Your Hospital Issues an RFP for Anesthesia Services: Now What?

Robert Johnson, MBA
Principal, Enhance Healthcare Consulting, Aventura, FL
Robert Stiefel, MD
Co-Founder and Principal, Enhance Healthcare Consulting, Aventura, FL

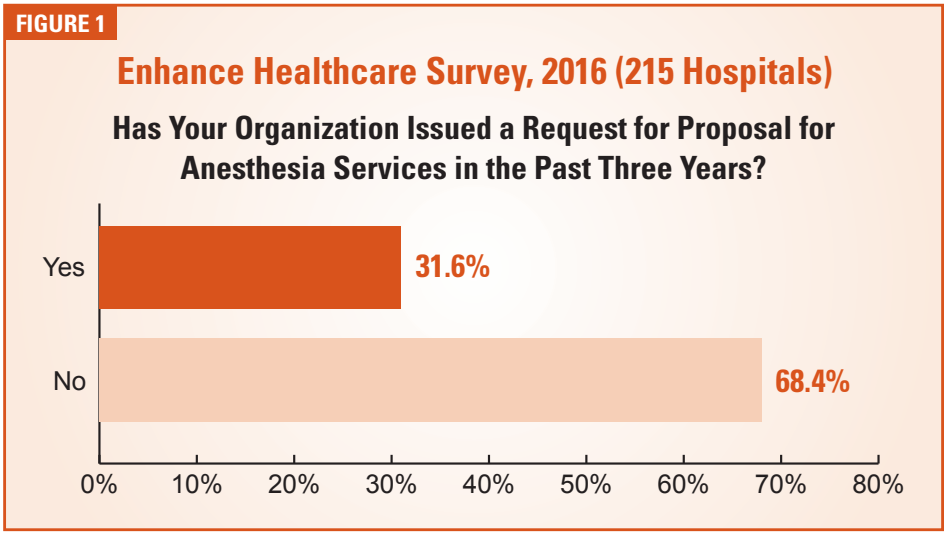
As a national anesthesia consulting firm, we are seeing hospitals and healthcare systems change or attempt to change their incumbent anesthesia groups with increasing frequency. A recent survey of hospital leadership has confirmed our experience and demonstrates that the mechanism by which hospitals seek to effect a change is frequently through a request for proposal (RFP). This term should not be new to most anesthesia groups, but we have discovered that some of our clients first encounter the term when they receive an RFP from their own hospital—and then wish they had been more familiar with the term and resulting process.

This first of two articles for *Communiqué* will review why hospitals seek alternatives to their existing anesthesia groups, early warning signs to groups that may indicate their hospital is seeking a change, and how that interest may result in an RFP being sent to the incumbent and other potential provider groups. Finally, we will discuss typical steps employed in the creation of the RFP, including a review of the RFP response document.

The second article will examine the decision processes hospital leaders may employ and demonstrate how we believe your anesthesia practice should be prepared to respond.

Many industries use RFPs to purchase goods and services. Hospital purchasing departments use them to procure everything from medical devices to housekeeping services. The advantage of the process is that it allows the hospital to demonstrate impartiality in their selection of a service or product. For this reason, RFPs are highly structured and typically performed in a transparent manner. Per a survey by Enhance Healthcare Consulting (EHC), one in three hospitals has issued an RFP for anesthesia services since 2013 (see Figure 1).

FIGURE 1

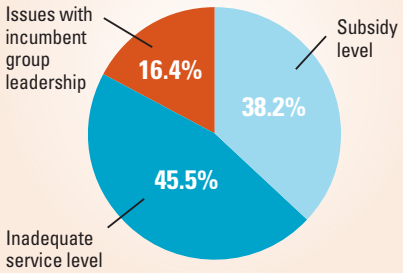


In the not-too-distant past, hospitals often used an RFP to introduce the threat of an outside vendor taking over the contract and to influence negotiations in their favor with the incumbent anesthesia group. However, both parties generally knew that the expected high transition costs and loyalty of the medical staff made the selection of a new practice highly unlikely. Therefore, efforts to identify a possible replacement group were casually performed with few guidelines and rarely resulted in a change from the incumbent provider.

However, shifts in provider supply and demand, group consolidation, oligopolistic health insurance entities and the rise of investor-owned hospital-based physician practices (e.g., Sheridan/EmCare, TeamHealth, NAPA) have created local environments in which hospitals seek "partners" utilizing more sophisticated business practices and better technology and willing to share financial risk. Before discussing the group attributes that a hospital may be looking for with an RFP, let's first look at the reasons that cause a hospital to seek a change in the incumbent group.

CHART 1

What was the primary reason for issuing the RFP?



What Motivates an RFP?

EHC's work with both anesthesia groups and hospitals to set up, conduct and respond to RFPs allows us unique insight into what motivates a hospital CEO to seek a change in anesthesia providers. For the past decade, anesthesia conferences have been replete with speakers encouraging groups to understand their customers—surgeons, hospital administration and patients—and to address those customers' needs or risk losing their hospital contract. Excellent clinical quality was a given, but "customer service" was not. Consultants encouraged groups to focus more attention in this area.[1]

While emphasizing the importance of satisfying the customers, industry experts pointed out that the logical next step for hospitals was to consider alternatives. Jody Locke, vice president of anesthesia and pain practice management services for Anesthesia Business Consultants, has stated that "Market competition is based on the premise that customers have options and that they will seek service providers who they believe are most committed to meeting their specific needs and expectations."[2] It is our observation that when hospital leaders perceive customer service that does not meet their needs and expectations, they look for someone else. We are seeing this with increasing regularity. Our survey (see Chart 1) bears this out. Unfortunately, assessing anesthesia customer service is a problem. Our experience is that hospital leaders may simply judge anesthesia service by the number of times the surgeons call their office with complaints.

Service issues commonly cited by others include poor personnel management and the incumbent group's failure to address disruptive behavior by an anesthesiologist. EHC would add that service, in the mind of a hospital CEO, is simply being in the operating room and ready for surgery when you are needed without anyone having to ask. A senior health system administrator once relayed to one of the authors that the best anesthesia group that ever worked at his hospital was one that he never met. Unfortunately, for anesthesiologists, that often means staff-

Continued on page 18

[1] Johnson, Robert, presentation at Conference on Practice Management, American Society of Anesthesiologists, January 2007.

[2] Locke, Jody, Anesthesia Customer Service, *Communiqué*, Anesthesia Business Consultants, LLC Summer 2006. http://www.anesthesiallc.com/publications/communique/75-communique/past-issues/summer-2006/166-anesthesia-customer-service

Your Hospital Issues an RFP for Anesthesia Services: Now What?

Continued from page 17

ing an OR without a patient and not being reimbursed.

This relates to another key reason for issuing an RFP: financial support from the hospital as a subsidy, stipend or compensation for services. Little documentation is available on the frequency and amount of financial support that hospitals provide to their anesthesia groups.

According to a Medical Group Management Association survey, the revenue from hospital sources to privately owned anesthesiology practices was $118,014 per FTE physician.[3] Since that amount may represent a significant part of your practice revenue and a large percentage of the hospital's overall budget for physicians, the issue of subsidy support may disproportionately dominate the contract negotiations.

A third commonly cited category of discontent measured in our survey is the hospital's unhappiness with anesthesia group leadership. An article in *OR Manager* lists four attributes of an effective anesthesia leader: 1) ability to manage operations, i.e., works with nursing to run the board; 2) efficiency—uses personnel efficiently to maximize throughput; 3) safety—emphasizes safe practices; and 4) participates in governance, specifically the Surgical Services Executive Committee (SSEC).[4]

It is important to point out that the physician leader of a group will have an enormous effect on the CEO's and medical staffs' perception of the group's overall quality. This individual's personal characteristics will influence the CEO's desire to change groups more than the group itself, whose members are almost always described as "nice guys." Therefore, groups need to be careful in selecting who represents them and be aware that if their model is to rotate partners into leadership positions, a person who doesn't impress the group also won't impress the CEO.

Signs An RFP May Be Coming

A hospital may start to look for an alternative to your services at certain times, which include, but are not limited to, contract termination or renewal. An unscheduled or atypical call to visit the CEO may indicate a change in the hospital's direction. Certainly, if the meeting is negative and the CEO complains about your group, that's an obvious red flag. However, be cautioned not to be fooled by the friendly meeting. We have seen more than a few meetings that go well, with everyone smiling and in which nothing

[3] Medical Group Management Association, 2015 Cost and Revenue Report Based on 2014 Survey Data, pp. 90-94.
[4] Bierstein, Karin, "Achieving anesthesia provider accountability will boost OR performance," *OR Manager*, Vol. 31, No. 2, February 2015.

unpleasant is discussed, except at the end, when the CEO says, "We love you and the group is great, but we may be testing the waters to see what's out there; have a good night."

Another indicator of impending change is any unusual efforts by the hospital to acquire or collect information about your group's finances and performance.

Since it is apparent that hospitals are increasingly using the RFP process to evaluate and replace their anesthesia group, it is important to understand how the process works. Once the decision is made to issue an RFP, the CEO usually selects an individual to manage the process.

Large hospitals may have a purchasing department with a procurement executive who may utilize the same process used to procure surgical packs or cleaning supplies. These individuals tend to be rigid and lack understanding of the complexities of anesthesia services. Fortunately, they are the minority. More frequently, the task is given to the chief operating officer, chief financial officer or external consultant.

If you become aware of the possibility of a consultant assisting the hospital in an evaluation of your group's performance or with an RFP, consider asking to participate in the consultant selection process. It is worth the anesthesia group's investment to pay a portion (typically 50 percent) of the fee and thereby have access to the information that will be used by the consultant and the opportunity to demonstrate to the hospital the quality of your service and avoid the RFP.

In our next article, we will discuss the importance of providing accurate information about your anesthesia group if the hospital issues an RFP. We will also discuss what to expect from an RFP process and how an incumbent group should respond. But for those of you on the edge of your seats, spoiler alert: the best way to deal with an RFP is to not get one in the first place!

Enhance Healthcare Consulting is an anesthesia services consulting firm providing expert assistance to both hospitals and anesthesia groups seeking to improve their financial and operational performance.

Robert Johnson, MBA, Principal at Enhance Healthcare Consulting, is a healthcare executive with broad experience in multiple healthcare environments. He started at Johns Hopkins Hospital as a perfusionist in the cardiac operating rooms and eventually became administrator of the anesthesiology department. He has also served as senior associate chief operating officer at Duke Hospital and held positions with Baylor College of Medicine, the University of Pittsburgh and Sheridan Healthcare. As a vice president for HCA, he played a critical role in leading negotiations with hospital-based physician practices. He joined EHC as a principal in 2014. He can be reached at bob.johnson@enhancehc.com or (404) 905-7014.

Robert Stiefel, MD, Co-founder and Principal of Enhance Healthcare Consulting, is a board certified anesthesiologist who has worked with many of the nation's largest health systems to deliver sustainable improvement in their ORs. As co-founder of L&S Medical Management, Dr. Stiefel helped grow that organization to 140 clinical providers over eight years. Since 2006 he has been a consultant for hospitals and health systems, advising on anesthesia and operating room performance improvement. With EHC, he has been a lead consultant with many institutions on financial performance and operational improvement. He received his training at Tufts University School of Medicine and University of Massachusetts Medical Center. He can be reached at rstiefel@enhancehc.com or (863) 610-2085.

Your Hospital Issues an RFP for Anesthesia Services: Now What? (Part 2)

Robert Johnson, MBA
Principal, Enhance Healthcare Consulting, Aventura, FL
Robert Stiefel, MD
Co-Founder and Principal, Enhance Healthcare Consulting, Aventura, FL

In the last issue of *Communiqué*, we discussed the various reasons hospitals may want to replace their existing anesthesia service with an alternative. We cited evidence that hospitals currently are showing more interest in replacing their anesthesia groups and are going to greater lengths to employ formal processes such as the request for proposal (RFP) to help them make the decision. In addition, we reviewed survey data illustrating the reasons hospitals are increasingly looking at other provider groups: 1) inadequate service levels (45.5 percent), 2) subsidy levels (38.2 percent) and 3) issues with group leadership (16.4 percent). A reason not addressed in our previous article that an anesthesia group may receive an RFP is as an alternative for the hospital to obtaining a Fair Market Valuation (FMV). Some hospitals have concluded that FMV firms use published market surveys that

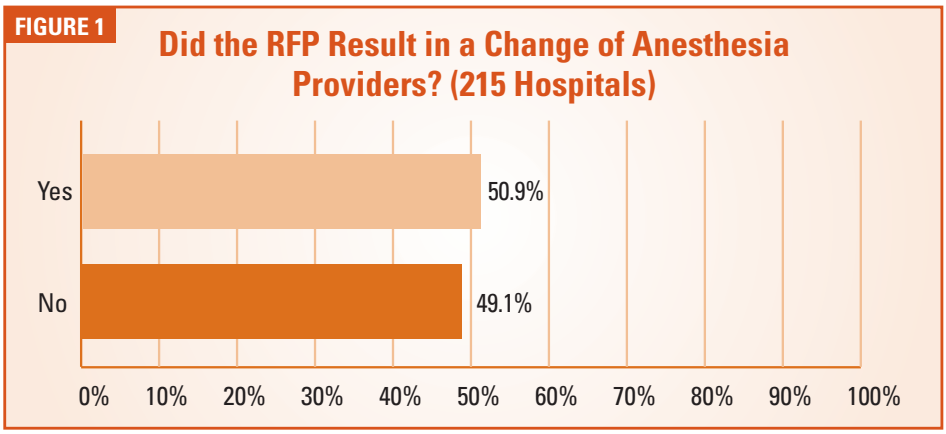
are not relevant to their circumstances, and instead rely on the actual market information from an RFP.

In our experience, incumbent anesthesia groups often contribute to the hospital's decision to look elsewhere because they have become complacent about the level and quality of their services and are unaware that hospital senior leaders are more willing today to risk the uncertainty of contracting with a new anesthesia group in order to gain improved service at a lower subsidy.

In this article we will focus on what you should expect once you receive an RFP, whether you should respond and how best to respond should you decide to do so. Historically, RFPs were used to "scare" incumbent groups into providing expanded services or accepting lower subsidies, and a change to a new group as a result of an RFP was rare.

This is not the situation today. In order to understand how often RFPs were being used by hospitals to change their provider group, Enhance Healthcare Consulting (EHC) surveyed 215 hospitals. The results (Figure 1) show a statistical tie between the hospitals that changed groups (50.9 percent) and those that did not (49.1 percent). It should be disturbing to an incumbent group that it has an approximately 50/50 chance of being replaced as a result of an anesthesia services RFP.

FIGURE 1



An Ounce of Prevention

For this reason alone, an incumbent group's best strategy to deal with an anesthesia RFP is to not get one in the first place. As discussed in our previous article, groups should make sure they are doing everything possible to avoid placing the hospital in a position in which an RFP is considered.

Continued on page 12

Your Hospital Issues an RFP for Anesthesia Services: Now What? (Part 2)

Continued from page 11

When a group receives or knows that it is about to receive an RFP, a frequent question is: "Can we stop it, or is it too late?" In rare circumstances, there may be an opportunity to stop or reverse an RFP. If the hospital hasn't put out the RFP but your group has good reason to expect it soon, you may be able to stop it if, and only if, you can show the hospital CEO that they are acting out of haste or have been misinformed, and that you can provide a more accurate picture of the situation. You may also be able to stop the process if it is poorly planned and creating disruption among the medical staff.

If the conditions are right for a reversal, then the next question is how to take advantage of these circumstances. First, look for the telltale sign of lack of planning, i.e., when leadership is acting from emotion or misinformation and skipping the basics required for an effective RFP. Second, if you think your group can convincingly demonstrate significant issues with the RFP, take your case directly to the CEO.

Otherwise, continue under the assumption that the process will not be reversed and your group will have to decide whether to respond to the RFP. This question is usually raised by senior members of the group who are angry at the hospital and/or overly confident that their group cannot be replaced. In our experience, groups that choose not to participate and not to respond to the invitation to bid will be replaced. Always respond. The time and effort that your group invests in the response is small compared to the potential consequences of not responding and losing the relationship with the hospital.

Take the opportunity to do some self-reflection and examine how your group's actions have led to the RFP. If your group is to learn from this experience, it must reject the belief that other groups are not capable of replacing it or are not willing to work under the conditions the hospital has imposed. These are dangerous attitudes to take into a competitive process. If your group feels insulated from the competition, then it is likely to fail to adequately defend its position and may lose the contract to another group.

It is important to find out as much as you can about other groups you will be competing against. If it is limited to a few groups such as other small local providers, then you probably already have some knowledge of who you are competing against and can expect a reasonably even playing field. If the list includes mainly large multispecialty vendors, then the hospital may intend to include your radiology, emergency department (ED) and hospitalist groups in a multispecialty RFP (discussed below).

In a formal, well-organized RFP, the hospital will have adopted rules for how the process will be conducted and the participants will remain confidential. However, you may discover some of the groups that have been invited to bid if they start contacting the hospital for information regarding your group. A well-organized RFP process will have rules that include warning bidders that they will be disqualified if they contact the current anesthesia group or others at the hospital.

The Competition

Most hospitals will send RFPs to four to seven groups or vendors, including two or three national (single or multispecialty) vendors, one or two regional groups and one or two local groups, including the incumbent.

The quality of responses will range from fair to outstanding. In general, the larger the organization, the higher the quality of the response. Larger groups often have the resources to devote to responding to RFPs. Large national multispecialty vendors have full-time business development teams that respond to RFPs and use expensive production techniques to display relevant information.

Small, local incumbent groups do not have these resources. However, with a small outlay, a group can produce a professional document. If you believe your hospital will be issuing an RFP, we recommend utilizing the expertise of those with experience in responding to anesthesia RFPs. Professional presentation formats are available to help give your response a look and feel like that of the larger vendors.

Groups often ask about the importance of the quality of the RFP document. Give the RFP the attention it deserves with a thoughtful, well-organized, error-free response and professional-looking graphics.

Multispecialty RFPs

A new development in the hospital-based physician services industry that includes anesthesia is the multispecialty

RFP, in which the hospital issues an RFP for two or more services. These could include: anesthesia, radiology, ED services, hospital medicine and ICU services. The principal motivation is to reduce the hospital's expenditure on physician services, i.e., subsidies.

A simple example would be one in which the RFP combines the ED (staffed by a local group) that is profitable with anesthesia services that require a subsidy. The hospital issues an RFP for a single vendor that would provide both services. The hospital is looking for a provider to combine both services into one operation and would use the profits of the ED to make up for the loss incurred in staffing the anesthesia program. If your group is included in an RFP of this type you will need to consult with experts who have experience with these arrangements.

The RFP Process

In a formal, well-organized RFP process, the hospital will have adopted rules for how the process will be conducted. Those rules will be articulated in the RFP document.

Keep the following in mind throughout the process:

- Maintain a sense of professionalism and an appropriate sense of decorum at all times. Regardless of your existing relationship with the hospital, this is a formal process and should be treated as such. Acting out in the ORs, making disparaging comments about the RFP, and displaying anger in any form should not be permitted by any group member.
- Hold a group meeting immediately to develop a plan to address the RFP.
- If you don't have an administrator, appoint one or two group members to review the RFP and determine what may be required.

- Start an action calendar based on the RFP timetable.
- Plan a series of regular group meetings to review progress on the response.
- Meet with your hospital CEO. Even if you met with the CEO earlier when the RFP was announced, request another meeting. Include your group president and one other well-respected, even-keeled, articulate group member in that meeting. Wear business attire, have questions ready and take notes. If there is any chance of reversing the RFP decision this meeting will be your opportunity to explore this possibility. *If and only if your group is prepared to follow through*, indicate your group's willingness and desire to to meet the hospital's terms now in exchange for their rescinding the RFP. Try to engage the CEO and hospital leadership in a discussion of the RFP to assess their confidence in moving forward with it.
- Determine who your allies are and assess the level of support they can offer. Typically, groups believe the surgeons are in their corner. We have found that to be generally true, but don't assume that the support will be there unsolicited; you might have to ask for it. Approach surgeons off premises or by phone rather than in the operating room. It is appropriate to ask them to write letters of support, and ask them to copy the Board on these letters.
- Do not approach hospital staff about the RFP or any related issues. Even if they indicate support, they are employees of the CEO. You can assume that everything you say to them will be related to the administration.

The RFP document is typically a five- to 10-page document laid out in multiple sections. It typically begins with a statement defining the RFP's goals and objectives. This statement usually addresses quality and service. For example:

> *The goal of this solicitation is to obtain quality anesthesia services for the facilities that make up this RFP and is focused on achieving a specific anesthesia services solution that recognizes the*

Continued on page 14

Your Hospital Issues an RFP for Anesthesia Services: Now What? (Part 2)

Continued from page 13

value of synergies, best practices, clinical leadership expertise and performance expectations, including initial and ongoing management and minimization of cost of anesthesia services while maximizing care of our patients, meaningful and action oriented quality and management information reporting, and compliance with all Centers for Medicare and Medicaid Services (CMS) and regulatory requirements associated with provision of anesthesia services.

RFPs vary in the manner in which they relay information about the hospital and the information they are seeking from your group. Whether they are structured in a question-and-answer format or as open-ended statements, the information needed will be the same. A typical RFP will include a timetable with deadlines (see Figure 2).

Other topics addressed in the RFP might include a waiver of confidentiality; respondent group communication and contact during the RFP and selection process; rejection of proposal; and award criteria. The group may want to have an attorney review these, but the hospital will rarely change them.

Group Response to RFP Questions and Statements

The hospital will expect the respondents to answer to every question or explain why it cannot. The hospital will prefer the responses to be presented in the same order as the questions. Use the same format (unless an attachment is indicated) for each response regardless of whether the same information is provided in other parts of the RFP response.

Hospitals will seek to minimize the disruption that might result from multiple vendors calling the administration or OR asking for information to help them answer the RFP questions and validate the data. For this reason, the RFP will require that questions be asked in an organized manner, such as by requiring questions to be submitted in writing by a certain date. The hospital should provide the answers to any questions to all of the candidates in this process, including the incumbent.

Group profile information: When and where did your group begin providing anesthesia services? Provide your group organizational chart. Describe the size of the organization even if you are the incumbent and the hospital knows your group information. You may have difficulty with questions about your group's revenue and compensation. You will need to decide what may be gained or lost by failing to provide the requested information versus with transparency.

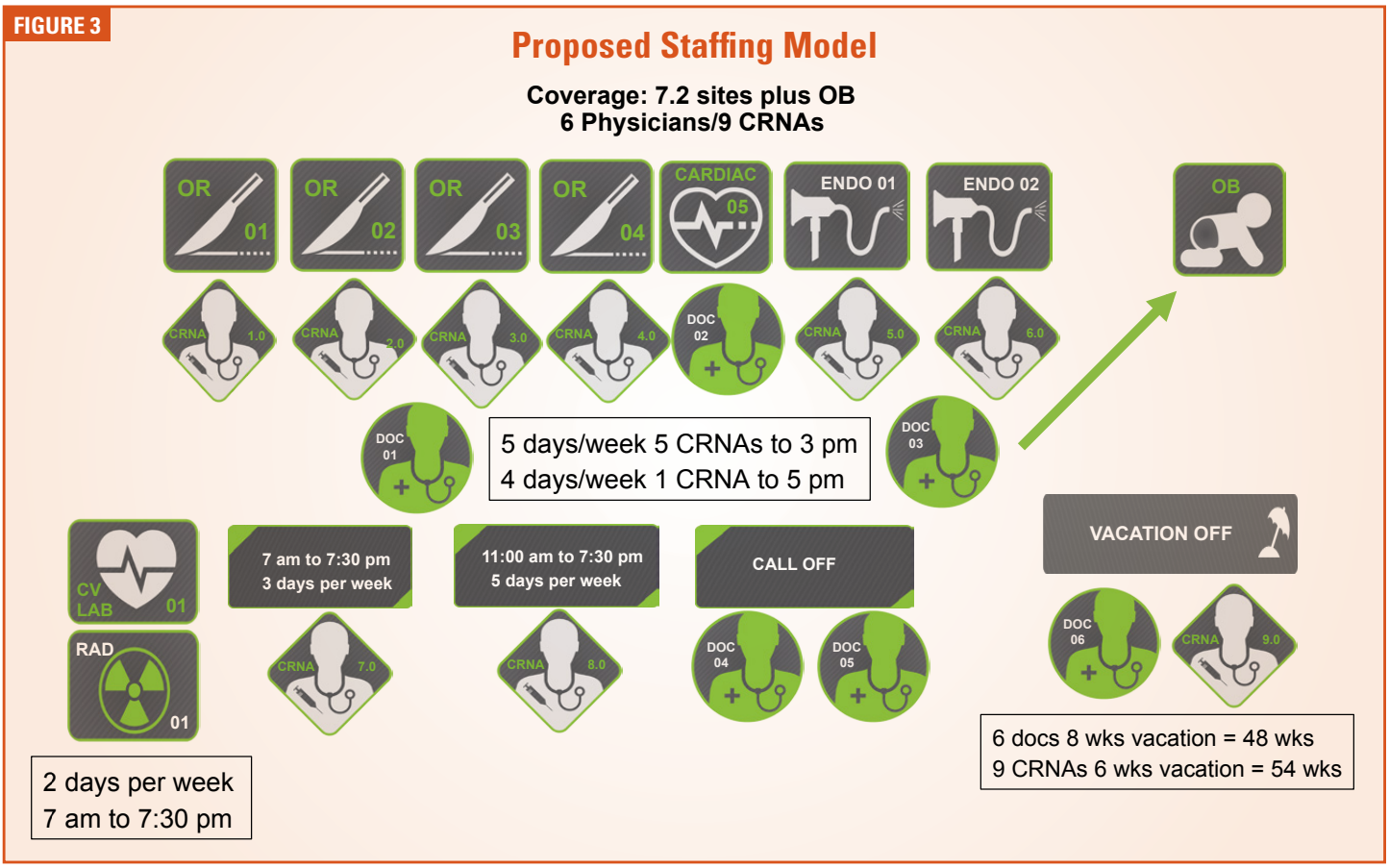
Anesthesia quality metrics: The single most frequent deficiency in an

FIGURE 2

Sample RFP Timetable with Deadlines

Activity	Due Date
RFP distribution to vendors	5/16/2015
Questions submitted from vendors	6/16/2015
Hospital responses to questions	6/28/2015
Response due to hospital	7/16/2015
Proposal conference call with hospital	7/23/2015
Tentative vendor presentation(s)	8/23/2015
RFP award notice	9/1/2015
Tentative start date	2/1/2016

FIGURE 3



incumbent group's response is the lack of a defined quality and performance metrics program. If this is true of your group, start a quality and performance metrics program immediately and communicate your plans for doing so to the hospital. Describe the metrics that will be instituted. If you are unfamiliar with current acceptable metrics and the thresholds used to measure them, seek the advice of experts in this area. Will the providers be incentivized to meet these metrics or other standards? If so, describe the monetary amount(s).

Operating room management: If your group wishes to improve its chances of retaining the contract and is not currently participating in OR management, describe how you will do so in the future, including such areas as OR scheduling, daily huddles and "board running," with an emphasis on maximizing efficiency and focusing on patient needs. While some members of your group may resist making some of these changes, they should be aware that the competition will be offering to provide these services and more.

Staffing/coverage requirements: The group should be very specific regard-

Continued on page 16

Your Hospital Issues an RFP for Anesthesia Services: Now What? (Part 2)

Continued from page 15

ing the proposed staffing. For example, state that the staffing model will cover (if it doesn't already) all call and allocated provider vacation. Your model should include the full complement of community-based anesthesia providers you are providing as the incumbent group, and demonstrate exactly how your group provides 24/7 anesthesia services, preoperative and postoperative evaluation and postoperative acute pain management. Do not assume the hospital understands how you provide anesthesia coverage. Provide an illustration (see Figure 3).

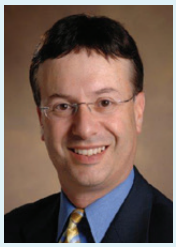
Financial information and consideration: Carefully and completely explain the group's proposed financial arrangement. Many groups are reluctant to share their financial information. However, full transparency will improve your chances of keeping the contract. If you are asking for a subsidy, the hospital will be much more comfortable if it understands why you are requesting one. Most subsidies result from poor provider utilization. In the most respectful manner you can muster, show the hospital the expense involved in staffing sites that aren't efficiently utilized.

Proposal evaluation and award: The RFP usually describes the criteria used to evaluate the respondents. This could be valuable to the incumbent group regardless of its use in the RFP process. Use it as a scorecard to measure your group and anticipate what other groups will provide in their responses.

Conclusion

Receiving an RFP from a hospital for whom your group has provided anesthesia services for many years is a difficult experience. Your group has not had to prove its worth in an impartial business environment that considers your services a commodity. The competition you will encounter in this process is serious and will test your group's resilience. However, we have seen incumbent groups, even small local groups, prevail in this process and retain their contracts with a thorough and professional response to an RFP.

Robert Johnson, MBA, Principal at Enhance Healthcare Consulting, is a healthcare executive with broad experience in multiple healthcare environments. He started at Johns Hopkins Hospital as a perfusionist in the cardiac operating rooms and eventually became administrator of the anesthesiology department. He has also served as senior associate chief operating officer at Duke Hospital and held positions with Baylor College of Medicine, the University of Pittsburgh and Sheridan Healthcare. As a vice president for HCA, he played a critical role in leading negotiations with hospital-based physician practices. He joined EHC as a principal in 2014. He can be reached at bob.johnson@enhancehc.com or (404) 905-7014.



Robert Stiefel, MD, Co-founder and Principal of Enhance Healthcare Consulting, is a board certified anesthesiologist who has worked with many of the nation's largest health systems to deliver sustainable improvement in their ORs. As co-founder of L&S Medical Management, Dr. Stiefel helped grow that organization to 140 clinical providers over eight years. Since 2006 he has been a consultant for hospitals and health systems, advising on anesthesia and operating room performance improvement. With EHC, he has been a lead consultant with many institutions on financial performance and operational improvement. He received his training at Tufts University School of Medicine and University of Massachusetts Medical Center. He can be reached at rstiefel@enhancehc.com or (863) 610-2085.