



# POSITIONING AMBULATORY SURGERY CENTERS FOR SUCCESS

As hospital ASC investments grow, physician joint ventures offer a strong path forward

CLARK HILL | Strasburger



# Positioning Ambulatory Surgery Centers for Success

As hospital ASC investments grow, physician joint ventures offer a strong path forward

More than a decade ago, hospitals and ambulatory surgery centers (ASCs) were fierce competitors. With the ASC industry recently maturing and inpatient care rapidly migrating to outpatient environments, hospital administrators' attitudes toward ASCs have changed dramatically.

"A growing number of health systems and hospitals now embrace ASCs as an essential component of their outpatient surgery strategy," says Joan Dentler, president and CEO of Avanza Healthcare Strategies, a consulting firm with extensive experience in ASC development and operations. "Additionally, many of those that don't have an ASC are considering adding one or more in the near future," she says.

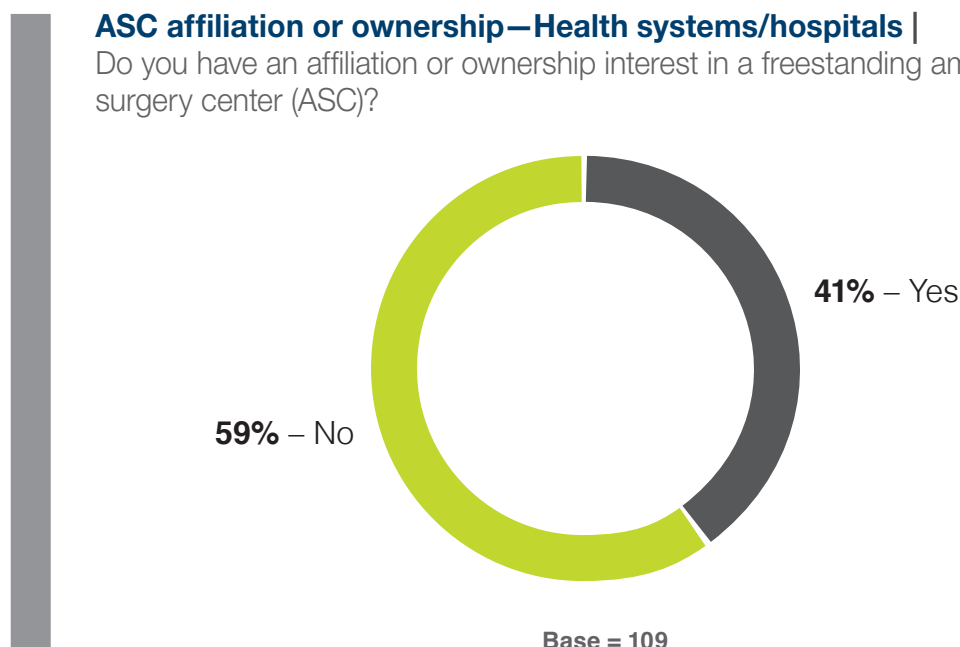
A HealthLeaders Media Buzz Survey, supported by Avanza and Clark Hill Strasburger, explores recent hospital-ASC trends, revealing key investment and partnership strategies. The survey,

**“A growing number of health systems and hospitals now embrace ASCs as an essential component of their outpatient surgery strategy.”**

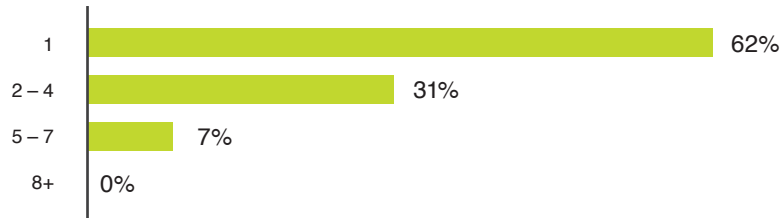
—Joan Dentler, president and CEO of Avanza Healthcare Strategies

## ASC affiliation or ownership—Health systems/hospitals |

Do you have an affiliation or ownership interest in a freestanding ambulatory surgery center (ASC)?



**Number of ASCs—Health systems/hospitals** | How many ASCs are you affiliated with or do you own?



**Base = 45**  
Respondents who have ASC affiliation or ownership

which polled 109 senior executives and clinical leaders at for-profit and nonprofit health systems and hospitals across the United States, finds that 41% of organizations own or are affiliated with a freestanding ASC. Ninety-three percent of those that own or affiliate with an ASC operate one to four surgery centers. Additionally, nearly half (48%) of respondents anticipate making

additional ASC investments/affiliations in the coming years.

As hospitals show increasing interest in ASCs, joint ventures and other types of partnerships with physicians are becoming more prevalent. Interestingly, some of these newer joint-venture ASCs engage outside consultants and vendors with ASC expertise to help develop and operate

**Additional ASC investments/affiliations—Health systems/hospitals** |

Do you anticipate making additional ASC investments/affiliations in the coming years?



**Base = 109**

the surgery centers; this is in lieu of engaging for-profit surgery center companies, which once dominated the space. These arrangements provide hospitals with more control and drive greater clinical and financial success.

**Business goals propel surge in hospital-owned ASCs**

According to the survey, the top reasons health systems and hospitals affiliate with or own an ASC are to increase outpatient surgical capacity (64%), enhance physician relationships (60%), respond to consumer-driven trends (58%), and increase revenue (53%).

Initially, hospitals shied away from surgery center involvement. But that changed as ASC numbers began to climb—from 1,000 in 1998 to more than 5,500 in 2018—and the proliferation could no longer be ignored. During much of this growth period, outside management companies typically operated surgery centers, and such companies

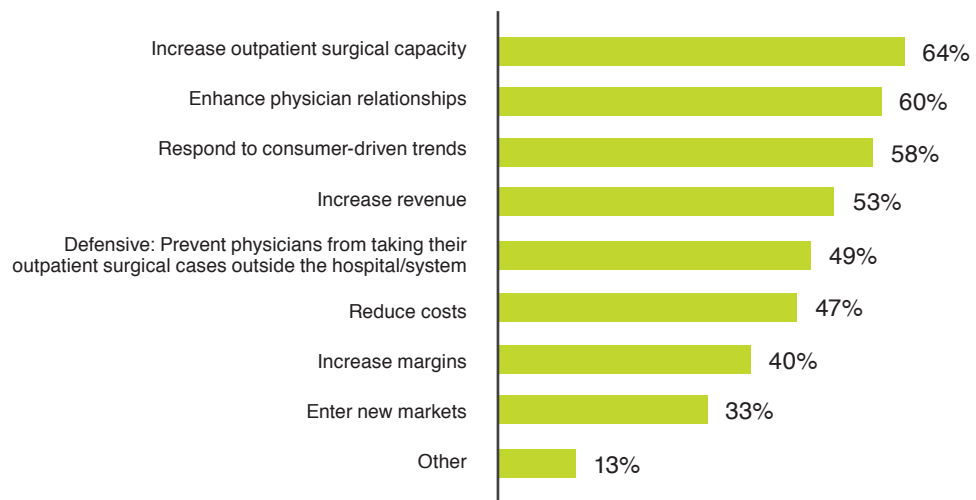
often took an equity cut from physicians in exchange for putting up some of the capital and developing and managing the centers. These managed ASCs competed directly with hospital outpatient surgery departments for outpatient surgery cases.

This management company model made sense for physicians in the early days of surgery centers when the healthcare industry was not as knowledgeable about how to operate an ASC. As the industry matured and hospitals witnessed the potential value in owning or affiliating with ASCs, the number of options for developing and operating surgery centers multiplied.

Specifically, ASCs offer an advantage for hospitals that want to provide physicians and patients with a shorter, simpler surgery experience. Having an ASC also enables hospitals to increase surgical capacity and grow outpatient surgery revenue without building a costly new department or

**Rationale for ASC affiliation or ownership—Health systems/hospitals |**

What is the rationale for having an affiliation with or ownership of an ASC?



Base = 45

Multi-response—Respondents who have ASC affiliation or ownership

facility. “There has been downward pressure on reimbursement for hospital outpatient surgery,” says Dentler. “Hospitals are not reimbursed as much, so finding a lower-cost environment, such as an ASC, will help them maintain profit margins.”

Bill Wilkison, vice president of ambulatory care and ancillary services at the UPMC Pinnacle health system and chief operating officer of Harrisburg, Pennsylvania-based UPMC Pinnacle Community Osteopathic hospital, shares similar views. The health system’s two ASCs, which he helped develop, have been successful for nearly 20 years thanks to careful, strategic oversight. “In any market where there is competition, you have to embrace this ASC strategy,” Wilkison says, noting that UPMC Pinnacle has added more ASCs to its portfolio through recent hospital acquisitions.

### Physician joint ventures: The optimal approach to ASCs

Choosing the right business model for the hospital’s organization and the market is critical when determining whether to enter the ASC space. To this point, Dentler and Wilkison agree that a hospital-physician joint venture is an ideal model. Indeed, the Buzz Survey findings show that the majority of health system and hospital leaders prefer physician joint ventures when developing an ASC: Two-thirds of respondents (67%) report their surgery centers are joint ventures.

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## UPMC Pinnacle: ASC Success Strategies

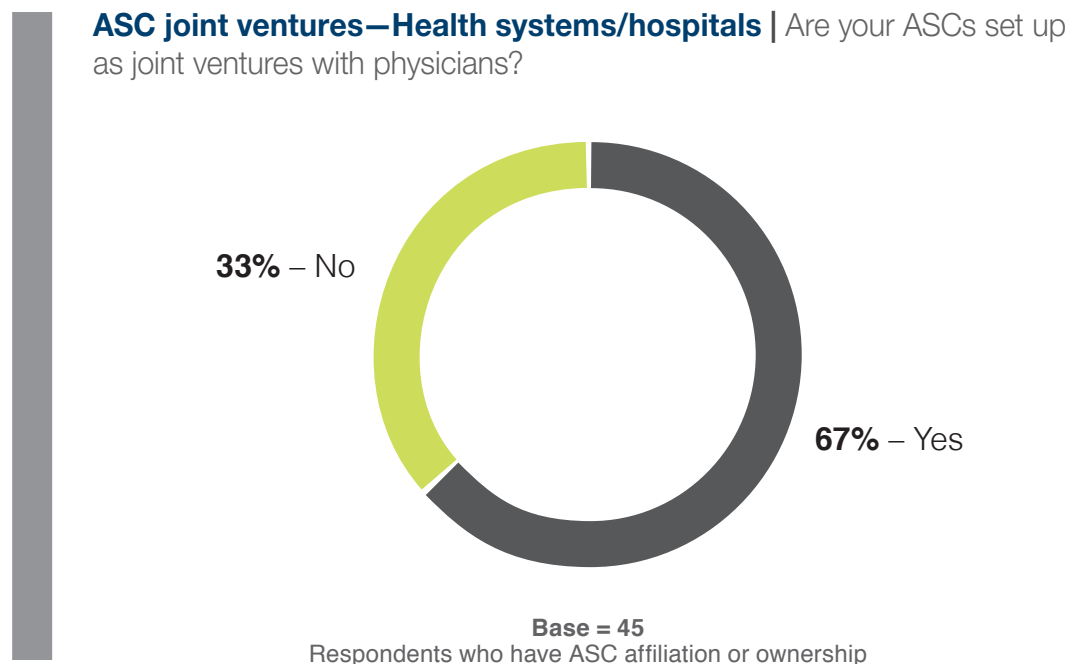
- Always partner with physicians
- Identify physician champions early to help close the deal
- Offer physician partners a meaningful equity stake
- Nurture relationships with physician board members
- Develop a strategic plan for physician retirements (and plan for revenue dips)
- Work with a consultant that has deep ASC experience

Significant opportunities arise for hospitals when they partner with physicians in an ASC, according to Dentler. Hospitals and health systems typically enter into an ASC-physician joint venture with the hope of strengthening physician engagement and capturing referral streams. “It boils down to two things: relationship building and the physicians’ ability to control costs,” says Dentler. “Physicians have direct impact on surgery center profitability.” Partnering with physicians in an ASC and giving them a significant stake in the business provides them with a meaningful opportunity to improve the quality of care, which doubles as an effective strategy for hospitals that want to grow the relationship with their providers and encourage them to continue practicing within the health system.

Wilkison concurs. “You need physician partners. Offering physicians a partnership opportunity is a major driver for them to move cases to the ASC.” A partnership also keeps physicians from starting their own ASC or partnering with competitors, including for-profit companies. Additionally, challenges can arise when hospitals develop surgery centers that do not involve physician partners. “A lot of these hospital-run ASCs simply have the hospital operating room (OR) leader overseeing it,” he

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says. “Oftentimes, hospital-based OR leaders are not as focused on room turnover times or adding cases to accommodate the surgeons and their practices. In a joint-venture ASC, these are the things that separate it from the hospital OR as far as surgeons are concerned.”

### UPMC Pinnacle’s ASC journey

UPMC Pinnacle formed its two ASCs in 2000. Both are physician joint ventures. Wilkison says the growth of outpatient services was a contributing factor for stepping into the ASC business. Also, at the time, the health system’s Harrisburg Hospital had an overflowing OR and a backlog of surgery patients. The hospital needed more capacity.

Leaders quickly learned they would not get very far in their first ASC foray without physician involvement, says Wilkison. “We thought the physicians would be interested in expanding their practices and taking advantage of a new market. But it became pretty obvious that they were not going to be totally engaged unless they had a stake in the ASC.”

UPMC Pinnacle’s second ASC physician joint venture started at the same time as the first, but for entirely different reasons, says Wilkison. In this deal, he was approached by a group of physicians that was getting ready to partner with an outside surgery center

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## Ambulatory Care Net Patient Revenue Grows

In the HealthLeaders Media 2016 Outpatient and Ambulatory Care Survey, which polled 230 healthcare leaders, the average net patient revenue ratio for ambulatory/outpatient care was 12 percentage points higher than inpatient acute care (56% versus 44%). Hospitals can expect this gap to widen even further in favor of outpatient care as the healthcare system focuses more on reducing inpatient costs in the coming years. Moreover, respondents overwhelmingly (82%) said that the industry shift to ambulatory/outpatient care represented an opportunity for their organization.

company to build an ASC. “We talked to the physicians and eventually convinced them to ditch the idea of going with the for-profit surgery center company. Together, we formed a 50-50 joint venture,” he says.

The two ASC partnerships were successful and did not negatively impact the hospital business, according to Wilkison. “We have never experienced a decline in surgical cases at our hospitals. One of the fears was that we might cannibalize ourselves in giving up some of the money to the physicians.”

The decision to partner with physicians turned out to be the right move. “It allowed us to take on even more cases at the hospitals from new physicians who also became investors in the surgery centers,” he says.

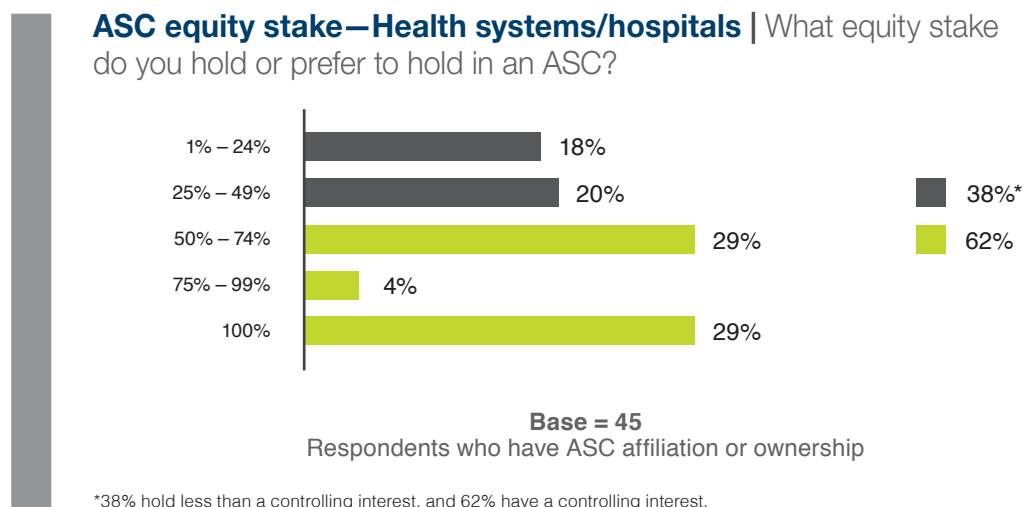
**Balancing hospital and physician interests**

The survey results also show that the majority of hospitals and health systems (62%) hold or prefer to hold a controlling interest in an ASC venture, while 38% hold or prefer to hold a minority interest. Dentler says hospitals usually prefer to own a majority stake in ASCs for many reasons, including leveraging their payer contracts for the ASC and not wanting to jeopardize their not-for-profit status.

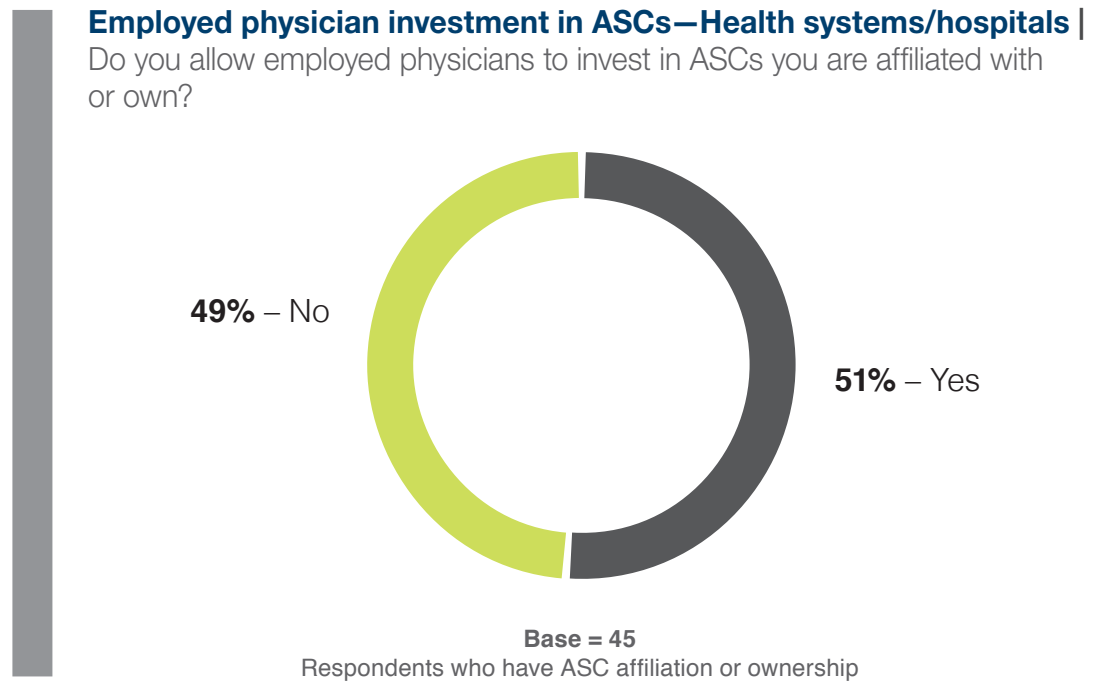
Wilkison, though, says it is important to provide physicians a meaningful seat at the table. Both of UPMC Pinnacle’s original

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ASCs allowed each physician investor to own up to 3% in the ASC. One ASC is a limited partnership in which UPMC Pinnacle owns 51% and has governing board control, while the other is a limited liability company with 50-50 ownership and shared governance. “We did the latter one that way because the physicians were not going to partner any other way,” he says. “We are of the frame of mind that we like to have governing board control because that allows us to roll up the ASC to our consolidated financial statements.”

Still, he acknowledges that sharing board governance with physicians has been a positive experience. “We found that the doctors on the board are making decisions for the right reasons. It also allows for a nice working relationship, which has value because you can call upon your physician partners when you need something,” says Wilkison.

When asked if they allow physician employees to invest in ASCs owned by the physician’s hospital or health system, survey respondents were split down the middle, with 49% saying no and 51% saying yes. “That has become more of a common issue than it used to be,” says Wilkison, noting that when PinnacleHealth started its two surgery centers (before joining UPMC), physicians were independent.

As the larger health system acquired general surgery and pediatric surgery practices that were investors in the surgery centers, the system grandfathered employed physicians and allowed them to continue to invest. Some health systems that own an ASC through a physician joint venture take a different tack, notes Wilkison, forcing their physician partners to divest once they become an employee of that organization. Today, UPMC Pinnacle makes such determinations on a case-by-case basis.

### Getting off to the right start

As the marketplace evolves, physicians and hospitals also find they have less need to work with outside management companies. In fact, more than half of the survey respondents (56%) do not have a third party involved in their ASC.

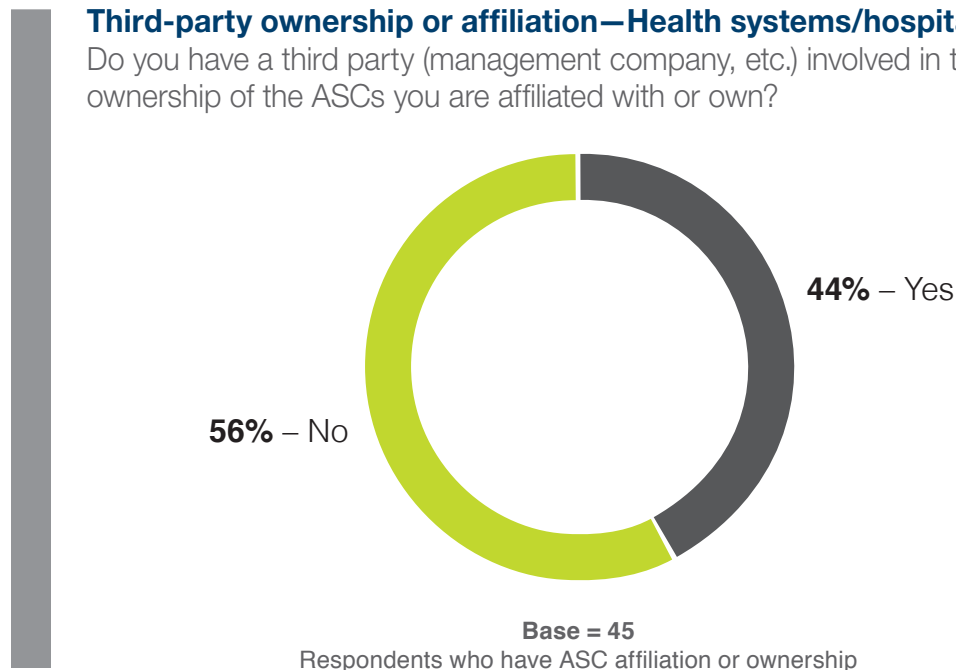
“There is a pool of talent across the country that can now support this market of more than 5,000 surgery centers that wasn’t there 20 to 30 years ago,” says Dentler. “Today, you can hire experienced staff who have worked either for ASC management companies overseeing ASC development and operations or have worked directly for ASCs themselves. Also, it is now an option to hire a consultant or firm to perform services that may be needed to develop and operate an ASC instead of partnering with a third-party company that may force you to give up equity or enter into an expensive long-term agreement.” She recommends engaging a consultant with deep expertise in hospital-physician partnerships. ASC partners should look for a firm willing to customize services to meet unique needs and not duplicate a hospital’s internal resources.

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#### Third-party ownership or affiliation—Health systems/hospitals |

Do you have a third party (management company, etc.) involved in the ownership of the ASCs you are affiliated with or own?



Dentler also reports that large health systems with multiple ASCs are starting to develop internal “ASC departments” to provide support services to their ASCs. This option enables more standardization among the system’s ASCs while allowing the physician partners to maintain local control over areas important to them. To ensure success, hospitals should work with professionals that have deep experience setting up the service offerings of the internal department.

Working with a third-party management firm is not essential to an ASC’s success, agrees Wilkison. “We didn’t see any reason to let a third party take money out of the partnership.” Still, it is important to bring on a consultant for guidance in areas where organizational leaders lack expertise, he says. “I wouldn’t have been able to develop operating and partnership agreements without the help of someone who has done these before and seen them developed in multiple ways.”

Wilkison advises ASC startups to engage only experienced consultants that can lead the project through all the development steps, including Medicare certification. Wilkison continues to work with consultants on key projects, including UPMC Pinnacle’s newly acquired ASCs. “We have so much going on that we need a partner with outside focus to keep pushing things along,” he says. “Ultimately, they are teaching the folks who will run the ASC, so we should end up with a higher-quality startup.”

Don’t overlook the importance of retaining experienced legal representation, Dentler advises. “Find a firm with experience developing joint ventures and one that is aware of all the various regulations the participating parties must follow.”

### **A new era for ASCs**

As patient care continues to move away from inpatient settings, ASCs are transforming the outpatient surgery industry, creating a tremendous opportunity for healthcare organizations that want to grow outpatient surgery capacity and revenue, build stronger physician relationships, and meet rising consumer demand. The Buzz Survey data offers valuable insights to hospitals and physicians as they develop and manage ASCs. One of the survey’s key findings is the sharp rise in hospitals and health systems seeking to invest in additional outpatient

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surgery centers. “This trend underscores the need for careful planning and expertise in an increasingly competitive space,” says Dentler.

Looking ahead, it is critical healthcare leaders understand the ASC-outpatient environment, including current market trends and effective outpatient surgical care strategies, she says. Choosing an ASC ownership model that works for your organization and community is an important first step. The survey results show that two-thirds of hospital-owned ASCs are physician joint ventures.

Partnering with physicians and offering them a meaningful financial stake in an ASC is one of the best ways to drive future success. As hospitals and physicians navigate these complex arrangements, they must also determine the areas in which they lack the expertise needed to create a successful ASC. Today, thanks to the market’s strong growth, there are many attorneys, consultants, and vendors with direct ASC experience that can provide strategic guidance while allowing organizations to retain full autonomy. ■

### AVANZA HEALTHCARE STRATEGIES

For more than 20 years, Avanza Healthcare Strategies has been a strategic leader in the migration of surgery from hospitals to ambulatory surgery centers. Avanza has helped ASCs, hospitals and health systems in more than 40 states plan for and open surgery centers, develop joint ventures and assess operations of existing ASCs and hospital outpatient surgical departments. Learn more about Avanza at [avanzastrategies.com](http://avanzastrategies.com).

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