

We Don't Need a Hospital or Management Company – Thriving as an Independent ASC

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- “A ____ partnership means maximizing results while retaining majority ownership and operational and clinical control”
- “We have the expertise and capital to get you there”
- “____ has the ability and resources to optimize the quality of patient care.”
- “Time to do more of what you want to do, including surgery”
- “See more green. If your ASC provides superior patient care but poor financial returns, we can help.”

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Do You Want or Need a Corporate Partner?

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What Are the Options?

- Ownership Models
 - Independent Physicians
 - 100% ownership by member physicians
 - Member physicians, ASC staff, external consultants provide all management services
 - Physician - Corporate Partner
 - Member physicians and corporate partner – majority and minority interests vary
 - Corporate partner provide many services including management oversight, compliance auditing, contracting, purchasing, many others
 - Physician - Hospital
 - Physician –Hospital – Hospital may need majority ownership or constructive control of management functions
 - Usually existing Hospital management extends management services to ASC
 - Physician – Corporate Partner - Hospital

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Why Does It Matter?

- How do you measure success?
 - Financial returns to member physicians?
 - Financial risk to member physicians?
 - Operational efficiency? Saving physician's time?
 - Overall financial viability of your ASC?
 - Time and effort required of member physicians?
 - Independence in decision making?
 - Relationship with local hospitals?

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Partnering for Success

- If you have the cases and surgeons, you have a greater chance of overall financial viability if you have a partner!
- Member physicians have less financial risk if you have a partner!
- Your ASC will require less of your time and effort on management activities if you have a partner (hopefully)!
- It is *very expensive* to have a partner!

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What Does It Cost?

- “My Really Good ASC” (hypothetical):
 - 4 OR’s
 - 20 physician owners
 - Total cases (multispecialty): 6500/yr
 - Net Revenue: \$7,000,000
 - Net Income: \$2,000,000

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When Does Partnering Matter?

- Getting started
- Ongoing Operations

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Getting Started

- Capital Requirements
 - Initial expenses - \$300,000 - \$500,000/OR
 - Operating expenses - \$200,000 - \$500,000/OR
- Estimate \$3,500,000

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Getting Started Independent Physicians

- Total \$\$\$ required \$3,500,000
- Owner contribution 20%: \$700,000
- \$35,000 cash required/physician owner
- Loans for \$2,800,000
 - Personal Guarantees likely required

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Getting Started Corporate/Hospital Partner 50/50 split ownership

- \$3,500,000 required
 - 20% or \$700,000 cash
 - \$2,800,000 loans
 - Partner may provide improved access to capital
 - Personal guarantees likely required from physicians
- \$350,000 from partner
- \$350,000 from physicians
 - \$17,500 per physician

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Distributions Independent Physicians

- \$2,000,000 income
- 20 physician owners
- 5% ownership/physician
- Net distribution to each physician:
\$100,000/yr

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Distributions Corporate/Hospital Partner

- Physician owners 50% and "ASC Corp." 50%
- Corporate 'Management Fee' 4-6% Net Revenue
 - \$7,000,000 x 5% = \$350,000
- So, \$\$\$ available for distribution \$2,000,000 - \$350,000 = \$1,650,000
 - Corporate share of distribution = \$825,000
 - Physician share = \$825,000
- Net Distribution = \$41,250/physician owner

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How Expensive Is It?

	Total Initial Capital	Initial Capital per Physician	Loan Amount	Management Fee	Distribution per physician
Independent Physicians	\$700,000	\$35,000	\$2,800,000	\$0	\$100,000
Corporate or Hospital Partner	\$700,000	\$17,500	\$2,800,000	\$350,000	\$41,250

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Operational Issues Independent Physicians

- All day-to-day management, strategic planning, recruitment, financial management, compliance and many other issues are provided by owners.
- All of these services can be obtained from consultants on a fee-for-service basis
- You can do this!

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Operational Issues Independent Physicians

- Must have a key or managing physician
 - Quality, safety and efficiency of day-to-day operations
 - Hiring and oversight of management staff
 - Identifiable leader for employees
 - Identification of problems and identifying resource to resolve
 - Meeting needs of physician owners
- Must be a physician who wants the job and responsibility
- Will require compensation

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Operational Issues Corporate/Hospital Partner

- Corporate partner will provide management, financial and operational oversight
- Hospital partner will provide varying oversight
- Both partners will provide significant assistance with compliance, accreditation, state inspections, recruitment and other regulatory issues

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Operational Issues Corporate/Hospital Partner

- Will demand pro rata Board representation
- Consent required (even if minority partner) for major decisions
- Typically charge 4-6% net collections as 'Management Fee'
- Select administrator to supervise ongoing operations
- Physician owners often resent management intervention from partner

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Operational Advantages Hospital Partner

- May be paid at higher HOPD rates
- May have access to managed care contracts and integrated surgeons

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Challenges Independent Physicians

- Management expertise of physicians
- Delegation of authority to another physician
- Playing well with other surgeons
- Money
 - Access to capital
 - Amount of investment

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Challenges

Corporate/Hospital Partner

- Physicians may resent external management
- Physicians often form ASC to escape Hospital bureaucracy
- You can never divorce your partner
- The corporate representatives that you know may leave
- Corporation ownership may change and you are stuck with new owners

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Advantages

Corporate/Hospital Partner

- Access to capital during start-up
- Significant expertise, especially with financial management
 - Especially valuable in failing ASC's
- May assist in recruitment of new physicians
- Hospital will allow access to some contracts and integrated physicians
- Hospital may allow access to preferred contracts and reimbursements
- Corporate partner very skilled at negotiating contracts

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Summary

Is it Worth It?

- If you have the cases and surgeons, you have a greater chance of overall financial viability if you have a partner!
- Member physicians have less financial risk if you have a partner!
- Your ASC will require less of your time and effort on management activities if you have a partner (hopefully)!
- It is *extremely expensive* to have a partner!

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