

Health Care Changes Present Challenges and Opportunities for Franchising

Some of the hallmarks and advantages of franchising are transferable to the health care market.

BY TIM JOHNSON AND MARK KIRSCH, CFE

Long before President Obama's Affordable Care Act, the health care landscape was already undergoing a major shift in how health care was marketed and delivered. Historically, patients typically relied solely on their primary care physician to make decisions on what health care services were needed and who provided them. This delivery system also drove the types of medical plans offered by health care insurers. Therefore, the only important decision for employees was selecting a plan that included their primary care physician. Also, with employers paying the bulk of cost of their employees' health insurance, employees had no need to worry over the type, amount or cost of the services they received.

Cost Reduction Approaches

The U.S. system of health care delivery slowly changed as employees' medical costs continued to increase at a rate greater than employers' revenues. This led employers to put pressure on insurers to reduce premiums. Insurers experimented with a variety of approaches, including limiting the choice of providers available to the employees, as well as adopting stringent reviews of services to try to eliminate waste. These approaches had only limited success and generally resulted in frustrated employees.

Eventually, employers, with the assistance of health insurers, concluded that the only way to successfully reduce their health insurance costs was to have employees involved in their own care decisions, which required employees to incur part of their expenses. This approach is typically referred to as the patient- or consumer-centered care approach and is the premise underlying the introduction of high-deductible health plans.

While this approach has been adopted by more and more employers, there has been little advancement for much of the population – specifically those who are under – or uninsured or covered by Medicare and Medicaid. However, this is expected to change under the ACA, which includes several provisions to advance this consumer-centered care approach.

With patients having greater control of their health care decisions under this consumer-centered care approach, providers will need to appeal in consumer-focused terms: costs, convenience and efficiency. Clearly this should not turn into a “race to the bottom” and sacrifice good, effective care. Rather, providers will need to combine efficiency and cost control mechanisms with health care delivery.

Franchising’s Role: Transformation

Franchising can play a significant role in this transformation. Some of the hallmarks and advantages of franchising are transferable to the health care market. These include a uniform or consistent method of operation, training and the delivery of a consistent brand message and image.

More than anything, franchising offers efficiency in operations of a medical “business” or office. This includes access to, and negotiated prices from, suppliers of medical equipment and third-party lab testing. Franchise medical practices can share in accounting, software and insurance reimbursement services; franchisors can train franchisees on patient scheduling, order processing and insurance filing. Franchisors can provide assistance with cost efficient build-outs of clinics, and access to credentialing services, as well as training on compliance with various requirements. A franchise network can also deliver a consistent brand message. All of these elements help the health care practice to run more efficiently and in a more cost-effective manner without intruding on the doctor-patient relationship.

Limitations

Just as franchising may not be the right model for all businesses, franchising has some significant limitations in the health care industry. A patient still expects individualized care from a provider. The “Doc-in-a-Box” model will not fly with patients. More importantly, such a model is not accepted, or permitted, by providers, or those who regulate health care delivery. A health care franchisor cannot dictate whether an urgent care doctor should take an x-ray or prescribe medication. These are decisions that should be left to the professional judgment of the provider. Therefore, franchise health care providers, and chains, must educate consumers and patients regarding how, why and by whom the services will be delivered.

The separation between the businesses of managing a health care practice and the delivery of the services is a critical distinction between health care franchising and traditional retail franchising. Generally speaking, the laws, regulations and medical board certifications prohibit individuals or businesses that are not licensed in the state from delivering health care services or making related decisions.

There are also other restrictions or limitations related to health care businesses that may arise in franchising. For example, there are restrictions on fee-splitting between the professional delivering the service and other parties, and there are limitations on referring patients to an affiliated service provider. Consequently, the structure of a franchise health care business is often different from a traditional business. The franchise agreement, the operating manuals, and other procedures and policies will address the “back-office” aspects of the business, the management of the office or clinic, but not

health care delivery.

Navigating Multiple Regulatory Schemes

Clearly, health care franchising is not without pitfalls and challenges. Not all medical practices or specialties can fit well within the model. Moreover, franchisors, franchisees and health care professionals must navigate multiple regulatory schemes (franchising and health care), and those regulations and requirements vary from profession to profession, and state to state, and may be different at the federal level. But these challenges are not insurmountable.

Before embarking on a franchise health care business, consider – and address – the following issues:

1. **Health care regulations/licensing.** Understand the nature of the regulatory and licensing landscape of the particular health care business you want to franchise. What are the variations from state to state? May a person or entity that is not a licensed provider in the field own, operate or manage a practice in this field? What restrictions may be in effect regarding management and advertising of this business?
2. **Efficiencies.** What are the business and management efficiencies that may be achieved through franchising? Can these be quantified and monetized to benefit patients, providers and franchisees?
3. **Scalability.** Is the business model scalable and replicable – particularly from state to state?
4. **Legal.** Understand the complex legal issues of a franchise health care model, and create clear contracts and franchise disclosure documents that define (and limit) the rights and obligations of all parties to the relationship, including the franchisor, the franchisee (or management company) and the professional corporation.
5. **Flexibility.** Be prepared to be flexible, as the model and business practices may need to be adjusted as the franchise is rolled out to new states, or over time as business and health care regulations change.

The business, financial, regulatory and consumer/patient landscape of health care is changing in the United States, whether individuals, businesses, health care providers, politicians or regulators like it or want it. Change presents challenges and opportunities. Franchising – if done right and intelligently – can be part of the new health care paradigm. ■



JOHNSON



KIRSCH

Tim Johnson and Mark Kirsch, CFE, are Gray Plant Mooty law firm principals. Johnson, of the Minneapolis office focuses on health care issues. Kirsch, in Washington, D.C., focuses on franchising. Find them fransocial.franchise.org.