# 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

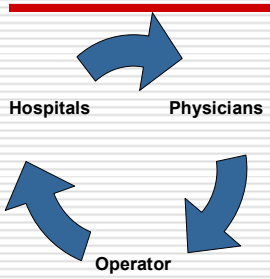
## Goals of JV Constituents – Physicians

- 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

## What Works in Joint Ventures

- 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

## What Works in Joint Ventures

- 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

## 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

## What Works in Joint Ventures

- 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

## What Doesn't

- Hospital / health system fails to include ASCs in market-wide relationships
- Insufficient ownership / investment among physician group
- Physicians not participating in ongoing governance
- Physician requirements necessary to maintain inpatient block times
- Hospital / Manager viewed as the "bank" if partnership struggles

## Takeaways

- Success driven by quality surgical product and outcomes
- Understand goals and objectives of each partner
- Leverage strengths of each partner
- Understand and continually communicate contributions by each partner
- Maximize physician ownership and input
- Eliminate bureaucracy