

Why Hospitals Participate in Physician JV's

By Bill Heath, Chief Development Officer, Practice Partners in Healthcare, Inc

Looking for creative ways to increase revenues, improve profits, retain physicians and maximize efficiencies? I hope so. Exploring the joint venture business model for your outpatient services is an extremely viable option. Knowing some of the pitfalls, best practices, how to attract the right partners and how best to leverage your partners skills, are all paramount to your success.

1. Why hospitals participate in JVs.

Some hospitals are reluctant to do joint ventures with physicians on ASCs. There can be a lot of resistance. Hospital executives are thinking, "Why should I build a separate entity and let doctors own it?" or "Why should I give away my business?" It is usually the more physician friendly or progressive hospitals that pursue JVs. The ultimate goal is usually to provide the efficient environment that surgeons want, while also allowing the physicians to have some level of input and control as an owner and investor.

2. Proceed carefully.

Hospitals and physicians can have complex relationships that sometimes don't translate well into business ventures. A surgery center partnership can further complicate that relationship. It is important for physicians and hospitals to carefully think about their existing relationships and the motivations of each party before proceeding.

3. Hospital equity positions vary.

Every hospital has different strategies and demands that must be met for their shareholders when they invest in new projects. For those that are able to agree to a greater equity stake for the physicians, the result can be a very physician-friendly view of the hospital and the partnership. However, for various reasons some hospitals require a majority or even 100% ownership. These can be great centers too, but some physician partners might view the center as "the hospital's" surgery center rather than "our" center. And that distinction can prove to be a deciding factor in physician satisfaction and in how smoothly and efficiently the center runs.

4. How beholden are the partners?

Non compete clauses are pretty common in these joint venture agreements for the physicians, and in some case for the hospitals as well. These clauses prevent the investors from investing in competing centers – usually within some specifically defined geographic area and for some specific period of time after exiting the partnership.

5. Buying a center or building a new one.

This decision varies with every situation. Will existing centers satisfy the needs of the partnership? Geography, facility condition, and facility size are all important factors.

6. Will the hospital negotiate payor contracts for the center?

A hospital negotiating payor contracts could improve leverage for the ASC and potentially result in better rates from payors. But there are many reasons why this may not be practical or even useful. Some hospitals cannot and/or will not negotiate on behalf of centers that they do not own at least a majority equity stake. And for some payors it doesn't matter who is negotiating – rates are based on set schedules regardless of the provider.

7. Managing the center.

Outpatient surgery is just one of many pieces that might make up a hospital. And while it can be an important part of the overall strategy for the hospital, it usually isn't the top priority. As a result, it is difficult for hospital administrators to dedicate significant time and resources to become experts in managing a surgery center. A logical answer is a 3 party JV with a management company for the surgery center. Our partners get the benefit of our experience – best practices learned from managing multiple surgery centers. And with the complex physician-hospital relationships noted above, a third-party equity manager whose focus is 100% on the ASC can provide a necessary buffer and balance to make the center successful.

Exploring different options in today's economy and in the shadows of a changing healthcare environment, can offer a great deal of benefits. For more information and to leverage the experience of those that have already been there, reach out to your peers. Ask questions and find out what has worked and what hasn't. The joint venture business model, when set up correctly with the right partners and strong management specializing in the core business, has brought a great deal of success to hospitals and systems across the U.S.

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