e3Business, LLC

Four Step Compensation Model Overview

Overview

1. Provider compensation must align the objectives of the practice and provider. Compensation cannot be so high as to be unaffordable to the practice or so low as to be unlivable for the provider.
2. Use reported figures from third-parties such as recruiters, publications and income studies as guidelines and not as the basis for provider compensation. Recruiters have a vested interest in finding "good jobs" for "good candidates," so they prefer that practices offer higher provider compensation. Publications and income studies can use self-reported figures, which can be inflated.
3. In order to establish affordable provider compensation, practices need to establish viable pro formas reflecting expected provider income. These pro formas must factor in the provider's maximum achievable revenue, the expected "ramp up" time in achieving that revenue and the known and expected expenses from adding the provider.
4. Start with a 12-month pro forma to see if the provider will be mature at that time. If not, expand the pro forma to see when the provider will mature. Use conservative numbers. In the Capacity example below, for example, the average visits a day (11) are low.

Creating a Pro Forma for Provider Revenue

1. Determine the provider's achievable revenue by projecting the provider's patient visit capacity, payment per visit and expected ancillary revenue.
2. Capacity can be projected by:
    a. The number of visits available a day
    b. The number of days work days a month (use 20 for a normal month)
    c. Example Capacity: 11 visits a day x 20 days = 220 visits a month
    d. Be sure to use conservative numbers in monthly projections to account for CME, vacation, holidays and sick days. In the above capacity, the actual patient visits and days worked in a month for a mature provider are 14 patient visits and 21 days.
3. Calculate "ramp up" by starting with the number of patient visits available to the provider based on current demand or prestart advertising.
    a. A provider replacing a mature provider may have zero ramp up time.
    b. A new provider's starting demand might be gauged by calls for new appointments that go unfulfilled or past experience.
    c. Current providers might also create demand for the new provider by taking vacation when the new provider starts.
    d. Estimate when the provider will reach capacity and pro rate the additional patient visits over that period.
    e. If a provider is expected to start with five patient visits a day based on current patient demand and mature by month seven, a pro forma could add one patient visit a month to reach 11 patients in month seven.
4. Calculate the provider's revenue by taking their demand by the practice's payment per visit.

   a. Payment per visit can be calculated from current experience by dividing the revenue from patient visits by the number of patients seen in a month.
   b. An established provider generating $22,932 per month directly from 294 patient visits a month (14 patients x 21 days) would have a payment per visit of $78.
   c. Use the payment per visit to calculate the provider's expected revenue per month, e.g. month one is 5 visits a day x 20 days x $60 = $7,800; month two is 6 visits a day x 20 days x $78 = $9,360, etc.
5. Calculate other revenue streams available to the provider.
   a. Other revenue streams include nursing home, hospice, hospital work, clinical trials, speaking, product sales, ancillary services, etc.
   b. Evaluate the revenue from each revenue stream to determine the best way to allocate revenue.
   c. Contract work can be prorated. For example, a provider covering nursing home visits for two days of a five day week would have 40% of the revenue from that contract allocated to their revenue.
   d. Product sales and ancillary can be projected using the same demand and ramp up as office visits.
6. New provider revenue through the patient visit ramp up and additional revenue streams of ancillary services and product sales in this example would like this:

ADD Prov	Mo 1	Mo 2	Mo 3	Mo 4	Mo 5	Mo 6	Mo 7
Visits	100	120	140	160	180	200	220
Ancillary	15	30	45	60	75	90	105
Product	$ 4,000	$ 4,600	$ 5,290	$ 6,084	$ 6,996	$ 8,045	$ 9,252
Ttl Rev	$ 12,925	$ 16,210	$19,585	$23,064	$26,661	$30,395	$34,287

7. The ancillary visits are generating $75 per visits, while product sales are increasing 15% per month.
8. While patient visit ramp up is complete by month seven, ancillary visits and product sales are still maturing. Through the rest of Year 1, they would continue to grow.
9. At the end of Year 1, ancillary visits would mature at 180 visits a month, while product sales would almost reach maturity of $20,000 per month.

ADD Prov	Mo 8	Mo 9	Mo 10	Mo 11	Mo 12
Visits	220	220	220	220	220
Ancillary	120	135	150	165	180
Product	$10,640	$12,236	$14,072	$16,182	$18,610
Ttl Rev	$36,800	$39,521	$42,482	$45,717	$49,270

10. Year 2 projects would show a provider with mature office visits, ancillary visits and product sales, (months 19-24 not shown).

ADD Prov	Mo 13	Mo 14	Mo 15	Mo 16	Mo 17	Mo 18	Yr 2
Visits	220	220	220	220	220	220	2640
Ancillary	180	180	180	180	180	180	2160
Product	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 240,000
Ttl Rev	$ 50,660	$ 50,660	$ 50,660	$ 50,660	$ 50,660	$ 50,660	$ 607,920

11. Continuing a pro forma until the provider achieves one year of maturity allows for annualized numbers when the provider is mature.

Project Compensation and Expenses Related to the Provider Addition

1. The most obvious expense related to the provider addition is the provider's compensation. Other expenses include expenses related to additional revenue streams, EMR, billing, staffing, supplies and insurance.
2. Some expenses may be calculated as a percentage of revenue. Billing expenses and supplement costs, for example, are typically a percentage of revenue and product sales, respectively.
3. Other expenses, such as staffing and insurance, may be fixed.
4. Compensation could be a percentage of revenue or a fixed amount.
5. In this example, compensation, staff and insurance are fixed expenses, while supplement costs are 50% of product sales and EMR and billing are 4% of office visit revenue.

ADD Prov	Mo 1	Mo 2	Mo 3	Mo 4	Mo 5	Mo 6
Comp	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000
Sup Cost	$ 2,000	$ 2,300	$ 2,645	$ 3,042	$ 3,498	$ 4,023
EMR/RCM	$ 312	$ 374	$ 437	$ 499	$ 562	$ 624
Staff/Ins	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000
Ttl Exp	$ 17,312	$ 17,674	$ 18,082	$ 18,541	$ 19,060	$ 19,647

6. The provider's expenses can be subtracted from the provider's revenue to determine Net Practice Revenue (NPR).

ADD Prov	Mo 1	Mo 2	Mo 3	Mo 4	Mo 5	Mo 6	Mo 7
Visits	100	120	140	160	180	200	220
Ancillary	15	30	45	60	75	90	105
Product	$ 4,000	$ 4,600	$ 5,290	$ 6,084	$ 6,996	$ 8,045	$ 9,252
Ttl Rev	$ 12,925	$ 16,210	$ 19,585	$ 23,064	$ 26,661	$ 30,395	$ 34,287
Comp	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 17,144
Sup Cost	$ 2,000	$ 2,300	$ 2,645	$ 3,042	$ 3,498	$ 4,023	$ 4,626
EMR/RCM	$ 312	$ 374	$ 437	$ 499	$ 562	$ 624	$ 686
Staff/Ins	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000
Ttl Exp	$ 17,312	$ 17,674	$ 18,082	$ 18,541	$ 19,060	$ 19,647	$ 25,456
Net Prov Rev	$ (4,387)	$ (1,464)	$ 1,503	$ 4,523	$ 7,601	$ 10,749	$ 8,831

7. In the above example, the provider's NPR is negative in months one and two before becoming positive in month three.
8. Provider compensation changes in month 7 to reflect the second step of a four step compensation plan, (step one = starting base compensation, step two = 50% of Total Revenue).
9. The third compensation step is a mature base compensation, which in this example is $20,000, which is achieved when the provider exceeds $40,000, such as in month ten.

ADD Prov	Mo 7	Mo 8	Mo 9	Mo 10	Mo 11	Mo 12	Yr 1
Visits	220	220	220	220	220	220	2220
Ancillary	105	120	135	150	165	180	1170
Product	$ 9,252	$10,640	$12,236	$14,072	$16,182	$18,610	$ 116,007
Ttl Rev	$34,287	$36,800	$39,521	$42,482	$45,717	$49,270	$ 376,917
Comp	$17,144	$18,400	$19,761	$20,000	$20,000	$20,000	$ 187,304
Sup Cost	$ 4,626	$ 5,320	$ 6,118	$ 7,036	$ 8,091	$ 9,305	$ 58,003
EMR/RCM	$ 686	$ 686	$ 686	$ 686	$ 686	$ 686	$ 6,926
Staff/Ins	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 36,000
Ttl Exp	$25,456	$27,406	$29,565	$30,722	$31,778	$32,991	$ 288,234
Net Prov Rev	$ 8,831	$ 9,394	$ 9,956	$11,759	$13,940	$16,278	$ 88,683

10. In the above example, the practice will make $88,683 in the first year while the provider will make $187,304.
11. Projecting Year 2 shows that the practice will make $203,683 with the provider making $240,000 (months 20-24 not shown).

ADD Prov	Mo 13	Mo 14	Mo 15	Mo 16	Mo 17	Mo 18	Mo 19	Yr 2
Visits	220	220	220	220	220	220	220	2640
Ancillary	180	180	180	180	180	180	180	2160
Product	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 240,000
Ttl Rev	$ 50,660	$ 50,660	$ 50,660	$ 50,660	$ 50,660	$ 50,660	$ 50,660	$ 607,920
Comp	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 240,000
Sup Cost	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 120,000
EMR/RCM	$ 686	$ 686	$ 686	$ 686	$ 686	$ 686	$ 686	$ 8,237
Staff/Ins	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 36,000
Ttl Exp	$ 33,686	$ 33,686	$ 33,686	$ 33,686	$ 33,686	$ 33,686	$ 33,686	$ 404,237
Net Prov Rev	$ 16,974	$ 16,974	$ 16,974	$ 16,974	$ 16,974	$ 16,974	$ 16,974	$ 203,683

12. Year 2 reflects basically a 55/45 split on NPR, with the provider receiving 55% and the practice receiving 45%.
13. The fourth compensation step is mature base compensation plus bonus. The provider is paid a percentage of NPR, such as 20% in this example (months 32-36 not shown).

ADD Prov	Mo 25	Mo 26	Mo 27	Mo 28	Mo 29	Mo 30	Mo 31	Yr 3
Visits	220	220	220	220	220	220	220	2640
Ancillary	180	180	180	180	180	180	180	2160
Product	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 20,000	$ 240,000
Ttl Rev	$ 50,660	$ 50,660	$ 50,660	$ 50,660	$ 50,660	$ 50,660	$ 50,660	$ 607,920
Comp	$ 18,000	$ 18,000	$ 18,000	$ 18,000	$ 18,000	$ 18,000	$ 18,000	$ 216,000
Sup Cost	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 10,000	$ 120,000
EMR/RCM	$ 686	$ 686	$ 686	$ 686	$ 686	$ 686	$ 686	$ 8,237
Staff/Ins	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 36,000
Ttl Exp	$ 31,686	$ 31,686	$ 31,686	$ 31,686	$ 31,686	$ 31,686	$ 31,686	$ 380,237
Net Prov Rev	$ 18,974	$ 18,974	$ 18,974	$ 18,974	$ 18,974	$ 18,974	$ 18,974	$ 227,683
Bonus	$ 3,795	$ 3,795	$ 3,795	$ 3,795	$ 3,795	$ 3,795	$ 3,795	$ 45,537
Ttl Comp	$ 21,795	$ 21,795	$ 21,795	$ 21,795	$ 21,795	$ 21,795	$ 21,795	$ 261,537
Net	$ 15,179	$ 15,179	$ 15,179	$ 15,179	$ 15,179	$ 15,179	$ 15,179	$ 182,147

14. If the provider reached the fourth compensation step in Year 3, the provider would make $261,537 while the practice would make $182,147, (basically a 60/40 split).

The Four Steps

1. The four compensation steps shown are:
    a. Step 1: Starting Base Compensation
    b. Step 2: Percentage of Total Revenue (50%)
    c. Step 3: Target Compensation
    d. Step 4: Base Plus Bonus
2. The four compensation steps assume that projected revenue allows for the sufficient growth between the steps.
3. The change from Step 1 to Step 2 should be based on the expected ramp up time for the provider and is meant to prevent the practice from losing money on the provider while the provider continues to enjoy a fixed income.

ADD Prov	Mo 1	Mo 2	Mo 3	Mo 4	Mo 5	Mo 6	Mo 7
Visits	100	120	140	160	180	200	220
Ancillary	15	30	45	60	75	90	105
Product	$ 4,000	$ 4,600	$ 5,290	$ 6,084	$ 6,996	$ 8,045	$ 9,252
Ttl Rev	$ 12,925	$ 16,210	$ 19,585	$ 23,064	$ 26,661	$ 30,395	$ 34,287
Comp	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 17,144
Sup Cost	$ 2,000	$ 2,300	$ 2,645	$ 3,042	$ 3,498	$ 4,023	$ 4,626
EMR/RCM	$ 312	$ 374	$ 437	$ 499	$ 562	$ 624	$ 686
Staff/Ins	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000
Ttl Exp	$ 17,312	$ 17,674	$ 18,082	$ 18,541	$ 19,060	$ 19,647	$ 25,456
Net Prov Rev	$ (4,387)	$ (1,464)	$ 1,503	$ 4,523	$ 7,601	$ 10,749	$ 8,831

4. Looking at the change from Step1 to Step 2 in month seven, the provider goes from a fixed compensation of $12,000 in month six to a variable income of $17,144.
5. The practice goes from a profit of $10,749 in month six to a profit of $8,831 in month seven.
6. The pro forma assumes that the provider continued to develop their practice consistent with the pro forma. The change to Step 2 protects the practice against the provider failing to meet the pro forma.
7. Assume, for example, that instead following the projections of the pro forma, the provider struggled in months three through seven.

ADD Prov	Mo 1	Mo 2	Mo 3	Mo 4	Mo 5	Mo 6	Mo 7
Visits	100	120	70	80	90	100	110
Ancillary	15	30	15	30	40	40	50
Product	$ 4,000	$ 4,600	$ 5,290	$ 6,084	$ 6,996	$ 8,045	$ 9,252
Ttl Rev	$ 12,925	$ 16,210	$ 11,875	$ 14,574	$ 17,016	$ 18,845	$ 21,582
Comp	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 12,000	$ 10,791
Sup Cost	$ 2,000	$ 2,300	$ 2,645	$ 3,042	$ 3,498	$ 4,023	$ 4,626
EMR/RCM	$ 312	$ 374	$ 218	$ 250	$ 281	$ 312	$ 343
Staff/Ins	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000
Ttl Exp	$ 17,312	$ 17,674	$ 17,863	$ 18,291	$ 18,779	$ 19,335	$ 18,760
Net Prov Rev	$ (4,387)	$ (1,464)	$ (5,988)	$ (3,718)	$ (1,763)	$ (489)	$ 2,822

8. In this case, the provider's compensation would be $10,791, (below their previous starting base compensation), while the practice would show a profit of $2,822. Moving from Step 1 to Step 2 reduces the provider's compensation to the practice's benefit. Otherwise, the provider would continue to make the same compensation, ($12,000), even as they failed to meet expectations.
9. Without Step 2, the provider would not necessarily share the practice's objective of generating additional revenue to meet the pro forma.

10. Once the provider reaches Step 2, (a percentage of Total Revenue), it is important to cap the provider's potential compensation, (because Total Revenue does not include expenses).
11. Step 3 places a cap on the provider's compensation by establishing a target compensation. In this example, when the provider reaches $40,000 in revenue, the target compensation of $20,000 is triggered. This allows the practice to recoup the support of the provider in Step 1.
12. It is important to attach qualifiers for Step 3 to protect the practice from the same disparity present in the fixed compensation of Step 1.
13. Suppose that the provider's product sales failed to meet projection for several months while on Step 3. Without qualifies, the provider would continue to make their target compensation, but the practice would see their profit decrease.

ADD Prov	Mo 13	Mo 14	Mo 15	Mo 16
Visits	220	180	100	100
Ancillary	180	160	140	140
Product	$ 20,000	$ 15,000	$ 12,000	$ 10,000
Ttl Rev	$ 50,660	$ 41,040	$ 30,300	$ 28,300
Comp	$ 20,000	$ 20,000	$ 20,000	$ 20,000
Sup Cost	$ 10,000	$ 7,500	$ 6,000	$ 5,000
EMR/RCM	$ 686	$ 562	$ 312	$ 312
Staff/Ins	$ 3,000	$ 3,000	$ 3,000	$ 3,000
Ttl Exp	$ 33,686	$ 31,062	$ 29,312	$ 28,312
Net Prov Rev	$ 16,974	$ 9,978	$ 988	$ (12)

14. In months 14 and 15, the practice would see profit decrease to $9,978 and $988. In month 16, the practice would see no profit and actually lose $12.
15. One qualifier that could be added to Step 3 is returning to Step 2 compensation if a minimum amount of revenue isn't achieved, (in this case, $40,000). This would reduce the provider's month 15 and 16 compensation to $15,150 and $14,150, respectively, instead of the mature base of $20,000.
16. With Step 3 compensation, the practice benefits from additional revenue, but the provider can't make more than their target compensation. The risk is that the provider will be content once they reach the revenue necessary to support their target compensation, (regardless of any qualifiers attached).
17. To align the provider's objectives with the practice's objective of maximizing revenue, Step 4 incentivizes the provider for exceeding the pro forma projections.
18. This should be possible because the pro forma should be a conservative. If, for example, the provider increased the number of visits per day from 11 to 13 and increased product sales from $20,000 to $25,000, the provider and practice would both make more money.

ADD Prov	Mo 25	Mo 26	Mo 27	Mo 28	Mo 29	Mo 30	Yr 3
Visits	260	260	260	260	260	260	3120
Ancillary	180	180	180	180	180	180	2160
Product	$ 20,000	$ 22,000	$ 23,000	$ 24,000	$ 25,000	$ 25,000	$ 289,000
Ttl Rev	$ 53,780	$ 55,780	$ 56,780	$ 57,780	$ 58,780	$ 58,780	$ 694,360
Comp	$ 18,000	$ 18,000	$ 18,000	$ 18,000	$ 18,000	$ 18,000	$ 216,000
Sup Cost	$ 10,000	$ 11,000	$ 11,500	$ 12,000	$ 12,500	$ 12,500	$ 144,500
EMR/RCM	$ 811	$ 811	$ 811	$ 811	$ 811	$ 811	$ 9,734
Staff/Ins	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 3,000	$ 36,000
Ttl Exp	$ 31,811	$ 32,811	$ 33,311	$ 33,811	$ 34,311	$ 34,311	$ 406,234
Net Prov Rev	$ 21,969	$ 22,969	$ 23,469	$ 23,969	$ 24,469	$ 24,469	$ 288,126
Bonus	$ 4,394	$ 4,594	$ 4,694	$ 4,794	$ 4,894	$ 4,894	$ 57,625
Ttl Comp	$ 22,394	$ 22,594	$ 22,694	$ 22,794	$ 22,894	$ 22,894	$ 273,625
Net	$ 17,575	$ 18,375	$ 18,775	$ 19,175	$ 19,575	$ 19,575	$ 230,500

19. In the above example, the provider's base compensation is reduced to $18,000, but they would make $22,894 per month, ($274,728 annually). The practice would make $19,575 a month, ($234,900 annually). Without Step 4, the provider might not be incentivized to generate additional income for the practice, (and themselves).

Summary

1. It is important to remember that provider compensation has to work for both the provider and the practice and that a successful relationship requires aligned objectives.
2. The most important factor is, of course, revenue. If sufficient revenue cannot be generated, it makes no sense for the practice to add the provider.
3. The practice should work through the Four Step Compensation Model to determine:
    a. What is the starting base compensation of Step 1?
    b. What is the duration of Step 1 or trigger to move to Step 2?
    c. What is the percentage of Total Revenue paid in Step 2?
    d. What is the cap on compensation paid in Step 2?
    e. What is the target compensation of Step 3?
    f. What is the duration of Step 3?
    g. What qualifiers are attached to Step 3 compensation?
    h. What is the base compensation of Step 4?
    i. What is the percentage of Net Practice Revenue paid as Bonus in Step 4?
4. The practice may, of course, adjust the steps to fit their situation. This example assumes Total Revenue of $50,000 a month. In a practice with $25,000 Total Revenue a month, Steps 1 and 2 may be used and not Steps 3 and 4. The provider would make a starting base compensation for a period of time and then move to a percentage of Total Revenue with qualifiers.
5. The practice should share the pro forma supporting the Four Step Compensation Model with interested providers as part of communicating the expectations of the position.

6. Consideration should be given to potential anomalies that may occur. If a provider is has claims pended for the first three months, their revenue one month might spike significantly. It would be unfair for this spike not to be adjusted in an equitable manner.