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System Focus

Realizing the Value of the Health System's Physician Enterprise

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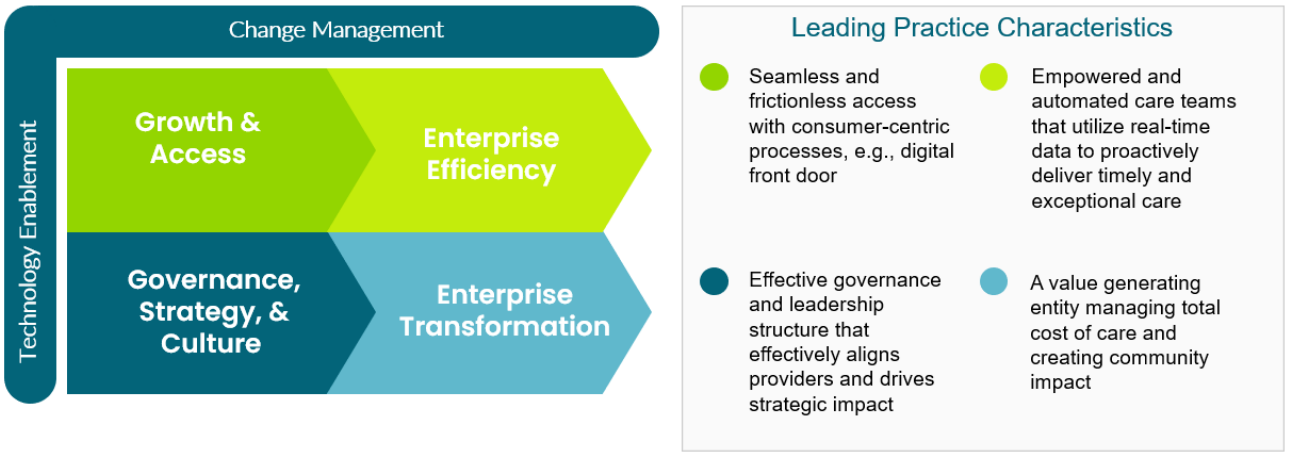
The aftermath of the pandemic has hit the bottom lines of health systems, and they are facing depressed margins, staffing shortages, and inflation in both supplies and services. Looking for cost savings, many health systems have engaged in both layoffs and divestitures, and these efforts have increasingly focused on employed physician practices due to the perception of the physician enterprise as a loss leader.

Health systems have failed to appreciate the value of their physician enterprise over the past few years and have narrowly focused on cost reduction, reducing investments in the physician enterprise necessary to drive volume. This has led to further decreases in access and stale revenue growth across the health system. Moreover, this focus on physician enterprise losses does not recognize the potential for these enterprises to generate accretive growth, market share expansion, or community impact through wellness and prevention efforts. For example, the average investment in primary care is $220,000 per physician,[1] but average net system revenue is $2.1 million.[2] The physician enterprise value (PEV) metric evaluates the downstream contribution margin of the physician enterprise and helps health systems maximize ROI from their physician enterprise strategy.

Organizations tend to focus on reducing their investments (e.g., their loss per provider) rather than maximizing their PEV; even the top 10 percent of healthcare organizations have a negative margin on their physician enterprise.[3] Leading healthcare organizations have achieved 5:1 PEV, but most health systems struggle to reach break-even—with some losing up to 50 cents for every dollar spent. This article highlights four areas health systems can focus on to successfully maximize ROI.

1 *2022 MGMA DataDive Cost and Revenue*, based on 2021 data.
2 Merritt Hawkins, "2019 Physician Inpatient/Outpatient Revenue Survey," February 25, 2019.
3 *2022 MGMA DataDive Cost and Revenue.*

Exhibit 1: Four Key Dimensions to a Value Generating Physician Enterprise



Seamless, Frictionless Access to Care

With the rise in adoption of digital technology, expanding on-demand connectivity and virtual collaboration between patients and the care team is becoming essential. Patients now expect proactive engagement from their physicians, and care teams need to have access to the tools that improve communication as well as the technology to monitor patients remotely and track patient progress virtually. Health systems can leverage cloud-based customer communications management software to improve member engagement, reduce adverse events, and ultimately improve the health of the population. Implementing an advanced access primary care model and utilizing technology to streamline operations and improve patient communication can reduce unnecessary utilization of high-cost services.

Furthermore, the shift of volumes to the outpatient setting has created increased demand for providers at a time when the country is faced with severe physician and staff workforce shortages. Moving to modified advanced access schedules in which 40 to 60 percent of the schedule is open "same day" is helping organizations expand community access to primary care while increasing retention of patients within the network. Health systems should balance provider supply and capacity with patient demand and measure and monitor provider panel size to ensure an effective balance is reached while accounting for seasonality and other factors.

Network retention and effective referral management are other essential access and growth strategies to maximize PEV. The need for effective network retention

continues to be great, as half of referrals are not kept.[4] A patient-centered referral process that utilizes a three-prong approach inclusive of clinical guidelines, tech-enabled workflows, and structural support can help achieve greater network retention. The focus on clinical guidelines ensures the appropriateness of referrals and that consults are based on complexity, acuity, prior treatments, availability of related imaging and tests, and medical necessity. Furthermore, automated referral screening allows for a higher ratio of consults to surgeries; this is critical to effective surgical practices, as many surgeons can become overloaded with below-licensure activity, resulting in increased wait times and access challenges. In a recent study in *JAMA*, researchers found that there may be an opportunity to improve surgical outcomes and reduce variability through use of clinical decision tools in primary care similar to those used by providers to prescribe medications.[5]

Enterprise Efficiency

Automated referral management technology coupled with operational workflow redesign reduces demands on staff, allowing them to work on more complex cases.

A key step in workflow redesign is to identify the care model(s) and care team(s) needed for the patient populations; this helps ensure that providers and staff are practicing at the top of their license or skill set. A redesign may mean transferring work from providers to clinical staff or from clinical staff to front-office staff. A redesign also involves identifying the most valuable use of all staff members' time through the most effective use of technology while engaging patients through the use of patient portals, email, text messaging, telehealth, and remote monitoring.

Providers' ability to care for the right patient at the right time is critical to obtaining maximum PEV. Empowered care teams are utilizing real-time data to proactively deliver timely and exceptional care while providing flexible work schedules for organizations struggling with workforce shortages.

Governance, Strategy, and Culture

New primary care models from non-traditional players, such as advanced primary care disruptors, retailers, and payer-owned providers, are shifting the provider

4 Institute for Healthcare Improvement, *Closing the Loop: A Guide to Safer Ambulatory Referrals in the EHR Era*, December 2017.

5 Anusha Naik, et al., "Factors Associated with Primary Care Physician Decision-Making When Making Medication Recommendations vs. Surgical Referrals," *JAMA Network Open*, February 2023.

landscape. A recent study by Bain & Company predicted that non-traditional providers will represent one-third of the primary care market by 2030.[6] These disruptors focus on population health management, are predominantly moving towards global risk arrangements, and have had more success in managing total cost of care and reducing costly utilization than their traditional primary care counterparts. Health system boards and senior leaders anticipating a shift in their market demographics to higher proportions of seniors, including Medicare Advantage (MA) enrollees, need to thoughtfully consider their primary care strategy in relationship to the current and potential disruptors in their market.

Boards and senior leadership should consider continued investment and transformation of their primary care offerings or evaluate partnership opportunities with market disruptors in new models to more effectively manage the senior population. Health systems experiencing substantial financial pressures can look to private equity or other joint ownership models to reduce the investment burden of their primary care practices. Effective partnerships or collaborations can bring relief to the pressures of financial ownership while deriving benefits from the key capabilities of each entity. However, the demands of private equity funding can clash with practice sustainability and medical ethics. Health systems seeking a partnership arrangement with these disruptors should first develop a thoughtful strategy that considers long-term sustainability, inherent or downstream risks, key stakeholder buy-in, change management, and effective execution of strategic priorities.

Enterprise Transformation

As organizations evolve with a changing environment, they will need to become more effective at managing cost of care while optimizing and rethinking their primary care networks. Guidehouse projects a 1.5 percent decrease in healthcare margin due to growth in MA and a reduction in commercial populations due to an aging population. Successful providers that operate in this space leverage smaller patient panels through team-based care models. These models involve teams of healthcare professionals, including primary care clinicians, specialists, social service providers, and care coordinators, working together to meet the needs of patients.[7] Studies have shown that team-based care improves the quality, safety, and reliability

6 Erin Ney, Eric Berger, and Sharon Fry, "Primary Care 2030: Innovative Models Transform the Landscape," Bain & Company, July 11, 2022.
7 CMS, "Making Care Primary (MCP) Model," June 2023.

of care, reduces waste, and better addresses the needs of patients.[8] Furthermore, appropriately sized patient panels can lead to improved patient outcomes and satisfaction. Since the cost of entry for team-based care is high, organizations often establish hybrid operating models to account for the differences in MA/chronic care management panels vs. traditional panels. Compensation and incentives structures can also be evolved to account for the variations in traditional fee-for-service and managed care practice patterns.

Furthermore, organizations are adopting "primary care first" digital strategies to increase patient access and continuity of care in a more financially sustainable model. These digital models require less investment in facility overhead and staffing resources while maximizing limited provider resources.

→ Questions for the Board

- How effective is your physician enterprise and what is the PEV and associated ROI to the health system?
  - » Is the value of the physician enterprise widely understood across the health system?
  - » Do you have the access and capacity to take on increased volume as needs for services in the ambulatory space increase?
- Have you maximized the efficiency of your physician enterprise?
  - » Do you have a standard operating model that is deployed across the physician enterprise?
  - » Are you maximizing your limited resources, and have you considered alternative sites of care and digital-first strategies?
- Do you have the resources and ability to establish an advanced primary care model that supports the unique needs of the changing population?
  - » Do you have the digital technologies and automation deployed in your primary care sites to increase patient communication and reduce care fragmentation?
  - » Can you successfully compete with the disruptors in your market and are you willing to increase your investment in primary care?

8 Cynthia Smith, et al., "Implementing Optimal Team-Based Care to Reduce Clinician Burnout," National Academy of Medicine, September 17, 2018.

Conclusion

Organizations should continue to look at top-line growth and optimization of their physician enterprise as a means to maximize ROI versus trying to cut their way to prosperity. Given the reduced healthcare margins and accelerating disruption, a narrow focus on provider cost is not sustainable. Transitioning from viewing the physician enterprise as a loss leader to recognizing it as a value generator will pay dividends in financial sustainability, patient satisfaction, and physician retention. Leading practice organizations are currently focused on maximizing ROI through increased access, network adequacy, and digitally enabled care models. Health systems that anticipate these shifts and focus on value generation rather than cost reduction will thrive.

The Governance Institute thanks Susan Corneliuson, Director, Healthcare, and Emily Shields, Associate Director, Physician Enterprise Solutions, Guidehouse, for contributing this article.
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