

A Great Start: Building a Strong Outpatient Surgery Center from the Ground Up

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A New Town, New Opportunities

This is a very exciting time in my life. In the course of the last several years, I've settled with my family in Lincoln, Nebraska, joined a highly successful neurosurgical and spine practice, and headed up the development of an ambulatory surgery center (ASC) that will open its doors in a few months.

During my residency, I became aware of the trend toward outpatient surgeries, including the development of less invasive techniques which allowed more spine surgeries to be handed in outpatient environments. Based on my own experience, I firmly believe ASCs offer patients a convenient experience and a high standard of care. And I've heard enough stories from my colleagues to know that surgical center ownership can offer a financial boost to physicians and more control in both their personal and professional lives.

My Motivations – Family & Finances

So what prompted me to develop my own outpatient surgery center with a small group of colleagues? Like many surgeons, I wanted to work more productively and efficiently. One challenge I faced was that my home and office were on one side of town, and all the ASCs were on the other. This may not sound like a big deal, but I chose to move to Lincoln and join this practice largely for quality-of-life reasons. My goal is to have dinner with my wife and four young children as many evenings as I can; too often the cross-town commute was preventing me from making it home in time.

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I had financial reasons, too. As a young physician, I am very concerned about future funding cuts by both government and private payers. Many older and established surgeons, some of whom already have their own surgery centers, are less worried, but I have decades to go in my career and current reimbursement trends don't give me much reason to be optimistic.

I need to protect my income because that's the basis of my family's future and because I'm still paying off med school loans. I don't consider myself a "greedy doctor" and I feel extraordinarily fortunate in terms of my career and livelihood, but being reimbursed respectfully for what I put forth was part of the appeal of developing an ambulatory surgical center business.

Assessing Options, Facing Challenges

I first considered investing in an existing facility – four of the six doctors in my practice already had stakes in ASCs – but there were not any suitable options near my home and office. As I looked at the options I came to understand why, for many younger doctors, the financial equation for investing in an existing center isn't always attractive. The shares can be very costly.

In talking to other local surgeons, including those in my group, about developing a new outpatient surgery center, I learned that several similar efforts never got off the ground. Our group had explored their options three different times with no luck. It appeared that the doctors were simply too busy focusing on patients – just as they should – to do all the necessary planning and legwork. At one point, they engaged a local hospital about setting up a joint venture, but that plan also faltered, again due to lack of leadership. Nobody seemed to have the right road map.

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I too struggled to make much headway, with my busy practice and full family life. A few interested surgeons declined to participate because we didn't have "bricks and mortars" in place yet. Others were willing to be "silent partners," but I knew that success requires commitment. Therefore, my goal was to have only active and fully engaged surgeon-owners. I wanted my partners to be doctors who were in Lincoln for the long term, could deliver the necessary number of cases and were willing to roll up their sleeves and work hard to make our surgery center profitable.

But by far the biggest issue was case volume: after gathering estimates with colleagues, I just couldn't see how we would generate enough outpatient-appropriate

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neurological and spine cases to support the business. I would learn later that this basic structural question is a common obstacle for doctors seeking to develop their own ASCs.

I spoke with Dick Roski, M.D., a former CNS president and board member of the AANS, and someone for whom I have a great deal of respect. I told him about my plans and the challenges I encountered. He told me about Blue Chip Surgical Center Partners, a company in which he'd been involved for several years. He validated my ideas about the full involvement of owners, but encouraged me to include other types of cases in our projections, not just spine. He also cautioned me to avoid common mistakes, like overbuilding. Further, he offered to come to Lincoln and share his experiences and some models that might work for us. The process really opened our eyes.

Partnership, Commitment & Trust

The pro forma and business plan we put together with Dick's help was robust and detailed. Case costing, benchmarking data, contracting figures, capital requirements, ROI timelines, each doctor's obligations – all of this information was clear and transparent for everyone to see. That's how we ended up with a

somewhat unconventional ownership group, which includes another neurosurgeon, two eye surgeons, an orthopedic-trauma surgeon who does many outpatient cases, a physiatrist/rehab specialist, and a plastic surgeon. Our model is tailored to the needs of this particular market, and will give us the case volume and mix we need to succeed.

Our confidence grew meeting by meeting as Blue Chip, which owns 20% of the surgery center business, helped us sort out legal and real estate issues, facility design and architecture, equipment and supply purchasing, staffing and other important matters. What a relief it was to have a partner who had the resources and knowledge to manage all the details involved in launching a surgical center.

A colleague once told me that, "Doctors should do medicine and businesspeople should do business." My fellow surgeons and I certainly aren't clueless when it comes to business, but we recognize that financial and operational management aren't our greatest strengths. That's why bringing in an experienced partner like Blue Chip made sense. My colleagues and I can stay focused on the patient, which is where we want to be focused. In helping us operate profitably and provide high-quality care, Blue Chip provides a valuable service.

Consultant vs. Partner

Some colleagues have asked us why we didn't just hire a consultant, instead of an equity partner. Commitment and trust are the two main reasons. Everyone on the Blue Chip team is as eager to succeed as we are. They understand their responsibilities for building and maintaining a clinically outstanding and highly profitable surgery center, just as all of the surgeon-owners understand their obligations.

It also made a big difference that a respected surgeon was one of Blue Chip's principals. Obviously, they understood both the clinical and business requirements of managing ASCs. Beyond my relationship with Dr. Roski, the fact that Blue Chip had developed a number of successful and profitable ASCs around the country inspired a lot of confidence.

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Lastly, we compared Blue Chip's track record with that of another local facility that was built with a consultant. At that center, the doctors own all the equity. They have a very nice facility with two ORs. However, one of those has never been used. Maybe case projections developed by equity owners are more likely to be accurate and realistic. But the bottom line for our group is that we didn't have any single individual who could take the reins and lead the business planning effort. We needed a partner to do that.

Strengthening Hospital Bonds

Another way our center is unique is that we have a hospital as our landlord. Now, a lot of ASC projects are hatched because doctors grow frustrated with hospitals. That wasn't the case here. We don't want to battle the hospital. I greatly respect their role in providing multi-dimensional health care to the community (including unprofitable cases). And since I will continue to do the majority of my cases there, I want to have a positive working relationship with the hospital.

I believe you can never go wrong by communicating openly. Transparency and full disclosure are the best policies. So, as our plans took shape, I met with the hospital CEO to explain our motivations and our goal not to cause a single hospital employee to be displaced on account of our opening the facility. I stressed the shared vision, not the idea that our ASC could be viewed as a competitive entity. The CEO offered to buy a stake in the business or an attractive rent if we would locate our facility on campus.

In the end, we chose the latter option. The hospital benefits from the fact that patients are still coming to the campus for care. Similarly, the trauma doctors who are invested in our facility remain on campus and will enjoy the benefits of ancillary income, something they may not have realized in their 12-15 years of tenure at the hospital. Further, our center allows the hospital to add ASC ownership as part of an attractive package to recruit new doctors to town. Thus, this is a win-win – a win-win-win if you count patients.

The Bottom Line: A Positive Outlook

All of the careful planning will pay off when we open in early 2009. I'm confident, but also anxious, of course. I don't necessarily believe that old saying, "Well begun is half-done;" my partners and I have a lot of work to do – bringing in the cases we committed to, hiring the right staff, and creating a strong, patient-centric culture. But I don't underestimate the value of a strong beginning. We are launching our center from a very solid foundation, both clinically and financially. That strong base, combined with the fact that we're working with people I trust and respect, has me feeling very optimistic about our business. Not only that, I look forward to being home for dinner more often.

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