THREE CRITICAL COMPONENTS FOR JOINT VENTURE AMBULATORY SURGERY CENTER SUCCESS

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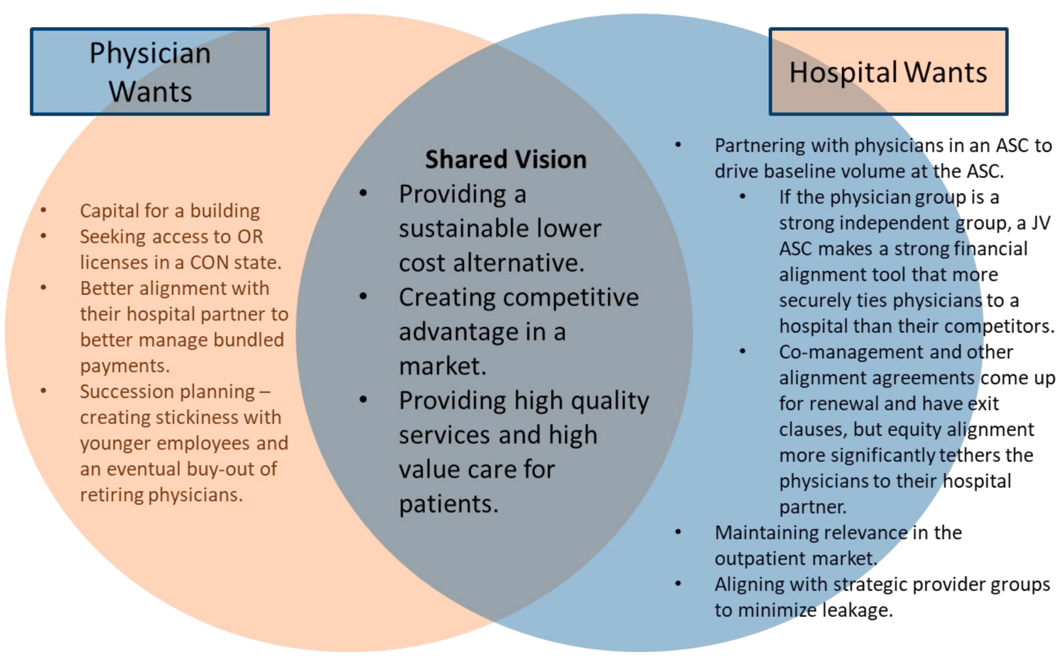
Joint venture ambulatory surgery centers (JV ASCs) have existed for decades. However, in recent years the market and critical success factors surrounding them have shifted dramatically. JV ASCs are driven increasingly by physician-hospital alignment rather than by the immediate margin lift from hospital outpatient department (HOPD) rates. Our clients contact us when they want to develop an ambulatory strategy that generates a strong alignment with both independent and employed physicians in their market; this may be prompted by a competitive opportunity or threat, a push from payers (including large employers) for a lower-cost alternative, or the effort to advance a population health strategy. While each client comes from a different starting point and has their own dynamics with which to wrestle, we have identified three components that, if not handled appropriately, can make or break a joint venture.

1. Identifying Complementary Objectives, Needs and Constraints

Each party comes to the table with its list of goals and priorities, and throughout the process, each party will naturally seek to address its own wants. A successful and sustainable JV must recognize that each party has a different list of constraints, needs and objectives. It is essential to understand where these objectives overlap.



The key in these joint ventures is for the parties to come together to develop a ***shared vision*** and a set of objectives that address a critical core for each JV partner. The shared vision and complementary objectives will drive much of the decision making, be an important barometer for checking assumptions, and guide key decisions such as whether to leave equity aside for potential future partners. In developing a shared vision, it is critical for the physicians and hospital to be honest and clear about what they are trying to accomplish, and put their cards on the table regarding potential dealbreakers.

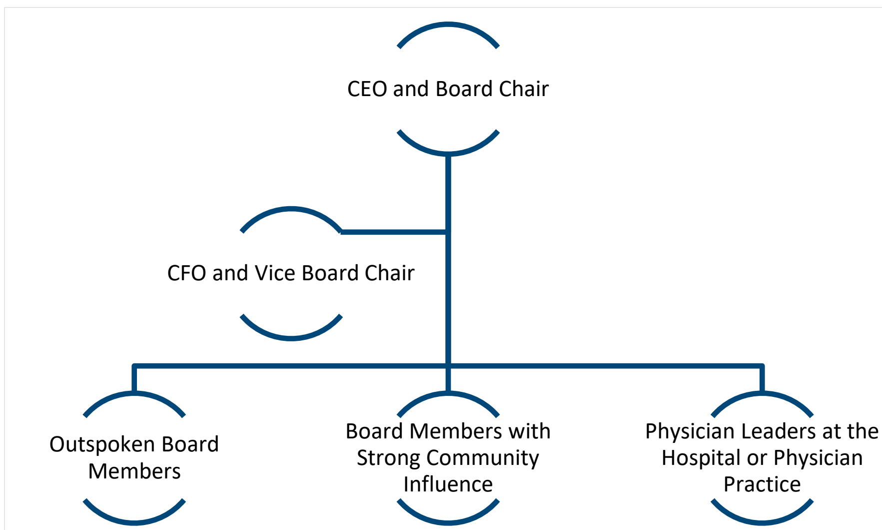
Dealbreaker examples

- Ownership of real estate
- Majority owner of the JV
- Where staff are employed

The important thing is to explain dealbreakers and the motivation behind these dealbreakers. Once the underlying motivation is understood, the parties can develop options to address the impasse. The parties need to step back frequently throughout the process and reconsider what is important to them.

2. *Board and Administration Unity*

During the JV ASC process, it is critical that the individual hospital board and physician group board be unified with the management/ administration teams within their own organization in their decision to want to participate in the JV. If key board members are against the JV, are questioning its benefits, or are not invested in the shared vision, this can de-rail the JV ASC progress and cause lengthy delays in the timeline. Delays have a domino effect and allow for changes in regulations and competition to infiltrate the dynamics, resulting in a less profitable entry into the market for the JV ASC, or no entry at all.

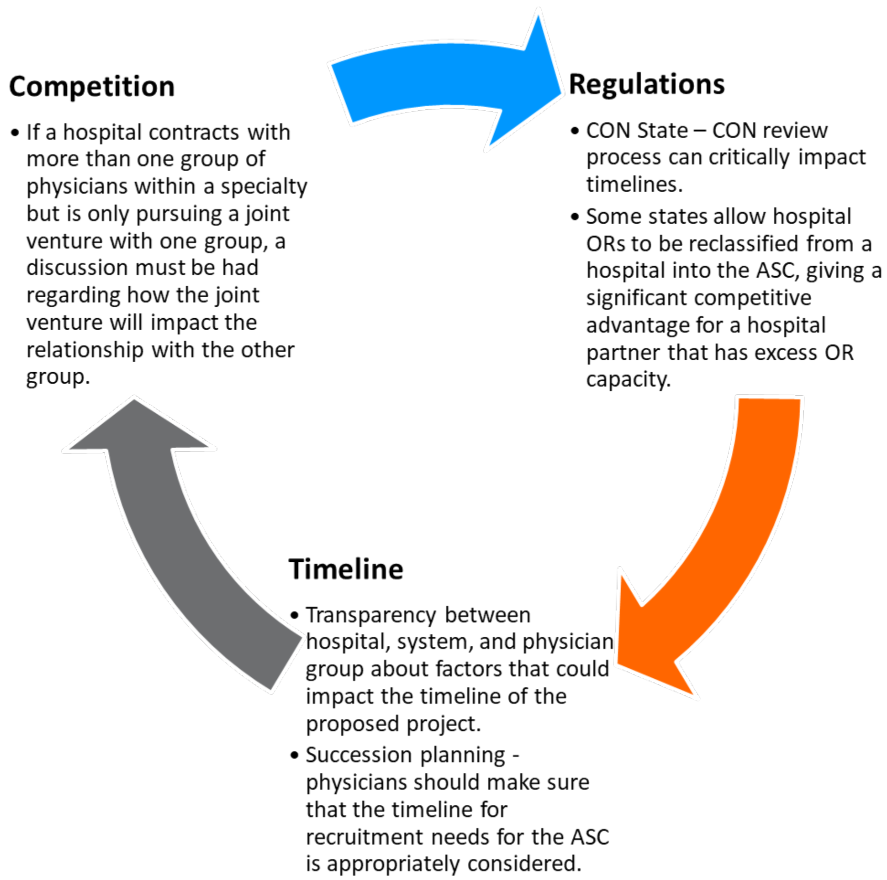


Key board and staff members to align, in order of importance

Given that better alignment between hospitals and physicians is the key driving force for these JV ASCs, nothing is more deleterious than if one partner suddenly changes its wants/dealbreakers due to disagreement between its board and management.

3. Market Dynamics

It is essential to keep in mind the specific market dynamics that will impact the success of the JV ASC. While overall competition is frequently top of mind for those considering developing an ASC, some factors are not always discussed up front or become elephants in the room that parties avoid.



While both parties have to protect their interests, trust must be built for the partnership to be successful. Each party must understand and have clear consensus regarding their needs, objectives and constraints, and strategic vision for the joint venture. What is often necessary for reluctant or risk-averse partners to commit to a JV is to clarify and quantify the “BATNA” or Best Alternative to a Negotiated Agreement. Said differently, what is the hospital’s and physician group’s alternative to advancing the deal? Frank and open communication with counterparts regarding important matters, and unity around decisions by each party, will greatly increase the chances of success for a joint venture ASC.

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