Practice(s) to be performed in the Hospital, allocation of corporate overhead costs and more. Generally, each of these Strategic Factors offers legitimate, identifiable and quantifiable reasons that employed Physician Enterprises do not typically break-even. The problem is: at least in the short run, these Strategic Factors are not typically actionable by the operators of the Physician Enterprise thereby offering little opportunity for improvement to bottom-line performance.

Conversely (and perhaps more importantly), there are several key Operational Factors that can also unfavorably impact bottom line financial performance in the Physician Enterprise. These Operational Factors are also easily identifiable and quantifiable. However, the main differentiator is that such Operational Factors are also much more highly actionable. Identifying and understanding the Operational Factors contributing to bottom-line losses offers valuable insights into where Physician Enterprises exhibit actionable opportunities for real improvement to bottom line financial performance. The resulting performance improvements can yield significant reductions in year-over-year investments that healthcare organizations are forced to make in order to operate their poor underperforming employed Physician Practices.

What are the Operationally Actionable Factors Contributing to Bottom-line Performance:

Provider Compensation – Is compensation market based and commensurate with productivity?

Provider Productivity – Is individual productivity optimal and properly incentivized?

Payor Rates – How do your rates measure up to the local market?

Revenue Cycle – Where are you leaving money on the table?

Practice Expense – Do you have the right ratios of support resources matched to provider needs?

While certainly aiding in answering the question of: “Why do employed Physician practices lose money”, gaining a detailed understanding of current state performance in each of these areas of Operational Factors virtually always reveals real, actionable opportunities for significant operational and financial performance improvement across the Enterprise.

EBMGroup is your experienced partner and can provide added expert resources aimed at optimizing the financial and operational performance of your Physician Enterprise.

Gregory M. Schulz, FACHE

607.725.2563

gms.ebmgroup@gmail.com

ebmgroupadvisors.com