PROVIDENCE HOSPITALS
A Ministry of the Sisters of Charity Health System

MOORE

PracticePartners
IN HEALTHCARE, INC.

Key Aspects to Relationships Between ASC's and Hospitals

October 26, 2012

Sean McNally, CEO or the Moore Clinic and President of Providence Hospital Northeast, Columbia, South Carolina

Larry Taylor, CEO and President of Practice Partners in Healthcare, Inc

Discussion Outline

- Initial relationship between key surgeons, surgeon groups and then hospitals.
- Understanding the evolution of today's hospital environment:
  - Physician lead hospitals and models.
  - "C" suite lead hospitals.
  - Changes in today's hospitals – current and future challenges.
  - Hospital category – Full service lines or Specialized.
  - Co-opetition and areas of cooperation and partnership:
  - Shared staff – contributes to the physician environment.
  - Shared instrumentation – contributes to the physician expectations.
  - Coordination of block time – contributes to the efficiency of physician time and location.
  - Rep-less environment and cost reduction
  - Surgical location – the right procedure the right environment.
- Ownership and Future Trends
  - Free standing ASC
  - Hospital/Physician/Management Company
  - HOPD
- Questions and Answers

Fast Facts on Hospital Competition

- Total number of Hospitals 5,795
- Total Staffed Beds 944,277
- Total Expenses $726,671,229,000
- Average profit margin 3.43%
- Average # of admissions 11,332
- Average # of inpatient surgical cases 3,198
- Average # of outpatient cases 5,767

Billians Health Data July 28, 2011

Why Ortho Population Stats

- In the U.S. 60% of people over the age of 65 have arthritis
- Osteoarthritis afflicts over 50% of the population > 65
- Studies predict total knee replacements are expected to increase 673% by 2030 and total hip replacements by 175%

CMS, CIA World Factbook , & U. S. Census Bureau

Why Ortho Population Trends

- January 1, 2011 the very first baby boomer turns 65
- Baby boomers – born between 1946 and 1964
- Every day 10,000 Baby Boomers reach the age of 65
- This will occur every day over the next 19 years
- 35% of Americans over the age of 65 almost entirely rely on social security payments alone

Baby Boomers Start to Turn 65: End of the American Dream.com 2011

Why Ortho Total Knee Replacement Up 161% Over 20 Years

- The number of primary total knee arthroplasty procedures has increased more than 161 percent over the last 20 years, according to a study published in the *Journal of the American Medical Association.*

  For this study, researchers analyzed usage and outcomes data of 3,271,851 patients who underwent primary TKA and 318,563 patients who underwent revision TKA between 1991 and 2010.
- Their analysis showed the number of primary TKA procedures increased from 93,230 in 1991 to 243,802 in 2010, an increase of 161.5 percent, and the number of revision TKA procedures increased from 9,650 in 1991 to 19,871 in 2010, an increase of 105.9 percent.
- This increase is driven principally by an increase in the number of Medicare enrollees and increase in per capita utilization. While the number of TKA procedures has gone up, researchers also found hospital readmissions and infection rates have gone up (although hospital length of stay for TKA patients has gone down).

Becker's ASC Review Written by Jaimie Oh | September 26, 2012

Why Ortho Procedure Trends

TABLE 5. Forecasted Percent Increases in Number of Procedures and Work by Specialty

Specialty	2010 No. Procedures Performed	2010 Work RVUs	2020 No. Procedures Performed	2020 Work RVUs
Cardiothoracic surgery	18%	19%	41%	42%
General surgery	13%	13%	28%	31%
Neurosurgery	14%	15%	27%	28%
Ophthalmology	15%	15%	47%	47%
Orthopedic surgery	13%	13%	25%	28%
Otolaryngology	6%	8%	14%	14%
Urology	14%	15%	33%	35%

Figures listed are proportional increases relative to 2001.

Source: NHDS and NSAS 1996.
*In the 1996 NHDS sample, the incidence rate for specific cardiothoracic procedures in pediatric patients was too small to allow an accurate incidence rate to be reported.
†Category includes vascular, breast, hernia, abdominal, gastrointestinal, and pediatric procedures.

The Moore Clinic Model: Focused Factory
(or focused physician clinic & focused hospital)

- The term *focused factory,* was introduced in the *Harvard Business Review* article authored by Wickham Skinner (1974).
- Responding to what the popular press called a "productivity crisis," Skinner introduced his solution to the problem. Skinner conducted a study of approximately fifty companies and found that the problem was not only productivity, but also the ability to compete.
- Manufacturing policies had not been designed, tuned, and focused (as a whole) on that one, key, strategic, manufacturing task essential to the company's success.
- Skinner urged manufacturers to learn to focus each plant on a limited, concise, manageable set of products, technologies, volumes, and markets. He also encouraged firms to learn to structure basic manufacturing policies and supporting services so that they focus on one, specific, manufacturing task instead of upon many inconsistent, conflicting, or implicit tasks.

The Moore Clinic Model: Focused Factory
(or focused physician clinic & focused hospital)

- Often, a conventional factory (or hospital) produces many products for many customers in many markets. This requires a multitude of simultaneous tasks from one group of resources. Managers in these plants may be striving for economies of scale and lower capital investment.
- Instead, they may end up with a hodgepodge of compromises, according to the focused-factory notion. Rather than designing the manufacturing policy around one, specific task, many possibly-contradictory objectives may coexist.
- The wage system may be established with an emphasis on high productivity, while production control may favor short lead times. Meanwhile, inventory control may want to minimize inventory levels, which means low order quantities.
- Production wants minimum setup time, which means large order quantities; all the while, plant engineers may want a plant layout that minimizes material handling and process design, which maximizes quality.

The Moore Clinic Model: Focused Factory
(or focused physician clinic & focused hospital)

- One way to compete effectively is to focus the entire manufacturing system (or hospital) on a limited task that is precisely defined by the company's strategy and its technological and economic limitations. A common objective can produce synergistic effects while minimizing power struggles between the departments. In his article, Skinner recommended that firms:
- Centralize the factory's focus on relative competitive ability.
- Avoid the common tendency to add staff and overhead in order to save on direct labor and capital investment.
- Let each manufacturing unit work on a limited task instead of the usual, complex mix of conflicting objectives, products, and technologies.

The Moore Clinic Model: Focused Factory
(or focused physician clinic & focused hospital)

- A factory focused (or hospital focused) on a narrow product mix for a particular market niche will outperform a conventional plant (or hospital) with a broad mission.
- Because its equipment, supporting systems, and procedures can concentrate on a limited task for one set of customers, its overhead and other costs are likely to be lower than those of a conventional factory (hospital). A focused hospital can become a competitive weapon because all its resources are focused on accomplishing the limited manufacturing task dictated by the company's overall strategy and marketing objectives. Simplicity, repetition, experience, and homogeneity of tasks breed competence.
- Remember, each key function area in manufacturing must have the same objective, one that is derived from corporate strategy. This task congruence can produce a manufacturing system that performs a limited number of tasks very well, thus creating a formidable competitive weapon.

The Moore Clinic Model: Focused Factory
(or focused physician clinic & focused hospital)

- If a firm wants to produce a number of entirely-different products with different technologies, markets, or volumes, it should do so in a number of separate plants (or hospitals).
- The implication here is the need for investment in new plants, new equipment, new tooling, training, and so forth is the most practical idea for most firms.
- A more practical approach is Skinner's concept of a "**plant within a plant**," or PWP (or a **hospital within a hospital**).
- Factories utilizing PWPs divide an existing facility, both physically and organizationally, into a number of PWPs.
- Each PWP has its own facilities within which to concentrate on its particular manufacturing task, use its own workforce approaches, production control, organizational structure, and so on.

The Moore Clinic Model: Focused Factory
(or focused physician clinic & focused hospital)

- The predicted results are as follows:
  - Quality and volume are not mixed.
  - Worker training and incentives have a clear focus.
  - Engineering of processes, equipment, and materials handling are specialized as needed.

Acute Care Evolution

Healthcare Issue	"Old Era" Hospital Leader	"New Era" Hospital Leader
Management	Hierarchical	Collaborative
Hospital-Physician relationship	Detached	Engaged
Community	Internally Focused	Externally focused
Transparency	Private	Open
The patient experience	Episodic	Universal
Quality	Punitive	Instructive
Costs	Containment Oriented	Growth oriented

Physician-Lead and Self-Managed Organization

- In this model, the surgeons are the Leaders and the C-Suite. The physician leaders bring their medical and scientific knowledge to the table while maintaining the patient relationship and conducting research. The physicians hire Administrative Partners (Servant Leaders) to work with their physician colleagues to ensure operations are managed smoothly.

Physician-Lead and Self-Managed Organization

- Mayo Clinic is an example of a Physician-Lead Organization. The physicians lead the decision making for the team or committee; yet the administrative partnership is central to Mayo Clinic's success in running the business aspects of the Organization and ensuring execution of strategic and operational plans.

Physician-Lead and Self-Managed Organization

- The advantage of the Physician-Lead Health System is that it allows the physicians to concentrate on patient and clinical care and allocate the day-to-day operational details to the Administrative Partners. The partnership also serves as a mutual sounding board, ensuring better-balanced decisions and outcomes. Furthermore, the Physician-Lead Organizational Model is used when physicians are share-holders of medical practices, rehab, surgery center, imaging center, physician-owned hospitals, etc.

Roles in the Partnership

Roles	Physician	Administration
Leader	Provided vision and strategic direction Lead medical/clinical staff	Facilitate Lead allied health staff
Partner	Collaborate and advice	Collaborate and advise Provide information/data Represent a variety of perspectives
Experts	Evidence-based practices Medical/scientific trends Medical/scientific innovations	Business and Finance Administration Metrics and methods
Advocate	Make patient-centered decisions Support clinical/research/education	Champion quality, safety and service Promote physician/scientist vision

- **Coopetition** or **Co-opetition** (sometimes spelled **"coopertition"** or **"co-opertition"**) is a neologism coined to describe cooperative competition. Coopetition is a portmanteau of cooperation and competition.

- Basic principles of co-opetitive structures have been described in game theory, a scientific field that received more attention with the book Theory of Games and Economic Behavior in 1944 and the works of John Forbes Nash on Non-cooperative games.

- Coopetition occurs when companies interact with partial congruence of interests. They cooperate with each other to reach a higher value creation if compared to the value created without interaction, and struggle to achieve competitive advantage.

- Often coopetition takes place when companies that are in the same market work together in the exploration of knowledge and research of new products, at the same time that they compete for market-share of their products and in the exploitation of the knowledge created.
- In this case, the interactions occur simultaneously and in different levels in the value chain. This is the case of the arrangement between PSA Peugeot Citroën and Toyota to share components for a new city car - simultaneously sold as the Peugeot 107, the Toyota Aygo, and the Citroën C1, where companies save money on shared costs while remaining fiercely competitive in other areas.
- Several advantages can be foreseen, as cost reductions, resources complementarity and technological transfer.
- Some difficulties also exist, as distribution of control, equity in risk, complementary needs and trust. Not only two companies can interact within a coopetitive environment, but several partnerships among competitors are possible.

Physician Employment

- **Physician Employment 1.0 (1990s)**
- Purchase price - often great losses
- Productivity management – many had no productivity incentives or little impact
- Aligning priorities cost cutting was negative
- Physician integration – status quo

- **Physician Employment 2.0 (Today)**
- Purchase price - new graduate eliminate purchase
- Productivity – greater portion of the overall compensation leading to shared risk
- Aligning Priorities – quality initiatives
- Integration – developed integration strategies and more selective on purchases

Physician Employment 2.0, HHNmag.com
September 29 2011

Working Relationships

- Shared staff – contributes to the physician environment.
- Shared instrumentation – contributes to the physician expectations.
- Coordination of block time – contributes to the efficiency of physician time and location.
- Surgical location – the right procedure the right environment.
- Shared education and training with both staffs

Working Relationships

- Standardization on equipment, implants, instrumentation for cost reduction
- Rep-less environment – (almost)
- Cultural changes and communication
- ASC/Hospital OR Director – high communications
- Management company coordination and facilitation
- Cross training and initial training in ASC then hospital

Working Relationships

- Anesthesia services to ASC model
- Reporting mirrors ASC data and decision points
- Case pick with accountability
- Ownership and Future Trends
  - Free standing ASC
  - Hospital/Physician/Management Company
  - HOPD

Summary

- The aging U.S. population will result in significant growth in the demand for surgical services at both hospitals and ASCs
- Surgeons will need to develop strategies to manage an increased work load without sacrificing quality of care by working in quality hospitals and ASCs
- Fastest growing segment of the population are individuals over the age of 65 candidates for hospitals and ASCs

Summary

- We are living longer life expectancy has increased from 66.7 for individuals born in 1946 to 76.1 years for those born in 1996
- Healthier populations allow more complex cases to be performed in ASCs
- As hospital evolution occurs, ASCs can create a synergy with hospitals to produce efficient results for surgeons
- Physicians no longer are standing by allowing older models effect their practices and their patients

Summary

- Shift to a greater population in Medicare percentage is reality
- Capitalize on the 50 to 64 year old specialties
- Aging work force can lead to greater Worker's Compensation cases in ASCs and hospitals
- Orthopaedics remain high volume case types into the future
- Successful ASCs in the future will capitalize on population and surgical trends and hospital relationships to enhance efficiencies

Questions and Answers

30

MOORE

PROVIDENCE HOSPITALS
A Ministry of the Sisters of Charity Health System

"Partners for the life of your Practice"

Practice Partners in Healthcare, Inc
www.practicepartners.org