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Coping with Changing Business Models in Medicine: A Case Study

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Abstract

Dr. Lee host lost the contract to staff a rural emergency department (ED) due to a corporate business model change. Dr. Lee has been providing medical provider staffing to the rural hospitals ED for 10 years. He has several options moving forward. He has been offered the position of ED director by the new regional staffing company. He can open a private practice, an urgent care facility in the area, or leave the rural area for a more metropolitan one and open an urgent care practice there.

Introduction

Mike Lee grew up on a small family farm in rural northern Michigan. Mike's father Benjamin was a high school hockey star in Michigan and went on to play minor league hockey in Canada for a team in Ontario. Ben suffered "A lucky injury" in practice which led to his chance meeting of Michael's mother. Anne, (Mike's mother) had just become a nurse and was working at a doctor's office when Ben came in for a broken rib. They fell in love, got married and moved back to the farm that Mike's great grandfather started after the First World War. Mike's mother loved living on the farm but always wanted more for her son. She pushed Mike in school and he excelled from an early age. Growing up on a family farm instilled a work ethic that would serve Mike throughout his life.

Mike decided at an early age he would become a doctor. He always enjoyed the story of how his parents met in a doctor's office. Over summers when Mike was a teenager he worked with the local veterinarian, Graham Uhazie, to care for sick or injured livestock on farms throughout the area. This experience only strengthened his desire to pursue a career as a medical doctor to the delight of his parents.

After high school, Mike was accepted to the University of Michigan and in 1980 received a Bachelor of Science with high honors. That same year Mike was accepted to University of Michigan's school of Medicine where he graduated as a medical doctor in 1984. Michael went on to complete an internship at Hurley Medical center in Flint, Michigan, and then a residency in Emergency Medicine at the Cleveland Clinic in Cleveland Ohio.

Dr. Lee found his calling with emergency medicine. He enjoyed the excitement of the emergency department (ED) and above all he loved saving lives. Dr. Lee became Medical Director at Herrick Memorial Hospital in Tecumseh, MI in 1986 until 1996 and was also the Director of Emergency Services at Flint Community Hospital in Flint, MI from 1993 until 1994. Mike also received his airline transport pilot's license in 1992. He began flying all over the Midwest, and East coast of the U.S., as well as Toronto Canada working per diem in understaffed ER's; a practice he continues to this day.

In 1997 Dr. Lee moved to Vero Beach, Florida and began work in the emergency department (ED) at Live Oak Hospital, in Bowling Green, a rural community in south central Florida, and he became the Emergency Department Medical Director there in 1998. The parent company that operated Live Oak Hospital decided in 2002 that it no longer wanted to employ providers directly in their ED's. The hospital felt it could control overhead costs by subcontracting ER labor so a decision was made to contract out the staffing responsibilities for Doctors, Advanced registered nurse practitioners (ARNP's), and Physician assistants (PA). Seeing an opportunity Dr. Lee decided to form a company and bid on the ER staffing contract. Dr. Lee hired Jean Taylor an ARNP who he worked with in the ER and they began to put a proposal together.

Jean started her nursing career at Live Oak Hospital as a licensed practical nurse in 1990. She went on to become a registered nurse in 1993 and in 2002 received her master's degree in nursing becoming an ARNP. Jean became ED charge nurse in 1993. In 1998 Jean became Director of Emergency Services and Director of Administrative Supervision Services at Live Oak Hospital. Jean knew all the administrators in the corporation and understood all aspects of staffing, budgeting, and running a profitable ED. These facts along with her years of patient care in the ED made her a valued asset in Dr. Lee's new venture and together they created Bowling Green Emergency Physicians Incorporated (BGEPI). BGEPI structured their contract proposal in such manner that the hospital would reimburse BGEPI for the labor provided by medical providers with the hospital employing the remainder of the ED staff directly. BGEPI billed patients directly only for provider services and the hospital provided BGEPI a monthly stipend of $25,000.00. The hospital charged for all other services. BGEPI hired the Medical doctors and ARNP's as contract employees and covered medical malpractice insurance, and worker's compensation insurance. All other ED staff including nurses, worked directly for the hospital. The MD's and ARNP's were compensated at rates of $125.00 and $55.00 per hour respectively and had to cover their own health insurance and filed taxes as independent contractors. The staffing contract was written for 2 years with an option for renewal every 2 years. If either party were not satisfied, the contract could be put up for bid at the end of each contract cycle. In Late 2002 BGEPI secured the ED staffing contract beating out several larger nationwide competitors.

A New Venture

In January of 2003 BGEPI's began managing the medical staff providing care to the patients served in Live Oak Hospital's ED. BGEPI staffed the ED with 1 doctor on two 12 hour shifts for 24-hour coverage and 1 ARNP from 11:00 a.m. until 11:00 p.m. The business relationship between the BGEPI, Live Oak hospital, and the surrounding medical community was immediately successful. The ED saw on average 26,000 patients per year with BGEP receiving an average collection rate of $110.00 per patient. After all staffing and overhead expenses BGEPI and Dr. Lee's average net profit was $320,000.00 annually.

The initial success of the BGEPI's venture was in large part due to their knowledge of the hospital's culture and the needs of the surrounding communities. Hospital administrators and the staff at BGEPI were in complete agreement regarding patient satisfaction, current quality and standards of medical care and were willing to work collaboratively to meet joint goals. Dr. Lee chaired and Jean wrote the policies and protocols for the special care committee to be approved based on standard practices and updated standards of care. The special care committee was comprised of the chiefs of medicine, surgery, pediatrics, pharmacy, the hospital risk manager, and the nursing directors. The committee members collaboratively made medical policy for all the hospital's departments.

Jean also took time to write grant applications for Live Oak including a million-dollar grant for emergency preparedness from the federal government following the 9/11 terrorist attacks. This close working relationship between BGEPI and Live Oak hospitals administration and staff allowed BGEPI to embed into and shape the hospital’s culture.

A unique philosophy was implemented by BGEPI to improve patient satisfaction and perceptions about patient care by families and clients. All providers were instructed to adopt a caring model which included:

- Introducing yourself to the patient and explain your role in their care.
- All patients were addressed by their preferred name.
- The provider would sit at the patient’s bedside for at least 5 minutes per shift to plan and review the patients care.
- Use of a handshake or touch on the arm was recommended.
- Any delay in services would be explained to the patient or their family.
- The hospitals mission, we care, was incorporated in BGEPI’s value statement and implemented in planning patient services.

This philosophy resulted in a patient satisfaction shift well into the 90% range. BGEPI did not want the patients to feel as if they were passing through the department but that they were being cared for by their personal ED physician.

BGEPI and its staff also became a fixture in the local community. Dr. Lee became Medical Director for Bowling Green County Fire Rescue and Emergency Medical Services (EMS). As part of his duties as EMS medical Director, Dr. Lee provided the medical protocols and gave quarterly educational training to EMS personnel. BGEPI was also involved in community outreach and safety. BGEPI staff worked with the local schoolboard, Mothers against Drunk Driving, and EMS to put together the county drunk driving awareness campaign. Together they put on a realistic drunk driving accident and rescue presentation involving EMS personnel, trauma helicopters, and local law enforcement. The event was staged a week before prom for the local high school annually. BGEPI also put on a health-fair for underserved communities in the county.

Dr. Lee, Jean and their colleges became staples in the community and among the hospital’s medical providers and administration. This mutually satisfying and profitable business relationship continues for 10 years without BGEPI’s contract ever going out to bid. However, in corporate America situations can change suddenly.

Change

In 2013 Live Oak’s corporate parent made a unilateral decision to award regional contracts to staff all their hospital ED’s. The hospital’s corporate office announced MedCo, a national medical staffing agency, would begin staffing all their eastern regional hospital ED’s. BGEPI’s contract had a 90-day clause that allowed for either party to dissolve the business relationship and this clause was executed.

MedCo offered Dr. Lee the medical directorship additionally, all BGEPI providers were offered positions as employees of the new group. Salaries for the staff would remain the same. However, Dr. Lee would take a significant reduction in compensation. He would receive standard ED physician rate of pay along with a $60,000.00 annual stipend. Staffing, shift changes, and philosophical decision making would be done through the corporate office. All community outreach, patient care philosophy, and decisions would be determined hundreds of miles away in a corporate office. The culture and identity of the medical group and ED would be dismantled and changed forever.

Options

This new circumstance forced Dr. Lee to contemplate his future. Should he stay on at Live Oak's ED as medical director and do the same job for less money along with less control. Perhaps he could open a private practice in the community he had grown to care for and where he was well respected, or he could leave the area and open an urgent care facility in a more metropolitan area closer to his home. Each option had their own set of circumstance that made them both attractive as well as unattractive.

Staying on at the ED as director was the safest option. He would remain in charge to a certain degree with a mandate to enforce the corporation's agenda. The situation would be a comfortable one because of his past relationships and standing in the community. While his compensation would decrease, he would still make a very good living and would no longer face the inherent risk of running his own company. However, he would be the face of a corporation whose philosophy did not resemble his own ideas or strategies for patient care. He would be the one held responsible when things went wrong but would not have the authority to make any change. This was not a set of circumstances a self-made entrepreneur and medical provider of his caliber and standing found desirable.

Dr. Lee had the option of opening a private practice in the area. He knew the community and was well respected as a medical provider and civic leader. After providing care to thousands of residents in this rural community for well over a decade, he felt sure the practice would flourish. In fact, many of his colleagues encouraged him to do just this. Many of his staff asked to work with him. The local sheriff even offered to be his first patient. However, Dr. Lee felt that after years of local physicians referring their patients to the ED and the limited patient population in a rural county this option could cause hardships for his physician friends. He also had to consider the distance he had been traveling over the years and his ability to provide call coverage to the patients he would serve.

Another option presented by several of his former staff and colleagues, was to open an urgent care clinic in the area. He knew the patients, and had a staff ready to go. He could continue to serve the community in a familiar medical setting and this seemed a natural fit. After completing research into the demographics of the area focusing on the number of patients as well as insurance coverage rates, opening an urgent care in Bowling Green was determined not to be a viable financial option.

Dr. Lee's final alternative was to leave the area and open an urgent care practice in a more metropolitan area closer to his home. Urgent care was a field he understood and felt was something that matched his unique skill set. Urgent care facilities were a relatively new and robust business model and he was aware of several markets that could support an urgent care practice. While the idea of an urgent care seemed to be a natural fit, he would be opening a new business in a new market where he was not well known and investing a considerable amount of capital. There are inherent risks involved opening any new business and many of his former employees would not be able to work in this area.

Dr. Lee made the decision to bring in Jean Taylor his ARNP and trusted confidant of a decade to help him decided how to go forward. They hired a consulting firm to help develop a business plan and research where to geographically base the practice. After 30 days of intense work the consulting group came back with several areas that could support an urgent care. Dr. Lee, Jean, and the consulting firm felt that if he were to leave the ED an urgent care in another area was the best option. However, staying on at the ED was still a very viable alternative. He would not have the stress and risk of opening a new company and would no longer have the headaches associated with running a small business.

While he was deciding which option to choose, he and his former employees began to work in the ED under new management. He stepped down as director and worked as a staff ED physician for MedCo. Dr. Lee enjoyed the decreased responsibility of only being a staff

ED physician. He was no longer receiving calls regarding staffing issues, payroll, insurance, or dealing with government regulation. However, as MedCo began implementing their new business model Dr. Lee became less optimistic about remaining a MedCo employee. A decision had to be made.

Urgent care model

After considering all his options, and with the advice of the consulting firm he hired, Dr. Lee decided to open an urgent care facility. In 2013 Dr. Lee leased for $4000.00 monthly with a $ 4000.00 deposit an office space in a metropolitan area. Dr. Lee supervised a build out of the space to meet the needs of an efficient Urgent Care Office. This included a waiting room, front office, billing office, check out office, medical provider's office, with a private bath with shower for the providers, a kitchen, a staff bathroom, a patient bathroom with a pass-through door to conduct in house drug screens, a Clia waived laboratory, leaded x-ray room, an in-house pharmacy, six examination rooms and one procedure room. The space was approximately 2000 square feet and cost approximately $200,000.00 dollars in construction costs. The x-ray equipment and table cost $125.000.00 and the other office equipment and supplies added an additional $75,000.00. This totaled $408, 000 in an initial investment. Staff recruitment was completed online and by word of mouth. This cost was minimal.

The new business Treasure Coast Urgent Care Incorporated (TCUCi) opened in January 2003. Dr. Lee and Jean Taylor ARNP worked prior to opening to obtain all the required licensure, liability and malpractice insurances, business, pharmacy and Clia licenses. Clia waved laboratories are laboratories that use specific products and techniques that do not require annual state inspections. The most difficult challenge came with procuring insurance contracts with Blue Cross, Cigna, Medicare, Medicaid, Aetna etc. The vetting for participation with these insurance plans was rigorous. Both providers were already participants with the insurance companies as ED Providers and this did help accelerate the process.

The initial goal was to begin seeing 195 patients per week at an average reimbursement of $110.00 per patient generating an annual gross income of $1,115,400.00. The hours of operation were 8 am to 7 pm Monday through Friday. Saturdays the office was open from 9am to 2 pm. A total of 60 hours of operation per week.

TCUCi Wages and benefits

Position	**Expertise**	*** FT or PT**	**Hourly Rate**	**Annual Hours**	**Total Salary**
Physician	Emergency or Family Practice Boarded	PT 30 hours	$100.00	1560	$156,000.00
ARNP	Emergency or Family Practice Boarded	PT 30 hours	$50.00	1560	$78,000.00
Office/ Billing Manager	5 years' prior experience	FT 40 hours	$20.00	2080	$41,600.00

Medical Assistant/ Basic Radiology Technician	5 years' prior experience	PT 30 hours	$ 16.00	1560	24,960.00
Medical Assistant/ Basic Radiology Technician	5 years' prior experience	PT 30 hours	$ 16.00	1560	$24.960.00
Receptionist Front Desk and Check Out	5 years' prior experience	PT 30 Hours	$13.00	1560	$20,280.00
Receptionist Front Desk and Check Out	5 years' prior experience	PT 30 Hours	$13.00	1560	$20,280.00

* FT / PT (full time and part time)

Total salary for year one: $360,080.00

Benefits: for year one:

- Paid Time off $12,902.00
- Workers Compensation and FICA $21,141.00
- Continuing education $3,500.00
- Health insurance $12,840.00

Total benefits for year one $50,383.00

Total salary and benefits year one $410,463.00

Marketing

Dr. Lee, Jean Taylor ARNP and the office manager aggressively marketed to local physician's offices, emergency room physicians, surgeons, condominium associations, at chamber of commerce meetings, and businesses within a 25-mile radius to introduce the business and to ask for referrals as well as opportunities to speak in local forums. Within 1 month, the goals for patient volumes were met. One of the biggest boosts to patient volume initially was the promise of 24-hour turnaround time for pre-operative physical examinations and clearance for surgical patients. The practice could complete these physical quickly because of on-site x-ray, and electrocardiogram services. The practice contracted for 24-hour laboratory results for these pre-operative patients. Patients could be examined, have their chest x-ray, EKG, and pre-op labs drawn on the initial visit; the next day the labs results were available and reviewed by the physician. The surgeon would receive a facsimile for a medical clearance for surgery if the patient was healthy enough for the procedure. This service was especially embraced by eye surgeons, plastic surgeons, and orthopedics because most of their patient population are generally healthy and could easily be cleared and operated on in a timely manner.

Local primary care physicians (PCP) were encouraged to send the practice simple procedures such as laceration repairs, incision and drainage of simple abscesses, foreign body removal from extremities, and initial evaluation of sprains to rule out fractures. This eliminated expensive visits to the Emergency Departments and lengthy inconvenient wait times for care. The practice assured these physicians that all patients would be referred to them with a progress note and a letter of thanks. This strategy quickly increased patient volumes for the practice and satisfaction among the PCPs.

Another successful marketing strategy included offering drug screens and pre-employment physicals for several large local companies. TCUCi offered a flat rate 25% less than the competing occupational health center; this was profitable for the businesses and for TCUCi. These are just a few of the ways the practice began to thrive and make a considerable profit within the first year.

Five years into his new venture Dr. Lee's urgent care has expanded to a new custom built facility. Dr. Lee along with Jean and other staff have won contracts for several municipal and county governments in the state to operate in house medical clinics. The decision to leave MedCo and start a new business proved to be both financially lucrative and personally satisfying for Dr. Lee.

Synopsis

This case is decision-based and deals with a true scenario involving an ED physician, Dr. Lee, and his ED staffing company BGEPI. Dr. Lee's company BGEPI successfully staffed a rural ED at Live Oak Hospital for a decade starting in 2003. The group was well thought in the community and by the hospital's administration and staff. This is evident in the fact his contract was never put out to bid. However, in 2013 Live Oak Hospital's parent corporation made a corporate wide decision to consolidate all staffing contracts to one contract per region. Dr. Lee's staffing contract was voided per the written contract and he had to decided how to move forward professionally. The case focuses on the several professional options Dr. Lee faced and his final choice. He could remain on as a staff ED physician for MedCo the nation-wide medical staffing company taking over ED management, start a private practice in the area, open an urgent care facility in the area, or leave the area and open an urgent care business in a more metropolitan area. Dr. Lee eventually chose to leave the area and opened a very successful urgent care.

Use and Objectives

This case is suitable for undergraduate studies. The case may also be used in executive training. Objectives from the case can be used to demonstrate the effectiveness of:

- Community involvement
- How adversity in business can turn into opportunity
- Patient centered care
- Business decision making strategies

Conceptual foundations

This case is based on a real scenario and can be used by undergraduate students to discuss which business option they would choose and why. The case highlights how business situations can change very quickly and an entrepeneur must be able to adapt to be successful.

Dr. Lee must decide whether to stay on as a staff physician at the ED his company BGEPI staffed for a decade, open a private practice, or leave the area and open an urgent care facility in a new area. Students can then analyze how the new urgent care was set up, the financial costs to open the new business, and how the urgent care was introduced and marketed to the new community.

Teaching Plan

This case is based on a real scenario and can be used by undergraduate students to discuss which business option they would choose and why. The case allows students to analyze and develop alternate business plans for each choice in the case.

Students should be encouraged to write reports, give oral presentations, and engage in group discussions about the case.

Analysis

1. **Why did the parent corporation decide to no longer directly hire providers in their ED? What benefits could this decision have for the parent corporation?**

Subcontracting labor enables the company to control overhead costs in their emergency departments. Any staffing issues are handled by the group. No benefits are paid, the group must provide its own malpractice insurance, and any overtime or labor cost over-runs are absorbed by the contracted staffing company. This strategy allows for costs to be locked in allowing for more efficient budgeting and profit forecasting.

2. **What factors may have influenced Dr. Lee's decision to start BGEPI and bid on the ED contract at Live Oak Hospital?**
   - Dr. Lee was well liked in the community.
   - He had been working in the ED as a staff physician and therefore knew the patient's and administration.
   - He hired Jean Taylor A.R.N.P. to work with him and help put the proposal together. Jean had been the ED director for several years at Live Oak giving her insight into the financial cost of staffing the ED as well as the human resource challenges involved in staffing an ED. She had also been working in the ED as a nurse since 1990.

3. **Why did Live Oak's parent corporation decide to only offer regional contract to staff its ED's?**
   - To control cost.
   - The regional contracts allowed for the staffing companies to lose money in certain markets, i.e. rural hospitals, if they made up for that loss at other sites. This may drive the overall cost for the hospital chain down.
   - There are less administrators needed to deal with hundreds of companies staffing individual emergency departments. Administration of ED staffing contracts can move from the local hospitals to corporate removing an expense at the local level.

4. **What other unexplored options could have Dr. Lee analyzed?**
    - Bidding on the regional contract.
    - Bidding on another competing rural hospital in another area.
    - Work at an ED closer to his home.

5. **Why did Dr. Lee settle on an urgent care clinic in another area?**
    - In the more metropolitan area he would have a larger client base.
    - It was closer to his home.
    - He would not put a strain on relationships with his colleagues in rural Bowling Green.
    - He understood urgent care.
    - Consulting firm found it to be a viable option.

6. **What factors led to Dr. Lee's new urgent care becoming a success?**
    - He aggressively marketed to local physician's offices, emergency room physicians, surgeons, condominium associations, at chamber of commerce meetings, and businesses within a 25-mile radius to introduce the business and to ask for referrals as well as opportunities to speak in local forums
    - The 24-hour turnaround time for pre-operative physical examinations and clearance for surgical patients. The practice could complete these physical quickly because of on-site x-ray, and electrocardiogram services.
    - TCUCi also offered drug screens and pre-employment physicals for several large local companies. TCUCI offered a flat rate 25% less than the competing occupational health center; this was profitable for the business and for TCUCi.