A new surgery center is opening down the street. Ground is broken for a new heart hospital across town. Ads appear for a new imaging center where patients can have their MRIs or PET scans.

Often, physicians are the driving force for these ventures. They’re becoming hospitals’ biggest competitors, and they’re taking millions in revenue out the door.

An estimated 80% of hospitals are competing with their physicians for traditional hospital services.

“These new physician ventures directly threaten the core business of hospitals,” according to a new report from VHA, an organization of community hospitals and health care systems.

Though doctors have been building their own surgery centers for more than 30 years, the movement is picking up steam.

Two-thirds of freestanding ambulatory surgery centers (ASCs) have physicians as majority owners. Physicians own 60% of urgent care centers and all or part of 61% of imaging centers. Office-based surgery facilities and ASCs are seeing more rapid growth than hospital outpatient surgery (graph).

But alarm bells really went off for hospital CEOs when physicians began building their own heart and orthopedic hospitals, which traditional hospitals see as a threat to their key business.

Though so far there are only about 90 specialty hospitals concentrated in 7 states, they target high-revenue services, such as cardiac surgery.

Loss of these services could harm the future viability of hospitals, says VHA.

Cardiovascular surgery is a top revenue generator for hospitals, bringing in an average of $3.1 million annually per physician, according to recruiters Merritt, Hawkins & Associates. Neurosurgery brings in $2.4 million per physician, and orthopedic surgery and general surgery, about $1.8 million per MD.

**Driving the competition**

What’s driving the competition?
Like hospitals, physicians are under economic pressure, Eric Schaefer, VHA’s director of strategic planning, told OR Manager.

“Physicians’ real incomes have been declining in recent years. They feel that to boost their bottom lines, they have to boost their top lines and capture some of these services.”

Cardiology practices, for example, saw their net revenue drop by 2.25% from 2001 to 2002, according to the Medical Group Management Association.

Income isn’t the only issue. Another big reason—control over their work lives. Surgeons say they can be more productive in a facility they own that is designed for their specialty.

New technology is making it easier to move procedures out of the hospital. That could soon include minimally invasive hip and knee replacements. Other enabling factors are the regulatory environments in some states and corporate partners who help with financing and facility management. An example is MedCath, a company that partners with physicians to build heart hospitals.

An 18-month moratorium on physician investment in specialty hospitals, passed by Congress in the fall, could be a temporary lull rather than a permanent damper on their growth. Because the moratorium creates a focus on this issue, there might be even more interest once the moratorium is lifted, Schaefer observes.

**Strategic response**

In some areas, hospitals and doctors are lobbing legal cannonballs. In others, they’re sitting down around the conference table to form joint ventures. In still others, hospitals and physicians are joining forces so both of their businesses will grow. VHA identified these three core strategic approaches:

- build barriers
- cultivate common interests
- extend the enterprise.

**Build barriers**

Hospitals move to block physician competition by erecting barriers such as economic credentialing or lobbying for tighter regulations on new facilities. The surgical hospital moratorium is one example.

In one widely reported case, OhioHealth, an 8-hospital system, in January revoked the privileges of 17 physicians who invested in a competing for-profit orthopedic hospital. The physicians are contesting the action in court. Similar battles are being fought in Arkansas, Idaho, and elsewhere.

**Cultivate common interests**

Physicians and hospitals cultivate their long-standing symbiotic relationships by working together to improve efficiency and address physicians’ concerns.

“There is active engagement by both parties to make each better off,” Schaefer comments.

VHA tells of a 5-hospital system, Parkview in Fort Wayne, Ind, that teamed with physicians to build an orthopedic hospital that the hospital owns and staffs.

“The hospital has learned the importance of talking with physicians about the issues they face,” the report says. It has restructured management positions so senior managers spend 40% of their time on physician issues.

**Extend the enterprise**

Instead of the two sides fighting, the idea is “to partner with the physicians—not just to split the pie but grow the pie,” Schaefer says.

An orthopedic group, for example, might partner with a hospital system to create a specialty hospital or surgery center in a growing part of town.

“They might both do better than if they were acting independently and grow market share,” he says.

Learning that physicians were determined to build their own heart hospital, Community Medical Centers in Fresno, Calif, offered to joint venture with them, heading off a possible deal with MedCath.
These three strategies can blend. A hospital might decide to erect barriers for one specialty while cultivating the commons or extending the business with another.

Hospital CEOs have had a variety of reactions to the report, Schaefer noted. Some still characterize physician competition as “greed.” But others recognize “the world has changed, and it is better to partner with a would-be competitor so both sides can win.”

**For OR leaders, the E-word**

Where do OR leaders fit into these strategies? It’s about the E-word: efficiency, says Schaefer. A quest to greater efficiency is a major reason physicians go out on their own.

Improvements that make the OR more efficient and increase physicians’ throughput can be a big part of a strategy to keep them from taking their business elsewhere.

*An executive summary of the report, The Doc is Out, is available at www.vha.com*