

ONCOLOGY PRACTICE MANAGEMENT™

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Preparing for Successful Alignment

Key Elements from Start to Finish

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Given the reimbursement climate, there is growing concern that the economics of private medical oncology practices are no longer sustainable. As such, many oncologists are evaluating alignment options with hospital partners who, in turn, are seeking to strengthen their oncology service lines.

Relationship options offer varying degrees of integration, benefits, and risks. Meeting objectives, responding to strategic need, improving physician integration, and mitigating financial risks are key considerations when seeking and evaluating the various alignment models (Figure).

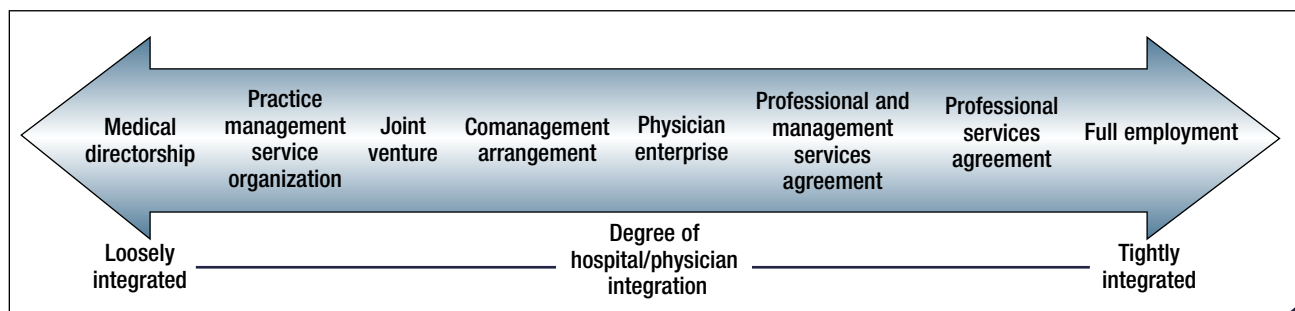
In addition to negotiating compensation for clinical services, physicians should be familiar with the following key elements that may be included in the various types of transactions.

1 Fair market value (FMV) for assets. Hospitals will buy assets or arrange to assume leases at rates that are supported by market data. A third-party firm is usually consulted to evaluate a group to determine FMV for the purchase of the practice.

Physician practices will be asked to provide a host of financial information including tax returns, financial statements, and other documents for the FMV analysis.

2 Physician compensation. The appropriate compensation plan aims to strike a balance among productivity, service, and quality. Physicians should expect the hospital to rely on historical performance data and on survey data to determine an FMV compensation range. There can be variability depending on the attributes of the practice and the market the practice serves. Most compensation plans are heavily weighted toward performance and based on the number of work relative value units generated by a physician as well as performance on quality incentives.

Figure. Level of Integration with Various Alignment Models



3 Transition to a hospital-based setting. Because hospitals may receive higher reimbursement for the same infusion and ancillary services provided in a physician office, it is likely that hospital management will want to either convert the practice to hospital outpatient space or relocate infusion services to the hospital. The potential in upside reimbursement makes this concept an integral component to the discussions surrounding the deal. Both hospitals and physicians will benefit from an evaluation that understands the impact to the service line of transitioning oncology services from office-based to provider-based. In addition to better payment structures, hospital purchasing constructs may allow these services to realize lower costs related to drug acquisition. Although a provider-based setting can generate a higher combined reimbursement from Medicare and certain commercial payers, there are several operational changes that should be considered. These considerations include, but are not limited to:

- Greater billing complexities and potential inefficiencies, because

of integration of billing functions and services

- Potentially higher out-of-pocket payments from Medicare patients
- Potentially higher practice costs, related to additional staffing and facility upgrades.

Because of the considerable impact to revenues and operations, evaluating the significance of a transition to a hospital-based service should be included in initial discussions.

4 Exit strategy. Although the goal is to establish an affiliation that is both scalable and sustainable, any deal should be structured with the ability to unwind the arrangement. As such, some oncologists begin with a professional services agreement.

Although physicians may prefer options other than full employment, they should expect continued financial instability in an independent practice, which can be mitigated under an integrated approach. When and if the prospect of an exit strategy becomes necessary, the exit strategy should be well thought out and subject to rules, procedures, and a valuation methodology that has

been mutually agreed upon by both parties. The following are recommended guidelines:

- **Rules**—Define the parameters that allow both parties to relinquish interest in the alliance
- **Procedures**—Outline the approach for parties interested in relinquishing their interest
- **Valuation**—Outline the methodology to determine the values and subsequent remuneration of the exiting parties.

Conclusion

A deal will be defined not only by the negotiated payment levels but the strategic and operational priorities of both partners. Oncology practices should realize the advantages of various alignment tactics with hospitals and seek to develop relationships that are sustainable and successful. ●

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