

# Franchising Orthopedics-on-Demand

BY WALTER EISNER

**A**lejandro Badia, M.D. thought there had to be a better way.

The Miami hand surgeon was seeing workers comp patients too late. Had he seen them earlier he could have gotten them back to work faster. Instead, they went to the hospital emergency room. In one wrist pain analysis he figured he'd have saved the system over \$10,000 per patient and had that patient back to work three months sooner.



Alejandro Badia, M.D./OrthoNOW, LLC

So he decided to get into the orthopedic urgent care business. Cheaper, faster, better and, most of all, independent from hospitals.

At first, he decided to purchase a general urgent care franchise hoping it would attract patients with orthopedic injuries and function as a feeder for his existing surgery center. That model had a problem however. "The franchise's branding didn't send the message that I wanted to communicate, which was a focus on acute injuries and orthopedic issues," said Badia in an interview with *Care-Cloud* in July 2012. "It didn't attract the population I was looking for."



OrthoNOW, LLC

So Badia went his own way and brought in a couple of orthopedic business pros, Tom Ferro and Mike Carr who had management level experience at Stryker Holdings, Inc., DePuy Orthopaedics and Biomet, Inc.. They agreed to run his own orthopedic care franchise business, which he called OrthoNOW. Ferro serves as OrthoNow's president and Carr heads up sales and marketing.

### The \$14.5 Billion Urgent Care Business

According to *Forbes Magazine*, there are approximately 10,000 urgent care centers in the U.S. handling 160 million patients per year. But almost none of them are dedicated orthopedic care centers. The first orthopedic center in the U.S., Tria Ortho-

paedic Center, was started in Minnesota in 2008. There are now approximately 150 ortho urgent care clinics throughout the country.

The general urgent care industry has, according to *The New York Times*, mushroomed into an estimated \$14.5 billion business. Humana, Inc. paid \$800 million in 2010 to buy Concentra's 300+ clinics. The *Times*, in a July 9, 2014 article titled, "The Race Is On to Profit From Rise of Urgent Care," told of urgent care centers being derided as



Tria Orthopaedic Center/University of Minnesota Physicians

“Doc-in-a-Box” medicine. The *Forbes* July 21, 2014 article titled, “Drive Thru Healthcare, How McDonald’s Inspired an Urgent Care Gold Rush,” said that franchise model fits urgent care well and the long term trends are “undeniable, this market is going to shift toward a handful of large players.”

OrthoNOW execs like the term, “Orthopedics-On-Demand.”

### Badia’s OrthoNow Expands

After establishing the first flagship clinic in Doral, Florida, in May 2013, Badia’s clinic was profitable in five months and has been growing at exceptionally rapid rates ever since. The team is building a second clinic in Miami (opening late 2014) and plans two more locations for 2015.

Ferro and Carr tell us they have 40 potential franchisees in the pipeline in

the Northeast, Midwest and one in Beverly Hills, California.

### Capturing the Patient

The typical patient is an amateur athlete or weekend warrior with a tennis elbow, golf injury or other sport injury. They’re seen immediately by an orthopedic assistant who becomes a concierge-type portal to appropriate orthopedics services. If they require surgery, they can immediately go to the adjoining ASC (ambulatory surgical center) or leave with a scheduled surgery in hand.

Between May and November 2014, out of 448 surgical referrals made by the OrthoNOW clinic, 161 were for sports medicine, including knee injuries, 141 for upper extremity injuries, 87

for foot and ankle injuries and 50 for spinal injuries.

The typical referral flow from the clinic is 25% of the patients go to a rehab center for physical therapy, 17% go to an imaging center for an MRI, 16% go to the ASC for surgery and 3% to 5% are referred to a pain specialist. Those are all referrals and income streams that would have been lost to a hospital had that patient gone to the emergency room.



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When the patient leaves the clinic, they know the costs (which are fully disclosed) and clinic staff deals with the insurance company on an out-of-network basis.

### By the Numbers

If one assumes a clinic sees 750 patients per month with 16% going to surgery and assuming average reimbursement of \$3,000, the monthly incremental net revenue can reach \$350,000. With ASC profit margins between 45% and

60%, annual profits could be as high as \$2 million or more. And that's only the 16% referred for surgery. The rest of the patients also remain within the ortho group's integrated network of services. The company says appropriate agreements are put in place to remain in compliance with the Stark law.

### Ortho Urgent Care Models

According to Ferro and Carr, there are three models for establishing an orthopedic urgent care center.

The first is an extension of an existing ortho clinic that expands its hours to hopefully increase volume to cover all sunk costs already in place. The execs say the benefit of the model comes from the fact that it uses existing space, equipment and employees. This approach is typically less costly and quicker to market. The downside is that the model does not capture patients from outside normal practice parameters.

The second model is a teaching hospital staffed by residents. The pluses of that model are that it is an excellent training ground for residents and can serve as a profit center for the hospital. The downside is that these institutions do not tend to be patient-centric; they bill at hospital ER rates and only benefit the hospital.

The third model is the stand-alone center. The big strategic benefit of that model is that the clinic captures patients from outside normal practice parameters, bills at urgent care rates and is a feeder source for integrated network downstream revenue. They are more costly to build out and take longer to open.

### The Franchise Option

If a surgeon who owns his own clinic or ASC with ancillary services wants to use the franchise model for a stand-alone center, he or she can receive an exclusive single franchise location or an area development agreement over a larger patient population. The franchisee is usually required to open multiple sites in that area.

The current initial fee with OrthoNOW is \$45,000 and a fixed monthly fee capped at \$3,500 for a single location. Additional locations under an area development agreement are \$52,500 with same monthly fee per location. We

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have seen general urgent care franchise fees in the 6% to 8% range of collected monthly revenue.

According to OrthoNOW, typical start-up costs can range from \$185,000 to \$840,000 depending on how much capital equipment is needed. Staffing requirements include a medical director, orthopedic physician assistants, medical and x-ray technician, a business manager and front desk help.

### The Value Proposition

Ultimately the clinic has to meet a market demand by offering something of value. For example, saving an injured worker time, an employer's money and a quicker return to work.

Let's go back to that previous painful wrist that got Dr. Badia thinking there had to be a better way.

Badia's clinic conducted a comparative analysis of a workers comp injured worker with excruciating wrist pain onset during working hours

The total cost when going to the hospital emergency room was \$12,450 and 105 days for the worker to get back to work. The urgent care route cost \$700 and got the worker back to work in 7 days. The biggest cost items for the clinic were two \$250 charges for the examination to determine that patient was found to be tender at the radial wrist. The patient then received an ultrasound guided corticosteroid injection.

The biggest cost items for the emergency room route included a \$1,000 emergency room visit, \$1,300 in physical therapy, \$4,400 to undergo a tenosynovectomy release and \$1,300 in post-op physical therapy.

## Badia's Five Suggestions

Badia offers surgeons some advice if they decide to enter the orthopedic urgent care business through a franchise.

### Clear Message

First, be sure the franchise's message is clearly conveyed to appeal to the right patients immediately. This was why he named his center, OrthoNOW.

### Demand Support

Second, ask your franchisor to put you in touch with another owner on the franchisor's network. Then contact them and find out what level of support to expect. Inspect contracts closely and discuss your needs with the franchisor frankly before signing anything. Establish expectations with your franchisor up front and hold them accountable to providing whatever assistance they promise you in marketing, equipment purchases, location selection, staffing or otherwise.

### Don't Rush In

Third, be prepared. He says you may be in a rush to open the doors and bring in patients—but moving too quickly can end up hurting you. Make sure you're prepared to accept insurance from a multitude of different payers. "At my first franchise, we ended up turning away a lot of people because our insurance situation wasn't prepared to handle all the different carriers," he told *CareCloud*.

Before you open, he says make sure you have effective processes established, a functional infrastructure in place and a staff trained to handle your protocols. Being operational from day one is key to generating success quickly.

### Market Yourself

Fourth, market yourself. He says your franchisor's existing brand presence is a major asset to you. Failing to use it effectively can stunt your chances for success. "My franchisor emphasized the importance of good signage, but we didn't have it right away," Badia said. "I almost wish they hadn't let me open without it."

### Offer Genuine Solution

Fifth, meet your mark. "Business success in this sector is borne from presenting a genuine solution to an existing issue," said Badia. "To do that, ensure that your business provides services that will truly benefit the patients you want walking through your doors." He added that partnering with an on-site surgical center makes all the difference. It provides the ability to have someone walk in the door with an injury, assess it immediately and take them to have surgery in the same building.

Whether orthopedic urgent care centers are called "Doc-in-a-Box," "Drive-Through Healthcare" or "Orthopedics-on-Demand" matters little. If they pro-

vide value to patients and payers, they'll be acquisition targets for insurers.

Oh, do you want fries with that? ♦