

Physician – Hospital Integration

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Overriding Principle

Efficiency Wins!

Greatest Value Wins!



Overriding Principle

- Healthcare delivery is changing-whether you like or not
- Doctors won't thrive alone
- Hospitals cannot exist without MDs



Old vs New

- Old model for MDs- based on volume of visits/procedures/ancillary procedures, etc
- Old model for hospitals-based on procedures and discharges
- New Model-based on the coordination of care-MDs have the opportunity to lead this change



In Healthcare:

$$\text{Value} = \frac{\text{Outcome}}{\text{Cost}}$$



The greatest opportunity for both is a frictionless combination that harnesses the deep knowledge of both entities.



Hospital's Strengths

- Resources - \$\$
- Depth of Human Resources
- Depth of Facilities Management
- Market Presence/Name Recognition
- Contracting Clout



Physician Strengths

- Physician – Patient Relationship
- Apex Care Provider
- Deep Specialty Expertise
- Cost Sensitive – It's my money!
- Hospital purchasing vs MD driven



Physician Strengths

- OR Equipment and Implant price negotiations-
- -Suction devices- > 75% savings
- Sterilization equipment-Initial savings \$200K, 3 years free service, 75% savings on disposables
- -Power equipment- > \$500K savings
- Trauma implants- > 20% savings; > \$250K annually



Physician Deep Knowledge

- Is a new technology worth the price?
- Outpatient vs Inpatient setting?
- Complication prevention
 - Ex: DVT/PE prophylaxis- Orthopods are not thoracic surgeons

Does cost reduction increase risk?



Market Driven Changes

- Continued consolidation among payers
- In order to improve the balance of negotiating power hospitals and MDs should align
- McCarran-Ferguson Act antitrust exemption for health insurance companies repealed



The Key to Integration:

TRUST



Create a true win/win

Both Sides must deliver on promises made in a timely fashion.

-Both sides benefit-



Our Experience

Newport Orthopedic Institute

Founders & majority MD owners of an ASC for
12 years



Strategic Decision at Founding

Offer the hospital 50% equity

Why?



Strategic Decision at Founding

- Why “give up” 50%?
- Resources
- Politics
- Initial movement toward integration-create a sense of partnership between MDs and hospital



2006:

- Practice locations were consolidated into a single location
- Increased size of ASC to 4 rooms (from 2)
- Increased MD equity stake to 80/20

2007:

- Discussions began regarding a Joint Venture Orthopedic Hospital

2009:

- Hoag acquires long-term lease/purchase for 170 bed hospital
 - 70-bed Orthopedic Hospital within a hospital

September 2010:

- Hoag Orthopedic Institute – Joint Venture 51/49%
 - 2 ASCs-9 operating rooms
 - MRI scanner
 - 70-bed Orthopedic Hospital within a hospital



Governance

Approximately 40 initial MD owners

49% equity

50/50 Physician & Hospital Governance

Why?

Integrated enterprise creates greater value for patients and providers



Accountable Care Organizations

- More to come from Jack Bert
- Coordination of the continuum of care
- Sharing of revenue between those who provide care
- New World!!



Must Read:

- The Innovator's Prescription
 - Clayton M Christensen

