While a significant number of independent physician groups effectively track the economic performance of their practices, far fewer understand the specifics of how and where their income is generated. Groups need tools to monitor the performance of individual services as the business development function takes on greater importance. A longitudinal, service-line mapping tool can help group practice leaders manage the organization’s economics and anticipate cultural and other noneconomic issues.

**New services can improve practice revenue**

After a medical group completes negotiations with payers, maximizes provider productivity and realizes all possible savings from overhead, one option remains for improving economic performance: new service development. As a result, the business development function has taken on significantly more importance than it had even five years ago. Without the creation of new services — and ongoing evaluation of existing ones — a group’s risk from environmental change, such as major shifts in reimbursement rates, increases markedly.

Does your practice understand the profitability of its on-site services, including professional services? What services, if any, are you developing? Have you quantified the estimated economics of new services for the physician shareholders?

As a group’s services evolve, the type of business being managed by practice leadership also changes. For example, 15 years ago, a group’s leaders may have focused on payer negotiations and provider productivity. Ten years ago, cost containment may have consumed a significant percentage of management resources. Five years ago the group may have developed new ancillary services. Today, those same ancillary services may be headed for obsolescence and may no longer be profitable, suggesting the need to develop the next generation of service strategies.

A service performance map provides practice leadership with information critical to the group’s long-term operations.
Physician compensation: 2000-2004

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<td>ASC</td>
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</table>

Defining the concept of service performance mapping

Creating a longitudinal performance “map” of a group’s service components is a practical starting place. A service performance map provides practice leadership with information critical to the group’s long-term operations.

Many physician groups analyze practice performance based on the income generated per unit of physician work, or work relative value unit (wRVU). The service performance mapping concept takes this analysis one step further and breaks income performance into its various components: professional services, lab, imaging, therapies, etc. The performance map outlined here analyzes the profitability or contribution margins associated with a group’s services as a measure of physician work. A case study highlights the importance of developing and analyzing this information over a number of years, or longitudinally.

Case study — ancillary services analyzed over time

An independent group practice with 16 physicians has historically performed well from a compensation perspective in benchmarking against Medical Group Management Association (MGMA) data. The group provides professional services on site and performs procedures in a nearby hospital. It added an on-site physical therapy (PT) service in 1998. In 2002, the practice developed a magnetic resonance imaging (MRI) service and in 2004 added an ambulatory surgery center (ASC).

The diagram and chart below show a timeline of the group’s service-development history with physician compensation per wRVU for five years (2000-04). Physician compensation figures show the key service areas within the group, such as professional services, PT, MRI and ASC.

Following are key findings of the group’s 2000 economic performance:

- Compensation performance was strong. Physicians earned approximately $59.80 per wRVU — slightly below the MGMA Physician Compensation and Production Survey Report 75th percentile compensation for the group’s weighted mix of specialties;
- Professional services generated $50.55, or 85 percent of total physician compensation. The group would have performed much closer to the MGMA median without the income generated by the on-site PT service;
- Physician income of $9.25 per wRVU was generated by providing on-site PT services. As a result, the group generated approximately 15.5 percent (see graph

see Digging, page 34
above) of total physician income from a service that did not require additional time or work by the physicians. PT did, however, require the group to make a significant investment of staff time to develop, implement and operate the service.

By 2004 — only four years later — the economics of the practice are very different:

- Income levels increased significantly to $74.48 per wRVU, performing above the MGMA 75th percentile (weighted for the group’s specialty mix).

- Profitability of the group’s traditional core business (professional services) decreased markedly, while overall contribution from nonprofessional services now accounts for more than 38 percent of the group’s income (compared with 16 percent in 2000). Without the development of MRI services and an ASC, practice net income would have been approximately $49.36 per wRVU ($46.00 from professional services and $3.36 from PT), below MGMA median performance.

- Mapping the group’s economic performance over time shows PT-related income decreasing steadily. However, the addition of MRI and ASC services has more than made up for the decreases in PT and professional services income. As it did with PT, the group will need to monitor the ongoing performance of the ASC and MRI services and plan for new services/technologies that make sense from both patient care and practice economic perspectives.

- The graph presents technical income as a percentage of overall practice income over the same five-year period. As a result of developing new services, the group increased its percentage of technical component income from less than 16 percent in 2000 to more than 38 percent in 2004, allowing it to withstand significant income decreases from professional services and PT. The decreased profitability of PT is first noticeable in 2001, when the percentage of technical component income drops from 15.5 percent to 15.3 percent.

If data were analyzed for only the most recent year, practice leaders could miss the decline in PT contribution to practice income over the past four years. While the practice may value the service from a patient care perspective, understanding its economic trajectory allows leadership to address its worsening financial performance. The practice’s economic position allows for continued development of new services and additional subspecialization, strategies that require strong performance to fund their implementation.

**Implications for leadership**

The case study focuses on using service mapping to identify economic issues and strategies for the future. Effective development and use of a mapping tool can also give an organization more ability to recognize and plan for other types of issues:

- **Cultural** — The case-study group prided itself on a strong work ethic that consistently resulted in productivity levels at or above the MGMA 75th percentile in its specialties. However, as the practice continues to generate a higher percentage of total income from nonprofessional services, its leaders will need to determine whether the ancillary revenue should support above-average physician salaries or more time off and stable annual salaries. Depending on the
compensation structure of the group, some physicians may make the income-vs.-lifestyle choice on their own if the practice does not address the issue from a group perspective.

• **Management** — Groups aggressively pursuing and implementing service development strategies will experience significant economic change in a relatively short time. Management would find it helpful to understand why the group is changing and how that may affect its focus and decisions. At a minimum, a group that concentrates on developing a full cadre of ancillary services will need additional management resources and expertise in key technical areas. It will also have more nonprovider staff relative to physicians. Such a group might therefore demand a more developed human resource function, as well.

• **Environmental** — Why is the profitability of PT and professional services steadily decreasing? Do environmental factors related to falling reimbursement rates and rising overhead levels explain the trends, or do other issues contribute?

The case study demonstrates the effectiveness of using service performance mapping as a tool for monitoring practice performance and implementing business development strategies at the right time. An implementation delay of one or two years of any of the sample group’s services would have resulted in economic performance below physician expectations, given the production levels of individual providers. Instead, the result is an organization — unlike too many of today’s independent groups — that has not only maintained but significantly improved overall practice performance.

**note**

1. MGMA Physician Compensation and Production Survey: 2004 Report Based on 2003 Data

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