

If You Build It, Will They Come?

Growing and Sustaining Your Hospital-Owned Medical Practices



Live teleseminar with Marc Halley,
President and CEO of Halley Consulting Group
and author of
*The Primary Care—Market Share Connection: How Hospitals
Achieve Competitive Advantage*

KEY POINTS

- 1) Critical components of successful physician recruitment.
- 2) Practice acquisition criteria.
- 3) Fundamentals of physician on-boarding and integration.
- 4) Positioning your owned medical practice network for market leadership.

The purpose of an integrated network is to capture and retain market share in primary care practices and to attract that market share to our specialty physicians and to our capital-generating hospital.



1. Will you define what you refer to as *network development*?

Network development is the process of creating a multisite network of affiliated primary care physicians and integrating that network with affiliated specialists and hospitals.

Building an integrated network starts with a hospital's _____ **strategic** _____ and _____ **mission** _____ objectives, which are supported by **market share targets**.

Market share targets define:

- The required number of affiliated primary care physicians located throughout the targeted geography
- The required specialty physician services and capacity

After clarifying market share targets, we can identify appropriate implementation tactics based on _____ **current** _____ and _____ **projected** _____ market conditions.

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2. Can you elaborate on the tactics hospitals are using today to develop their integrated networks?

Six Strategies (from Least to Most Integrated and Sustainable):

1) Traditional medical staff management supplemented by a relationship management program

- Medical staff members remain independent
- Hospital CEO (“Market Manager”) and business development staff work to maintain relationships, especially with PCPs

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2) Medical directorships or co-management agreements

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3) Joint ventures

Sometimes simply involves giving hospital revenue to physicians

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4) Independent contractor models, often called professional services agreements (PSAs)

Often involve physicians selling/leasing practice assets to hospital and contracting to provide medical services to the patients

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5) Physician employment (most structurally integrated)

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6) Hybrid, side-by-side arrangement

Places a hospital-employed physician in a private practice that is seeking a partner but can't afford risk of new start up

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3. The challenge of recruiting new physicians has changed over the past decade. Can you explain the changes and the challenges of recruiting today's residents?

Today, most young physicians are looking for an
employment option .

4. Given the competition for the best new physicians, what sourcing methods do you recommend to your hospital clients?

An active physician recruitment program often
requires development of
relationships long before a
candidate is ready to make a decision.

Providing residents with education about practice selection and practice management can be a great relationship builder.

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5. **My recruiter tells me that a great time to pilfer new physicians is two years after they start their first job coming out of residency. Is that true? If so, why?**

Recent credible studies, along with our own experience, show that many new physicians change jobs within the first five years.

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6. **We have learned from experience that hiring a physician who is not a good fit for our organization is very expensive. Is our experience typical?**

It can take several years to realize return on investment (ROI) with new physicians. If we lose a primary care physician:

- We do not realize the full ROI
- Market share captured by the physician dissipates, even when other physicians are available to take the load

In addition to operating losses, the cost of losing a specialty physician can include loss of referral relationships with primary care physicians.



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7. Can you elaborate on the concept of opportunity development in selecting the right physician candidates?

A Practice Opportunity
Prospectus facilitates matching by providing a clearer view of the current or anticipated practice setting.

This important document includes details about:

- the partners
- the patient population
- the staff
- the need for additional capacity
- call coverage
- pro forma income statement
- the “deal” for the new physician
- how decisions are made
- the workload and pace
- the hospital
- the payers
- the community
- the on-boarding process
- other important items

A fundamental principle for successful physician recruitment and retention is developing and documenting a very clear picture of the practice opportunity.



8. In negotiating with physicians, how do you handle tough issues like the compensation model, a covenant not to compete, or performance expectations?

Discuss salary support that will be offered during the start-up period as well as the productivity compensation model they can expect after the start-up period.

Allow new physicians to transition to the productivity compensation model as soon as they can increase their compensation.

A properly functioning productivity compensation model for established physicians should:

- 1) Allow physician to have control over his/her income.
- 2) Place 30-50% of that income at risk.
- 3) Ensure timely bonus payout (monthly).
- 4) Promote financial viability by encouraging high productivity.

*When we hire new physicians,
we are hiring business partners!*

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Before acquiring the first practice, hospital and physician leaders should develop a Physician
Network Operating
Plan.

This plan should define how the network will function in the following ten areas of business administration:

- operational governance (meaning decision making, control)
- network growth and development (including recruitment, acquisition standards or criteria)
- management infrastructure
- practice and network promotion (including physicians' role in growing the practice)
- human resource issues (including physician compensation model)
- practice operations (including support staffing approach)
- revenue cycle management
- information technology (including plans for electronic medical record)
- facilities and equipment (including discussion of ancillaries available in practice)
- performance expectations and measurement

If you feel the need to put a “spin” on the conversation to close the deal -- don't!

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9. What constitutes effective practice acquisition criteria and what are some common mistakes to avoid?

Two strategic perspectives for establishing acquisition criteria:

- 1) Is the practice a strategic fit?
- 2) Have the physicians been successful on their own?

Target only those medical practices that are both
financially and operationally
viable.

Operational viability relates to the ability of the physicians and their manager to make principled decisions and to implement correct business principles.

Operational viability yields:

- 1) High clinical quality.
- 2) High service quality.
- 3) High physician productivity.
- 4) Financial viability, including physicians earning a market rate of compensation.



10. What is the role of a *practice evaluation* in the practice acquisition process?

Three questions physicians have when deciding whether to “sell” to a hospital:

- 1) What will the hospital pay for the practice?
- 2) How will the physicians be compensated for their work after the sale?
- 3) How much control will the physicians have over their work lives after the sale?

Steps for hospitals to take when deciding whether to “buy” a practice:

- 1) Perform strategic exercises, including development of a primary care retail strategy, a service-line strategy review, and other hospital strategic planning processes.
- 2) Determine operational viability by **conducting an evaluation** of all ten areas of business administration for the practice (listed on page 9).

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If physicians do not govern themselves and hold each other accountable in private practice, it is unlikely they will feel accountable once they are employed.



11. After a practice acquisition is consummated or a new physician signs on, what are the keys to a smooth and successful physician on-boarding?

- Use a transition action plan, ideally implemented over 180 days, but can be accomplished in 90 days.
- Assign a mentor to physicians who are new to the area.
- Provide relevant orientation (not the standard hospital employee orientation).

Orientation will include learning the hospital's mission and vision and how the physician network, physician's practice, and the physician fit into that mission.

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12. Are mandates to “refer domestic” effective in keeping patient referrals within the integrated system, or is there a better way?

Referral patterns change as new relationships are built and employed physicians recognize that their capital-generating engine is their affiliated hospital.

The real power of integration becomes apparent as:

- Referrals follow relationships
- Revenue follows referrals
- Capital follows revenue
- Capital is reinvested to strengthen the integrated system

Specialists should attract referrals from primary care physicians by becoming “*Specialists of Choice.*”

Hospitals should attract referrals from physicians by becoming the “*Hospital of Choice.*”

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Establishing “ choice ” initiatives in the hospital and affiliated specialty practices to actively meet the needs, wants, and priorities of referring physicians is critical to maintain relationships in increasingly competitive settings.

The Primary Care-Market Share Connection: How Hospitals Achieve Competitive Advantage



Available through Health Administration Press. Go to www.halleyconsulting.com and click on “Publications.”

Actively removing barriers to exceptional performance is key to maintaining referral relationships.

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13. How should we proceed to accomplish our goal of engaging our employed physicians as partners?

True physician/hospital integration requires attention to three key objectives:

- 1) The integrated network must capture patients or market share in primary care practices.
- 2) The specialists and hospital comprising the integrated network must retain that market share by providing top quality service.
- 3) The PCPs, specialists, and hospital comprising the integrated network must sustain that market share by coordinating their efforts around evidence-based best practices.

It is service to referral sources and their patients that motivates continued referrals.

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Purposeful integration:

- Engages physicians, management, and support staff to provide the best quality clinical care and service to the patients we share
- Actively links what happens in ambulatory settings with inpatient, outpatient, and ancillary settings
- Requires commitment to service and clinical quality standards that “WOW” those who benefit
- Requires rigorous measurement and sharing of performance against those standards
- Requires process improvement to ensure success
- Requires that everyone along the “Demand Chain” benefits from the success of these efforts

The Demand Chain starts at the primary
care practice.

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14. Physician/hospital integration is a balancing act that involves a number of important principles. Could you review these key considerations?

Regardless of interpretation or changes in the new healthcare reform legislation, two facts are clear:

- 1) Reimbursement will go down.
- 2) With healthcare expenditures topping 16% of gross domestic product (GDP), industry oversight and regulation will increase, driving up the costs of delivering care.

For further information from Marc Halley on this topic, refer to:
Halley, M. "Four Business Imperatives to Manage Dynamic Change in the New Healthcare Environment." MGMA Connection. July 2010. 51-54.

Healthcare providers must pay special attention to the following four business imperatives:

- 1) We must have access to market share.
- 2) We must demonstrate our service and clinical quality.
- 3) We must be able to generate and reinvest capital in people, technology, and facilities.
- 4) We must increase our productivity all along the Demand Chain to offer our high quality care and caring *more effectively* than our competitors.

Purposefully integrated physicians and hospitals are and will be in the best position to provide service and prosper, regardless of the ultimate outcome of healthcare reform.

