

Replacing Revenue for a Hospital When Developing a JV Ambulatory Business

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Surgery Center Concept

- ⦿ Vision / Purpose
 - Relationship with surgeons and physicians?
 - Position regarding physician ownership of hospital business lines and assets?
 - Competitive market position?

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Physician relationships

- ⦿ Few opportunities to have a constructive relationship with physicians
- ⦿ More limitations in states with prohibitions against the corporate practice of medicine
- ⦿ Physician incomes declining – looking for ways to increase income and wealth

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Surgery Center Considerations

- ◉ Profitability of current Outpatient Surgery
- ◉ Other investment opportunities pulling your physicians off campus
- ◉ Need for additional OR capacity for inpatient volume
- ◉ Desire to partner with your surgeons
- ◉ Glue for key surgeons

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Development Partner

- ◉ Experience
 - ◉ Formation, operation, restructure
- ◉ Perspective
 - ◉ Hospital v competitor
- ◉ Experience as hospital partner
- ◉ Willingness to invest v prescribed position

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Specialty Selection

- ◉ Key physicians and medical groups
- ◉ Specialties with strong inpatient and outpatient segments
- ◉ High surgery center margins
- ◉ Specialties where hospital margins are weak
- ◉ Areas where hospital capacity is short (equipment/space)
- ◉ Services that can benefit from surgery center efficiency

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Surgeon Relationship

- Opportunity to invest in the rock
- Partner with hospital
- Product line synergies with hospital and surgery center
- Parallel objectives in terms of efficiency and cost containment

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Ownership / Control

- Unless required - can give operational control and majority interest to surgeons
- Flexible elements
 - Stock ownership
 - Voting Rights
 - Control / Key decisions
- Retain control of major decisions by super majority rights
 - Incurring debt
 - Sale and asset disposition
 - Authorized representatives
 - Operational and capital expenditure authorities

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Integrated Care Management

- Diagnostic Services (Hospital)
- Treatment (Surgery Center or Hospital)
- Concierge services
- Bundled Pricing
- Shared Marketing
- Potential areas
 - Spine
 - Sports Medicine

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Benefits of Surgery Center Venture

- Translation of cost containment to hospital
 - Physician owners more sensitive to implant and supply costs
 - Decisions on cost strategies transparent and transferrable
- Improved Throughput
 - Start time punctuality
 - Block time efficiency
- Anesthesia group synergies

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Replacement Strategies from Past Clients

- Analyzed demographics and other regional hospitals with related services to find "holes" in the market.
- DRG and reimbursement analysis of all payers in the market.
- Hospital formed Strategic plan. Selection of "centers of excellence". Focus on outpatient cases that fit strategic plan and can be replaced with higher reimbursement.
- Client #1 – replaced smaller, less profitable output cases with Cath lab. Hospital JV with ENT, Plastic, GI, and pain doctors for a JV ASC.
- Client #2 – Heart program needed more space – JV with doctors to take surgery across street (hospital owning 50%)
- Client #3 – Needed more room for large O.R. total hip program. Did JV ASC with doctors to make room.

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Needs of Hospital

- Bonding with surgeons, control of cases on campus, protect non-profit status, make money with physician investors and share debt, the use of O.R.s for more profitable surgeries (like total hips, neurosurgery, heart cases).
- See article attached "Replacement Strategies". Show a high attention level and persistence. Find the line between high/constant attention and being overly solicitous.
- Offensive strategy to gain more market share, broaden services for ACO move.
- Recruiting tool to move more doctors

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Needs of the Doctors

- Control of operating venue → better turnaround time, control of OR staff, instrumentation, more productive work atmosphere, scheduling block time w/o waiting for sicker hospital patients
- Equipment desired for surgery
- Quicker decision making - ASC structure is streamlined and run by surgeons
- More income from current surgeries - gain part of facility fee
- Better hire/fire control of personnel
- Better control of fees charged to patients
- Productivity - still have time to do more office hours or take off
- Successful ASC expands practice reputation

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Summary

- Replacement strategy is not just an economic strategy
- Bonding doctors to the hospital with inpatient and outpatient programs is a "twofer"
 - Doctors involvement helps them economically...makes hospital more attractive place to practice. Doctors want to participate and have a good listener CEO as their partner
 - Hospital's need to think of how the plan they have for replacement can augment the hospital and doctors' practices and market those strategies for both.
 - Hospital Admin. textbook - "Doctors have patients, hospitals treat their patients" The strategies for replacement in the hospital and the new JV with the ambulatory care business should be shared risk and rewards, in other words a fair "partnership" with all contributing to be successful.

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