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Rethinking ASC Business Models and Embracing Joint Ventures

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According to Darwin, neither the strongest of the species survives, nor the most intelligent, but the one most adaptable to change. We are seeing profound change in the physician-owned surgery center and hospital markets. We should ask ourselves whether we are adapting to and seizing upon these changes that will benefit our businesses and the industry.

The attacks on physician ownership and the maturing of the ambulatory surgery center (ASC) industry require all of us to evaluate our business models — and to consider new ways of going to market. Our company, Regent Surgical Health, has developed a strong partnership model with physicians in start-up and turnaround surgery centers and hospitals. Our physician-partners take controlling interests in centers and focus on the clinical aspects. We join them by taking a small ownership position and provide management of the facilities.

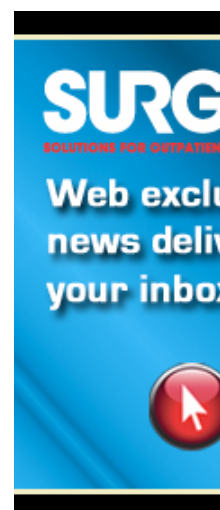
This model permits physicians to break away from the bureaucracy and corporate emphasis of the traditional community hospital model. In starting an ASC or hospital, physician-owners seek greater control of a patient's care and improved patient results. As we know from the public and private studies cited in this space in previous articles, physician-owned facilities have less bureaucracy (whether surgery centers or specialty hospitals), and experience lower complication rates among patients, lower infection rates, lower patient-to-nurse ratios and shorter stays that result in lower cost.

In a change that could be seen as an unexpected reversal, many forward-thinking community hospital executives are now seeking partnerships with physicians. These administrators have seen the success of physician-owned facilities and want to participate in it. Whether driven by necessity or opportunity, we are aggressively pursuing such joint ventures where they make sense.

Projects in Illinois illustrate this. In this certificate-of-need (CON) state, projects we had wanted to pursue using our traditional model of partnering only with physicians were not always workable. Illinois regulations encourage partnerships that also include hospitals as owners. In light of this, we pursued a joint venture with the Palos Community Hospital and the Palos Surgicenter in Palos Heights, Ill. The center was a mature ASC owned by the hospital, but its case and payor mixes caused it to be unprofitable. The hospital desired a partnership, but a key requirement was a managing partner that would own a portion of the center and share in both the risks and rewards of the venture.

According to Paul Skowron, Regent controller and then-administrator of the Palos center, the hospital did not have a track record of joint venturing with physicians, and the physicians were skeptical that an agreement could be completed. We were able, however, to negotiate a three-way joint venture on terms acceptable to the hospital and new physician investors. Now, two years later, physicians hold the majority of board seats, the center has greatly expanded its services and increased the depth of the physician referral base, and the joint venture has become very profitable.

This three-way partnership approach has worked in other centers, too. St. Mary's Hospital in Reno, Nev., owned the Surgery Center of Reno. The center had volume, but was not profitable. A group of physicians approached St. Mary's about partnering in the center, and the hospital administration embraced the idea. In this arrangement, the physician-partners kept controlling interest with the hospital taking about a 25 percent ownership position and Regent taking the rest. In two years, the center went from negative growth to 110 percent return on investment. This



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partnership has been so successful that we are developing another center with St. Mary's and a physician group near Reno.

In Ohio, unlike the two aforementioned cases, we sought partnerships out of necessity and found forward-thinking executives at Ohio Health and Kettering Health System. Because of payor consolidation in that state, Anthem and United cover more than 60 percent of commercial lives. Pressure on these payors from the state's dominant health system resulted in our facilities in Columbus and Dayton being unable to get contracted rates that covered costs. The centers were profitable, but with much untapped potential.

We partnered with Ohio Health, which purchased a 49 percent position in the Knightsbridge Surgery Center in Columbus. Kettering Health Systems acquired a 50 percent position in the Medical Center at Elizabeth Place in Dayton. In both facilities, the physician-partners took the majority position of the remaining ownership with Regent holding a small position.

These joint ventures are successful for several reasons:

- All of the parties involved are focused on the primary goal of improving results for patients and giving patients greater access to high quality care that is convenient for the patients.
- All of the parties are committed to profitable, patient-focused centers.
- The hospital executives are innovative and take the position of finding solutions that allow them to deliver the best possible care to the greatest number of patients and be profitable in doing so.
- Physicians maintain an element of control over the business portion of the centers, which gives them greater control over their professional lives and leads to happier and healthier personal lives.
- The hospital partners ask the physicians to retain clinical control. This allows the centers to provide the efficient, safe, and high quality clinical environment that the physicians want and need today.
- The partners in the centers ask Regent to manage the facilities. By turning to an outside management firm, the partners tap into that accumulated business experience, take advantage of nationwide corporate purchasing and negotiating ability and remove a potential conflict point between two key partners—the hospitals and the physicians.

At Regent, we are ready to seize upon the change we know is inevitable. We urge our partners, peers and competitors to join us. We hope to pursue more successful joint ventures with hospitals that will strengthen our business and our industry, and will help provide quality care to patients every day.

Nap Gary is president of the Eastern Region of Regent Surgical Health, a developer of surgery centers and physician-owned hospitals, and is a specialist in turnaround situations.

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