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The Metrics that Matter in Today's Physician Enterprise

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Over the last decade, the physician enterprise has undergone transformative changes. As of 2021, 73.9% of physicians were employed by hospitals or other corporate entities, according to an April 2022 study conducted by Avalere Health. While the physician employment trend predates COVID-19, the study found that 83,000 physicians became hospital employees since the onset of the pandemic, suggesting that physicians increasingly sought employment as a safe harbor during a turbulent time.

In addition, Advanced Practice Providers—a category that includes Nurse Practitioners, Physician Assistants, and Certified Registered Nurse Anesthetists —are increasingly taking on work traditionally performed by physicians, and now represent about two-fifths of the Physician Enterprise workforce. In 2020, APPs represented more than 60% of all new entrants into the labor pool, according to a Kaufman Hall analysis.

Since Kaufman Hall began publishing the *Physician Flash Report* in 2020, we have received frequent questions about the metrics we use and regular requests for metrics beyond what we've included in the report. In addition, our clients often ask our counsel on navigating the metrics they get from electronic medical records, as well as finance and human resource systems.

These inquiries have allowed us to develop a series of "metrics that matter" for Margin, Revenue, and Expense.

We started by deliberating and creating an updated list of the financial metrics that matter for the employed physician enterprise. We then vetted the list with employed physician groups to ensure we were on the right track. We recommend annualizing all the metrics listed in the sections below to be able to compare trends over time, though the comparisons should still be made on a quarterly basis to monitor for signs of change.

Margin

One of the most critical metrics in any business is margin, or put simply: "Are we making or losing money?" In the case of employed physician enterprises, the question is

Metric	What is it?	Why it matters
Investment per Provider	(Revenue / Expense) / number of Provider FTEs	As the number of APPs in the workforce continues to grow, it is increasingly important to consider investment across all Providers and not just the Physicians.
Investment per Physician	(Revenue / Expense) / number of Physician FTEs	Physicians are the leaders of the Provider workforce and typically comprise the majority of the workforce. While the increase in APPs sometimes adds noise to this metric, it remains a key indicator of financial performance.
Physician - APP Percentage	Percent of Provider Workforce that is APPs	With some high-performing organizations now employing more APPs in primary care and hospital settings than Physicians, it is important to understand this shift and how it impacts the physician enterprise's financial performance.

usually, "How big a financial gap do we have?" In reality, almost all employed physician groups lose money, and we have evolved our language to talk about the "Investment" (or subsidy) levels it takes to sustain these organizations.

We recommend a couple of metrics to best assess and evaluate margin performance. It is important to note that the metrics listed below are outcome measures. As a result, the focus should be placed on understanding the variances of the *components* of these measures when seeking to drive change.

Revenue

We focus on Net Patient Revenue as it comprises the Revenue that counts in the physician enterprise. Other revenue sources sometimes exist in the financials we review, but for employed groups, the Revenue often represents funds flowing from other parts of the organization. Net patient revenue includes all Revenue derived by delivering patient care, including fee-for-service, capitation payments and quality/value payments.

Revenue in the physician enterprise is driven by two levers: (1) How much are we being paid for our services? (i.e., Revenue per work relative value unit, or wRVU) and (2) How busy are our providers? (i.e., wRVU production).

1. Revenue per wRVU is controlled by an organization's payer mix and reimbursement model *(something the individual provider has little ability to influence)*.
2. wRVU production reflects how busy your providers are seeing and treating patients *(something providers exercise a significant amount of control over)*.

We use work relative value units (wRVUs) vs total RVUs as they better reflect provider productivity. They are also constant regardless of if work is delivered in a physician clinic, hospital-based clinic, or hospital setting.

And we use FTEs to recognize that some physicians work part-time. We would also encourage you to consider clinical time versus other time—as it is not unusual for a physician to split time between clinical delivery, administration, research, and teaching in academic settings.

Metric	What is it?	Why it matters
Net Patient Revenue (NPR) per Provider FTE	Net Patient Revenue divided by number of Provider FTEs	This is the key revenue metric for a physician enterprise. This metric needs to be evaluated in the context of the specialty composition of the enterprise as different specialties generate materially different net patient revenue.
Net Patient Revenue (NPR) per wRVU	Net Patient Revenue divided by the number of wRVUs	This reflects organizational net Revenue per wRVU, and is largely outside of the control of an organization's Providers. Organizations looking to improve this metric need to focus on payer mix, commercial rates, and revenue cycle.
Commercial Payer Mix Percentage	Percent of Commercial Patient Net Revenue	Evaluating your payer mix helps you understand your reimbursement levels against benchmarks. Typically, organizations with a larger commercial payer mix should see a higher net patient revenue per wRVU.
wRVUs per Provider FTE	Total wRVUs divided by Provider FTEs	This metric represents your Provider workforce's production. Improvement in this metric requires increasing patient volume for your Providers.
wRVUs per Physician FTE	Physician wRVUs divided by Physician FTEs	This metric represents your Physician workforce's production. Improvement in this metric requires increasing patient volume for your Physicians.

Expense

Employed Physician Enterprises are expensive to operate. The vast majority of their expenses are driven by Physician, APP, staff, and administrative labor costs (i.e., salary & benefits). This is why we suggest organizations focus on managing labor costs as their primary expense management focus. While other expenses do exist, they make up a very small percent of the total and rarely provide material improvement opportunities. Therefore, we typically find organizations looking to improve their financials focus on Revenue (i.e., productivity & rates) first and then cut labor expenses only if the patient volume and payer mix is unsustainable.

Metric	What is it?	Why it matters
Total Expense per Provider FTE	Total Physician Enterprise Expense / Provider FTEs	Total expense represents the combination of labor and non-labor costs that are directly attributable to the physician enterprise. This includes all labor costs plus support services and items such as facilities, drugs and supplies, revenue cycle and call centers.
Labor as % of the Total Expense	The percent of total expense represented by Labor (salary & benefits) costs	Labor costs are the principal driver of expense in the physician enterprise. By looking at them as a percent of the total expense, we can understand their contribution and help determine if non-labor expenses need attention.
Compensation per Provider FTE	Provider Compensation / Provider FTEs	Provider compensation (Physicians + APPs) is the single largest expense in every medical group.
Compensation per Physician FTE	Physician Compensation / Physician FTEs	There is no Physician Enterprise without Physicians—and they are also the most expensive members of the team.
Provider Compensation per wRVU	Provider Compensation divided by wRVUs	Examining compensation per wRVU is a good way to quickly understand financial performance. Organizations whose Provider Compensation per wRVU comprises a large percentage of their total per wRVU revenue, will require larger investments/subsidies to sustain operations.
Support Staff FTE per 10k wRVUs	Support Staff FTEs divided by 10,000 wRVUs	Reviewing support staff per 10,000 wRVUs is a way to quickly understand how support staff is contributing to labor cost. It is important to consider not only front & back-office support but also centralized support staff (e.g., calls centers, revenue cycle, etc.) in this ratio.

We hope these metrics are helpful to your physician enterprise and encourage and welcome your questions and comments. We encourage you to read our *Physician Flash Report* to see these metrics in action.

Glossary

- *Advanced Practice Providers (APPs)* are principally Nurse Practitioners, Physician Assistants and Certified Registered Nurse Anesthetists.
- *Providers* refer to both Physicians and Advanced Practice Providers (APPs). This article—and the *Physician Flash Report*—uses the *Physician* metric when APPs are not included.
- *Work relative value units (wRVUs)* measure the value of a provider's work relative to all services and procedures.

Share any feedback and questions with Kaufman Hall Managing Director and Physician Service Line Lead Matthew Bates (mbates@kaufmanhall.com) and Senior Vice President of Data and Analytics Erik Swanson (eswanson@kaufmanhall.com).