

Replacement Revenues for Hospitals When Developing Freestanding Ambulatory Businesses

Presented by:
Robert J. Zasa, MSHHA, FACMPE
Principal, ASD Management

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Overview: Why a Surgery Center?

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

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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

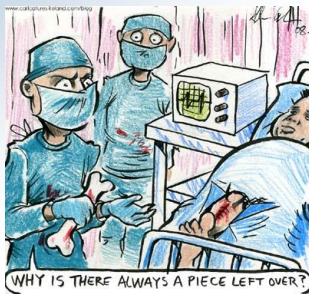
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Specialty Selection

- ◉ 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
- ◉ Analyzed demographics and other regional hospitals to find "holes" in the market

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Every piece of the plan is crucial...



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Identify the Financial Impact

- ◉ Develop a *Mini* Profit-Loss Statement
 - Net revenues (net of contractual allowance for payors)
 - Include all hospital allocations toward that service
 - Identify the actual Loss Profit when service leaves hospital

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Utilize the Organization's Strategic Plan

- ⦿ Look at new services from the strategic plan that relate to OR, or require space equivalent to OR
- ⦿ Choose top 3 strategies that may fit into OR
- ⦿ Use mini Profit-Loss to find most profitable one to consider for replacement strategy.

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Review the Best DRG's

- ⦿ CFO finds most profitable DRG's
- ⦿ Review top 2 DRG's for potential replacement strategies
- ⦿ Consider service based on profitability
- ⦿ Consider service by practical use of the space left vacant

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Compare the Replacement Plan Strategies

- ⦿ Criteria of selection:
 - profitability
 - contribution to organization's growth
 - suitability of space
 - best fit to strategic plan
- ⦿ CEO & CFO select based on hospital's strategic and financial objectives

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Develop an Architectural Space Program

- ◉ To validate cost of renovation
- ◉ Must be part of final financial projections
- ◉ Select architect with experience in hospital renovation/ambulatory care activities
- ◉ Imperative - cost-effective design

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Develop a Business Plan

Include:

- ◉ Description of the services
- ◉ Review of competition
- ◉ Review of reimbursement and regulatory factors
- ◉ Identification of key critical success factors to be implemented for program success
- ◉ Financial projections

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Select a Person Accountable for Implementation

- ◉ *One person*
- ◉ Coordinates the timing of other people and activities necessary for implementation.

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Common Replacement Strategies

- ◉ Expand existing Heart, Orthopedic and Eye programs
- ◉ MRI, P.E.T. and other large Diagnostic services
- ◉ Cath Labs

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Developing a Joint Venture Ambulatory Business



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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).
- ◉ 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 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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Benefits of A Surgery Center Joint 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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ASC Ownership / Control

- ◉ Unless required, 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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Replacement Strategies from Past Clients

- ◉ **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. JV ASC with doctors to make room.

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Summary of Partnership

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
- ◉ Hospitals need to think of how the replacement plan 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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