Capturing downstream revenue is critical to gaining an accurate picture of employed provider profitability.

A fool-proof method to determine how your new physician practices affect your bottom line.

Over the last few years, many hospitals acted on the opportunity to acquire physician practices. Now these health care organizations are balancing the perceived benefits against acquisition costs and their ultimate financial contribution or loss. Acquisition may bring value from locking up market share to building a loyal physician base to new risk-based reimbursement preparations. But is that acquisition value equal or greater to the effect on the bottom line?

This is the right question to ask, but hospital administrators should evaluate their analysis process before answering it. The traditional profit and loss methodology that many hospitals use to measure their employed physician groups’ financial profitability excludes physician-generated revenue to the hospital from the profit and loss statements. As hospitals’ business models mature, CFOs are adjusting their calculations to include downstream revenues generated by employed physicians when evaluating the hospital or health system-physician enterprise. These revenue sources include inpatient admissions, radiology and laboratory services. But including multiple revenue sources presents a challenge since the data is often in two disparate IT systems—one for the hospital and another for the physician group.

Answers to these questions can offer insights into your employed physician profitability:

- Are there real numbers to the revenue you realize from your employed physician group?
- How do you validate their contribution margin?
- Which physicians and specialties are using specific hospital services?
- Can you evaluate data at the transactional level?
- How many spreadsheets are you using to reach estimated amounts?
- How do your results compare to industry benchmarks from other hospitals or health systems?
Studies highlight the importance of knowing your employed physicians’ profitability.

Recent studies reveal that it is important to know how much revenue your employed physicians contribute to your bottom line to measure ROI. A 2013 report issued by Merritt Hawkins, a nationally known physician recruitment firm, shows that for the first time in the survey’s 11-year history, primary care physicians generated more downstream hospital revenue than physician specialists. In another example, an Ohio State University Medical Center study concluded that it received approximately $6.30 in downstream contribution margin for every $1 invested in its primary care physician network.

You need the whole picture to make informed decisions.

Senior executives must have complete and accurate information about downstream revenue from employed physicians to make strategic decisions affecting their organization. As organizations transition from fee-for-service to value-based reimbursement models, they need the ability to analyze the services provided to patients by both physicians and hospitals across the total spectrum of physician visits, ambulatory services and in-patient services. These data sets can also help care managers determine how they will need to manage their clinical resources in the future. The data also provides leaders with a road map to target downstream revenue sources essential for continued success.

Web-based solutions can help.

VHA’s Physician Strategies and Services can link members with web-based solutions that consolidate hospital and physician data to track patient revenue from the physician office to the hospital service and back. With these resources, you may be able to reduce—or even eliminate—in-house technicians, software updates, unmanageable networks and downtime allowing you to lower costs while boosting productivity.

For more information on VHA’s Physician Strategies and Services, contact either Donald Hicks at dhicks@vha.com, 520.730.0828 or Jim Doty at jdoty@vha.com, 509.995.9508.