

5 Principles of Rothman Institute's Innovative Orthopedic Practice Business Model

Written by Laura Miller | December 12, 2011

Rothman Institute, based in Philadelphia, is a large multispecialty orthopedic group that added its 15th office location earlier this year, increasing its number of physician partners close to 80. The practice's success can be attributed in part to its innovative business model, instituted 15 years ago by the original seven physician partners.

"When we began the practice in 1996, we were making no money and wondering whether one of us should go and get an MBA," says Alexander Vaccaro, MD, PhD, a spine surgeon and one of the founding partners of Rothman Institute. "In reality, all we needed was practical application of basic business principles. We wanted to run our practice like a private company, which meant getting good help from an outside person — our CEO Mike West. He came in and his job was to educate us on business tenants. He sat down with us and talked about everything we needed to know about our business."

Dr. Vaccaro discusses five basic principles of Rothman's successful business model and how they can be applied to physician practices around the country.

1. Differentiate the practice. Success for your business in a competitive market depends upon differentiating your product from others on the shelf. The same rings true for orthopedic practices. When launching their practice, the original Rothman partners were keenly aware of this concept. "In order to be a sustained leader in our market, we had to differentiate ourselves," says Dr. Vaccaro. "Instead of just being the best surgeons clinically, we had three additional criteria our partners strove to meet: we had to be clinically productive, a good citizen and active in academic work."

Maintaining clinical productivity meant the surgeons were seeing an appropriate patient volume and optimizing their time; being a good citizen meant respecting all employees, being a team player and contributing to the positive culture at the practice; having a focus on academics meant the surgeons were also required to research and write papers, deliver lectures at professional meetings and participate in community events such as sitting on the sidelines at youth sporting activities.

"You can't just be a productive orthopedic surgeon because everyone does that, and their practices can still fail," says Dr. Vaccaro. "If you give back to the community and participate academically, that's different."

2. Work together on problem solving and business opportunities. Rothman Institute has monthly board meetings allowing leaders from each service line to gather and discuss the challenges and opportunities in practice management. Board members take time to review different issues and crises as well as highlight good things happening within the practice and work on ways to manage problems. The board meetings also serve as a forum to

discuss new business opportunities.

"We are plastic," says Dr. Vaccaro. "We mold our practice to the healthcare environment. Although none of us has a formal business background, our CEO teaches us and keeps us abreast of changing regulations and healthcare legislation."

Twice per week, Mr. West sends the surgeons e-mails with different business articles and news items so they stay abreast of the situation. Right now, the partners are working with HealthGrades to optimize efficiency and patient satisfaction.

3. Enter into strategic partnerships with potential competitors. After forming their practice, leaders at Rothman Institute quickly began searching for ancillary income opportunities. The group supplied physical therapy, imaging services and opened a surgery center before founding a specialty orthopedic hospital. With each venture, the surgeons at Rothman Institute forged valuable partnerships with other medical professionals.

"We didn't compete with hospitals or other orthopedic groups; we partnered with them," says Dr. Vaccaro. "All business deals we made were good for both entities. Over time, as reimbursement went down, our income went up. We became more efficient because we controlled our surgery center, and the center fees went back to the physicians. With the specialty hospital, the profits went back into the hospital and the surgeons."

4. Show no favoritism. Part of the transition away from traditional management models involved abandoning the "seniority rules" tenant that gave favoritism toward older, senior partners. "We didn't want any favoritism in our group," says Dr. Vaccaro. "That paradigm has failed over and over again in medical models today." Instead, the partners decided to give every surgeon the same expectations and incentivize surgeons to meet their goals with bonuses doled out on an even plane.

"We have a large number of orthopedic surgeons, which means we have to have a transparent business model," says Dr. Vaccaro. "Everyone is treated the same in the group and paid in the same way. Every month, financial statements are given out to the partners so they can see the numbers for all other partners."

The data given to each partner includes patient volume, expenses and overhead costs associated with each partner. The transparency can motivate surgeons to improve their numbers and spark discussions among surgeons about different strategies more successful surgeons use to optimize their results.

5. Expand into new markets strategically. Opening new office locations can provide a great opportunity to serve patients in a new market and create more revenue for your practice. However, you have to make sure the new market location can support your office. Practices can test the waters by meeting with hospital administrators and potentially forming a partnership, such as a co-management arrangement.

"Nowadays, you are seeing a growing trend of physicians becoming employed by hospitals," says Dr. Vaccaro. "That hasn't happened with our group. When we are looking to expand to a new location, we look at the area of orthopedic care and ask what would work well with the hospital. If the area is well served, we don't have an opportunity. If the area needs more orthopedic service, we go to the hospital and see how we can work with them."