

## Blue Chip Surgical – Our Business Vision & Philosophy

By: Jeff Leland, Managing Partner, Blue Chip Surgical Center Partners

### A Time-Tested Model

Blue Chip Surgical has a business model that works. A comprehensive set of proven processes, policies and best practices designed to rapidly launch ambulatory surgery centers (ASCs) and effectively manage them for the long term, our business model has provided a solid foundation for a number of profitable ASCs. With the support of skilled professionals and experienced specialists in key areas, we provide the full range of business development services and comprehensive management moving forward.

We believe in our model because it has a long track record of success with focused businesses, such as spine surgery centers and multi-specialty ASCs. Therefore, we recommend it be implemented as designed. However, we do occasionally modify our approach as required by a particular business situation, local market conditions or at the prerogative of the ASC owners, our surgeon partners. Still, the underlying principles, described below, are a constant in all of our projects.

### The Blue Chip Vision

The strength of the Blue Chip business model is rooted in our vision for outpatient surgical centers. Fundamentally, we believe, that well-managed ASCs:

- Promote high-quality patient care and the highest levels of patient satisfaction
- Provide environments that promote physician productivity and efficiency
- Deliver significant ancillary income for physicians
- Foster trust among the partners.

Blue Chip's promise is that we help physicians increase their control of their practices and their professional and personal lives by developing and managing profitable outpatient surgery facilities where they can do their best work. Because we take care of the

business, our surgeon partners can focus on taking care of their patients.

This vision is operationalized through a number of core principles and critical success factors that drive the business model and our working style:

### Physician Engagement & Partner Selection

- We understand how little discretionary time our surgeon partners have for activities like business administration and management.
- Leadership of the business and culture comes from the board. Hence, physician-owners/board members are expected to attend periodic board meetings. These meetings will be well organized, focused on key business issues and as brief as possible.
- To encourage attendance, profit distribution checks are distributed only at the board meetings. They are not mailed.
- For our partnerships, we seek surgeons and physicians with relatively high case volumes and reputations for doing good work and working safely and quickly.
- Our goal is not to invite every surgeon in the community to be a partner, but only those who will – consistently and over the long term – add value and commit themselves to making the project a successful venture.

***We build ASC  
businesses by  
building strong,  
trusting  
partnerships  
with surgeons.***

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- Ideally, each physician-partner owns equal equity shares. Hence, it is important to include physicians who are capable of adding comparable amounts of value and who possess approximately equal levels of commitment to building a successful joint-venture.
- Our centers typically involve 5-15 physicians. We don't do "mega-centers."

### Case Volumes & Payor Mix

- The "go/no-go" decision to launch an ASC is based upon projected case volume and the payor mix of surgeon-partners.
- Each partner's data is carefully reviewed to accurately estimate case volumes.
- Partners review their baseline case volumes, analyze the payor mix and make appropriate annotations, amendments or approvals.
- We believe the most attractive specialties for ASCs include: neurosurgery, ENT, pain, general surgery and orthopedics.
- We cautiously consider specific specialties: plastics, urology, vascular surgery, breast surgery and ob/gyn.
- At this time, we are not interested in building centers focused on private-pay cosmetic surgery.

### Financing & Organizational Structure

- The general approach to capitalizing the ASC is for partners to provide startup working capital. Working capital generally amounts to 20% of the total capitalization (with individual physician investment of \$30,000 to \$100,000). The remaining 80% of capital is financed over 5-10 years.
- Blue Chip invests up to \$250,000, and we take a minority ownership stake (20-30%).

- The business plan is an important document for arranging financing.
- Blue Chip always seeks multiple financing sources, both local and national sources.
- During initial organizing meetings, surgeon-partners are asked to recommend or the provide names of potential local financing sources.
- Arranging financing quickly is a top priority; as soon as operating and management agreements are signed, Blue Chip immediately seeks to obtain financing.

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- Wherever possible, we strive to identify financing sources that provide the maximum amount of non-recourse financing. If recourse financing is required, we expect that the recourse requirement will be limited to the shortest amount of time.

- As the final financing decision approaches, Blue Chip develops a matrix to illustrate for the partners the elements, requirements, costs and key terms of the various competitive proposals.
- Blue Chip Surgical is always prepared to make a recommendation to the partners as to the best financing source.
- The partners make the final decision as to selection of financing organizations.
- Joint-venture partnerships are structured as limited liability corporations (LLCs), largely owned by local physicians.
- We believe in shared governance – one investor, one vote.

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## Blue Chip Surgical – Our Business Vision & Philosophy *continued*

### Facilities

- Blue Chip-developed surgery centers are designed for optimum efficiency and include all basic functions required to establish and operate a successful business. We believe all basic business functions must be self-contained in the business.
- Our business model is based on high levels of productivity, with targets of 1,600-2,300 cases per OR per year.
- Generally, we prefer retail locations. We don't build businesses around real estate sites we already own, but rather focus first on building strong partnerships. Therefore, we start the business with a thorough search for the right surgeons and address site/real estate issues once a strong partnership is in place.
- The joint-venture surgical center business almost never owns the property/facility. In most cases, the property/facility will be leased from a developer. In some instances, a group of the surgeon-partners may own the property/facility and lease it back to the surgical center business. Another option is that the property/facility may be leased from a group of primary care doctors or a hospital.
- Facilities will be designed specifically and only as surgical centers. They will not include physician offices, imaging facilities, physical therapy facilities, or sleep clinics. Those facilities and businesses may be located in the same building, but as separate and distinct from the ASCs.
- Blue Chip-developed ASCs fit the appearance of local communities. Neither the most expensive nor the "cheapest" facilities in town, they are designed to be attractive, comfortable, patient-friendly and functional.
- Facility size ranges from 5,000 to 12,000 square feet, with typically two to four ORs.

### Operations & Management

- Once the business is up and running, Blue Chip serves as managing partner, providing support in key functional areas, as necessary, to ensure our businesses operate efficiently and effectively.
- Blue Chip makes its greatest contribution to the joint-venture in the early years, investing up to 2,000 hours of effort before the surgeons do the first case. We do not charge up-front development fees for market research, feasibility studies or business plan development. Our management fee declines over time, beginning at 6% and declining to 3%.
- Blue Chip monitors the performance of the surgical center daily. We electronically examine key performance, outcome and financial metrics, like case volume, quality measures, cash, payables, processed claims and receivables.
- Blue Chip provides access to specialized expertise in key areas, including legal and regulatory management, staffing, operational audits, contracting, negotiation and reimbursement, process and supply standardization, patient communication and marketing.
- Through the network of Blue Chip-developed facilities, we share outcome data and both clinical and management best practices.

### The Role of the Administrators

- The administrator is central to the successful operation and performance of the ASC – both clinically and as a business. Thus, administrators must be comfortable in both clinical and management roles.
- The ideal administrator candidate is a nurse with an MBA.

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## Blue Chip Surgical – Our Business Vision & Philosophy *continued*

- Blue Chip's role and responsibility is to both support and direct administrators.
- Because of our extensive networks in the industry, Blue Chip is usually able to recommend strong candidates to serve as administrators for new facilities.
- Administrators' compensation includes two key elements – competitive base salary and a bonus payable each time a profit distribution to partners occurs.

### The Bottom Line: How We Work

Blue Chip's vision and philosophy, along with our proven business and clinical models, have allowed us to launch and manage a number of highly profitable, physician-led ASCs. Our operating style – which is based on building trust by openly sharing information, making clear recommendations, and always doing what we say we will do – is an enabler of our success. Just ask our partners.

Fundamentally, our mission is to help surgeons develop and manage ASC businesses so that they can focus relentlessly on patient needs and the delivery of high-quality care, with the ancillary benefits of increased income and more control of their professional and personal lives.

### Learn More About What Makes Us Blue Chip

We encourage you to learn more about what we do and the unique way we do it by viewing other Blue Chip Perspectives.

Visit [www.bluechipsurgical.com/bcsinsight.html](http://www.bluechipsurgical.com/bcsinsight.html)

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*Blue Chip Partners creates and manages highly profitable, physician-led ambulatory surgery centers. Our businesses help physicians gain more control of their practice and their life in environments where they can do their best work.*

**Find out more about our people, passion and many successful partnerships.  
Contact us today. 513.561.8900 or [info@bluechipsurgical.com](mailto:info@bluechipsurgical.com)**