What Works and What Doesn’t in Hospital Joint Ventures

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“I have found no greater satisfaction than achieving success through honest dealing and strict adherence to the view that, for you to gain, those you deal with should gain as well.”

Alan Greenspan

Overview
- Current Market State
- Motivations for Joint Venture Formation
- Contributions by Constituents
- What Works in Joint Ventures
- What Doesn’t
- Takeaways
Current Market State

- Outpatient volumes continue to increase
- Hospitals more active in ASC development / acquisition and physician employment
- Physicians increasingly engaging hospitals as potential partners
- Fewer unaligned physicians available for recruitment
- Payor consolidation continues
- Out of Network reimbursement strategy waning
- Increasing number of struggling ASC’s

Goals of JV Constituents - Hospital

- Alignment w/ high quality physicians
- Expansion w/ reduced capital
- Increased IP capacity
- Leverage operating expertise of ASC operator
- Protect OP surgical business
- Growth of IP business and ancillary services

Goals of JV Constituents – Physicians

- Increased patient satisfaction / efficiency
- Decision input
- Revenue improvement
- Capital partner
- Experienced management
- Cost savings
- Limit competition
- ACO participation
- Ancillary income
- Capital event
Goals of JV Constituents – ASC Operator

- Accelerated growth through alignment w/ high quality hospitals or health systems and physicians
- Enhanced relationships with payors
- Enhanced market position
- ACO participation

Successful Execution

Each constituent must recognize and acknowledge that each element contributes something unique and valuable to the organization, resulting in more successful, sustainable projects over time.

Contributions – Health System

- Trusted brand in local market
- Established market relationships
- Cost savings
- Capital access
- Physician relationships
Contributions - Physicians
- Patient relationships – Case Volume
- Flexibility
- Physician relationships – Recruitment
- Clinical leadership
- Governance participation
- Capital support

Contributions – ASC Operator
- Operational expertise
- Physician relations / partnership management
- Cost Savings
- Access to capital
- Proven processes / benchmarking
- Legislative support

Ideal Hospital Partners
- Progressive organizations focused on growth
- Organizations that recognize the need to partner and are willing to work to add value
- Organizations with strong market presence and reputation
- Multi-Hospital and/or Multi-Market systems
- Hospital systems with capacity and capital needs
Myths About Working with Hospitals

- Health Systems are required by law or the IRS to own or control a majority of the business
- Health Systems either want or have to manage the business
- Health Systems make it difficult / impossible to execute
- NFP Health Systems don’t care about losing money and don’t need to make a profit

Ideal Physician Partners

- High Value Physicians
  - High quality
  - Patient focused
  - Business oriented
  - “Works well with others”
- Physicians that understand their financial, clinical and service goals
- Physicians with strong market presence and reputation
- Physicians that are members of growing practices

Ideal Management Partners

- Local market presence, infrastructure and experience
- Proven management expertise (Physician & Hospital Referrals)
- Access to services and supply contracting
- Managed care contracting expertise
- Access to capital / relationships with lending institutions
- Benchmarking capabilities
- Partnership management experience
**What Works in Joint Ventures**

- **ASC Development**
  - Organize Steering Committee
  - Well-respected physician leaders
  - Hospital senior leadership
  - Management company
  - Cohesive physician group
  - Challenge assumptions
  - Case volume
  - Reimbursement
  - Expenses
  - Return on investment
  - Develop timeline and stick to it!
  - Effective organizational structure

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- **Effective organizational structure**
  - Define market and how organizations work together
  - Right of first refusal
  - Non-competes
  - Growth targets
  - Define physician rights
  - Board participation
  - Clinical governance
  - Effective non-competes
  - Additional capital needs
  - Dilution

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- **Operations Stage**
  - High-quality focus
  - Effective operations and clinical leadership
  - Comprehensive and evolving managed care strategy
  - Ongoing communication
  - Physician recruitment and retention strategy
  - Employee development

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What Works in Joint Ventures

- Physician Focus
  - Quality surgical product
  - Timely decisions
  - Eliminate bureaucracy
  - Operator / manager facilitates relationship between physicians and hospital
  - Physicians must understand and support requirements that accompany working with healthcare systems
  - Reinforce benefits provided by all partners

- Hospital or health system has designated point person for coordination
- Understand approval process and timelines for hospital
- Up front agreement on long-term strategic initiatives and growth expectations
- Operator to build relationship through hospital / health system organization
- Board structure that includes representation for all partners
- Physician control of clinical operations
- Set minimum thresholds before proceeding with new projects

What Doesn’t

- Relationship based on defensive motive with no intent for future growth
- Vendor approach to relationship
- Significant difficulty in organizing relationship is precursor of things to come
- Hospital involved in day-to-day management of ASC
- Failure to develop relationship throughout hospital or health system
- Health system belief that they own or control outpatient or short-stay business
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<th>What Doesn’t</th>
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<tr>
<td>□ Hospital / health system fails to include ASCs in market-wide relationships</td>
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<td>□ Insufficient ownership / investment among physician group</td>
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<td>□ Physicians not participating in ongoing governance</td>
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<td>□ Physician requirements necessary to maintain inpatient block times</td>
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<td>□ Hospital / Manager viewed as the &quot;bank&quot; if partnership struggles</td>
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<td>□ Success driven by quality surgical product and outcomes</td>
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<td>□ Understand goals and objectives of each partner</td>
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<td>□ Leverage strengths of each partner</td>
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<tr>
<td>□ Understand and continually communicate contributions by each partner</td>
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<tr>
<td>□ Maximize physician ownership and input</td>
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