

Worth the Investment: Compensation Strategy for Physician Relations Staff

By Carolyn Merriman, President, Corporate Health Group, LLC (CHG)
April 2003

It's a plain fact. In today's medical marketplace, hospitals are expected to be increasingly businesslike in approach and strategy, and must build referral relationships with physicians to ensure retention and growth.

A relationship sales approach that matches physician needs with the hospital's benefits provides focus in an otherwise cluttered environment, replete with messages from drug reps, physician recruiters, patients, families and other competing hospitals.

Hospitals across the country are investing in physician relations representatives to help position the organization's clinical services to referring physicians. These staff members facilitate a referring physician's access to physicians, administration, and service line leaders within the hospital's network. In recent years, physician relations as a staff function has shifted from that of customer service/problem solving to one of proactive relationship management, responsible for generating trackable referring volumes into the organization.

Physician relations staff are currently viewed as an extension of the hospital's senior leadership team in its relationships with physicians. The function is responsible for strategic communication and enhanced referral volume for the organization. The optimum staff model in today's environment represents skills and knowledge in the area of strategy, sales, relationship management, business development and marketing.

What Price to Pay?

If you are starting a physician relations program, or if you currently have a program and are enhancing it to be more growth oriented, you need to consider how you are going to pay and reward these valuable managers for the work they do. How do you arrive at a fair and equitable salary? How do you support the talent you've hired?

Think in terms of base salary and variable pay plus expenses. Base salary, which usually comprises between 50 to 75 percent of the total compensation package, should represent core position accountabilities and reflect internal and external equity. Variable compensation, which makes up the remaining percentage and is in addition to the base pay, should be performance-based, tied to activities and results that are measurable. Variable pay should support the desired strategic initiatives of the organization in terms of revenues and volumes. Merit pay, annual cost of living increases, market value adjustments and bonus pay are typically above and beyond the core pay mix.

Basic Pay Basics

Here are the seven basic steps you need to take in order to structure a base salary for physician relations representatives.

- ❑ ***Nail down the job description.*** Develop job descriptions with clearly defined key accountabilities. Establish them in priority and value, with percentage of time and specific core duties and functional deliverables within job tasks. Job descriptions drive the development of a performance plan and compensation tied to business objectives. Additionally, a strong job description can better assist in recruitment and retention, as well as educate internal staff about the key accountabilities the position requires.
- ❑ ***Be crystal clear in defining measurable results.*** Look at the activities that it will take to generate business: face-to-face appointments with physicians, face-to-face appointments with office staff, attendance at CMEs, grand rounds, tours, letters announcing new services and such. Clearly define and quantify what you want your staff to accomplish. Hammer out definitions for each activity and result up front. For example, how do you define an appointment or increase in volumes so that they earn additional pay?
- ❑ ***Examine the internal market value within the organization.*** Are there any other comparable positions currently within the organization? What title and pay level are they at and what are their key job functions and accountabilities? Even if the comparable position is not an exact match, you can still use it as a comparison. Home health, pharmacy, durable medical equipment, rehabilitation, occupational health sales, or cardiac service line specialists share some of the job accountabilities.
- ❑ ***Compare the external market value within your community and/or region.*** What would it take in today's market to fill your position or recruit a person from another employer in your community? What is the market paying? Compare other intangible service-based industries such as hotels, banking, financial services, insurance, managed care and other healthcare and non-profits. Unfortunately, the pharmaceutical industry is not a good comparison – their plans are typically too rich for our budgets.
- ❑ ***Conduct salary surveys.*** Review compensation studies used by your own human resources department to provide more value to your analysis and gauge how it is perceived within your organization. Look to benefits and compensation-consulting firms that publish annual reports — such as Hewitt, Hay and Towers-Perrin, Watson-Wyatt — for help in setting the position's market range and value.
- ❑ ***Determine the value of sales by senior management.*** In many successful organizations referral development (sales) will be directly tied to the organization's overall strategic initiatives. Sales results must be “trackable” and measurable. In order to make a case for compensation, results must create a picture that contributes to success. Be specific about what you want the position to achieve and what you'll reward.
- ❑ ***Review the organizational chart.*** Where the position lands on the organizational chart and its reporting structure impacts compensation and value. What level must physician reps be at for maximum power and influence? Sales staff within a hospital organization

typically reports to the Vice President of Business Development, or Marketing. Understand that if you under-fund the position, the reps may not be valued internally when they return with market information from referring physicians.

Dangle a Carrot

Traditionally employees in a hospital setting — particularly in a not-for-profit environment — receive a base salary, with no incentive or bonus. But with increased competition in the medical marketplace, a growing number of healthcare organizations reward physician relations' reps above and beyond base salary with performance-based pay — tied to measurable results — when they accomplish strategic objectives. Good sales people need or desire incentives. Reward them for driving business into your organization.

Variable compensation can include:

- ❑ *Annual bonus* payments tied to revenue, volumes, satisfaction or stretch goals for key services.
- ❑ *Blitz programs* focused on key strategic initiatives or service line launches for a time-limited period.
- ❑ *Pay for performance standards* identifying key activities and results that would be measured and rewarded. Pay for performance programs are built to reflect an organization's strategic initiatives and desired outcomes as they relate to physician referrals, service line volumes and organizational objectives. Pay for performance can be paid out as annual merit pay in the range of 0-7 percent. Another option being utilized is to structure this plan as incentive pay, paying a range of 0-25 percent of quarterly base pay – with 12.5 percent being target payout. This form of incentive can be adapted for individual or team performance.
 - *Individual Pay for Performance* is tied to specifics in a detailed job description. In other words, you get what you pay for. If you want more physician appointments and tracked referral growth, focus the incentives and value on these activities and results.
 - *Team Pay for Performance* rewards group performance. These measurements are usually satisfaction, baseline referral volume retention and growth of referrals to key service lines.
 - ❑ *Referral fees* are used to incentivize and coordinate sales activities between separate sales staff. An example is physician reps who call on primary care physicians alongside of home health sales staff from the same hospital. While the organizational structure makes sense internally, it usually doesn't lend itself to seamless management of the physician relationship, nor encourage these sales staff to share information about the physician with each other. Focus and reward them with referral fees to motivate an exchange of qualified prospects and customer information.

Variable pay should also include picking up the tab for expenses. Consider providing car allowances and/or leased cars, mileage and reimbursement for direct expenses related to the position, budgeted for and approved in such categories as computer, software, cell phone, meals and travel. It is no longer appropriate to buy gifts, deliver goodies or food, or provide lunches like the pharmaceutical reps do. Check with your legal counsel on policy and remember – you don't want to be a vendor like the pharmaceuticals; you want to be a trusted partner with the physicians. Spend that money on the right reps, their performance pay and the infrastructure to support them in their efforts.

In the Ballpark

Through independent research as well as client projects, Corporate Health Group, LLC (CHG) has found that the national base salary average for physician relations representatives runs between \$48,000 and \$88,000. Performance pay averages 15 percent annually with stretch bonus payouts of up to \$10K per/year. Managerial salaries range from \$68,000 to \$98,000. Management also should have a performance pay program measuring strategic and tactical results and program management initiatives.

Arriving at the right pay program for your physician relations staff and management is a step-by-step process that must be developed within the context of your corporate culture. Has your organization used variable or incentive pay before? What is the physician relations' effort going to look and sound like in order to achieve your strategy? Does the corporate culture want instant results, or can it tolerate a longer sales cycle that focuses on relationship building with key referrers? Who will be accountable for service and delivery of the product? And how will this all be communicated up and down the chain of command, inside and outside of the organization? Corporate culture involves defining the physician relations "sales" strategy, designing the sales effort, building a sales infrastructure and tracking system, reporting and demonstrating value, and communicating goals and achievements throughout the organization.



Carolyn Merriman, President, Corporate Health Group,
www.corporatehealthgroup.com, 1-888-334-2500