Fixing Physician Hospital Joint Ventures That Are Struggling

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Struggling Joint Ventures are Characterized by:

- Losing money or breaking even.
- MDs unhappy; not making money on investment and looking more like a hospital experience.
- No good data available. Anecdotal evidence suggests more than 50% are grossly underperforming.
- In most Hospital/Physician JVs, there is no "bump" in rates.
- Exceptions exist: USPI model outperforms other ASCs because hospital partner has greater leverage on payers resulting in increased reimbursements.

Physician / Hospital JV Problems We Have Encountered

The Two Hospital Problem

- Indiana: Two hospitals15 miles apart; MDs lack control and incentives which produces a vicious cycle of poor case volume and no distributions; no MD recruitment.
- Maryland: No management with no experience leads to poor results with 2 hospitals as owner of a single ASC.

Physician / Hospital JV
Problems We Have Encountered

De minimis MD Ownership

- Georgia: Hospital gradually acquired over 80% of shares; MDs lost interest in ASC as a potential profit center; hospital manages ASC with no experience; no recruitment of cases.
- California: Ownership shared among a multitude of MDs with no large distributions; no covenants not to compete enforced so MDs left for a better offer.
- Florida: Management company paid on the top line and lack incentive to produce a profit; staffing costs 40%; recruitment is a foreign concept.

Physician / Hospital JV
Problems We Have Encountered

MD Interests Never Respected

- Arkansas: Hospital building new hospital remote from present one with ASC imbedded; MDs didn't want to move and were never consulted; MDs minority owners; never did anything with payers.
- Alabama: Never reaching potential; hospital never contributing to the ASC.

Common Threads in These Failed Physician / Hospital Joint Ventures

- Hospital lack of experience in the ASC space and poor ASC management skills.
- Hospital not a contributor in any measurable way to success of the center.
- Hospital not valuing MDs as partners.
- Hospitals divided in their goals for the ASC.
- Business failure – no profits.
- MD ownership insignificant.
- Recruitment not part of the business plan.

Unique Features of Physician / Hospital Joint Ventures

- Greater than 90% are hospital controlled.
- Hospitals often own far more than 51%. How did that happen?
- Hospital manages the center.
- Hospital has different incentives:
  - Control cases and referrals for ancillary services.
  - Not motivated by potential ASC profits – probably less than 5% of hospital revenues.
  - Interested in empire building; physician partners are interested in patient care, efficiencies and profits.

Hospital Control

- Important for hospital to be a partner - but not necessarily majority owner - for obtaining CON.
- Important for the bump in reimbursement.
- Most payers want hospital control which is a problem if there is a corporate partner sharing the 51% equity.
- Solved by using 2 corporations: one comprised of the hospital and corporate partner owning 49%; the second comprised of the physicians and the 51% corporation/hospital JV.
- Other than reimbursement, there is no reason for hospitals to be in control.

Hospital Management of Freestanding ASC

- Not their strength.
- Importing hospital culture to a place where physicians are hoping to escape from it.
- Most successful Hospital/Physician ASC Joint Venture is when the physicians or corporate partner manage it.
- Hospital management team naturally bring to the ASC only things that they know. Example: plastic surgery in the hospital setting.

Steps to Follow When A Broken JV is Encountered

- Get physicians in control; reduce hospital to 26% or less.
- Consider a corporate partner as a objective third party.
- Have a corporate partner with a strong track record of profits manage the center.
- Maintain hospital participation if it can increase average reimbursement.
- Two corporate structure explained.

Implement the Usual Fixes

- Renegotiate payer contracts.
- Recruit new surgeons and their cases.
- Get staffing costs to 21% of collections.
- Get supplies to no more than 20% of collections.

THINK PROFITS

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