Planning for a Freestanding ER

Business strategies from site selection to go-live for independent owners

Abstract

The number of freestanding ERs in the U.S. has doubled during the past decade and continues to rise. Many of these facilities are independently owned and operated by emergency physicians and nurses who lack experience navigating the business aspects of healthcare delivery. From a business perspective, building a standalone ER poses many unique challenges, including site selection, construction project management, resource management, vendor contracting and financial planning. For example, the implementation of an emergency room information system may take anywhere from 16-20 weeks in a hospital. For freestanding ERs, the implementation time is often doubled due to unforeseen setbacks. This, among many other factors, signifies the need for effective strategy and planning. This white paper serves as a guide for independent freestanding ER owners, outlining recommendations for planning as well as questions to ask at key stages of development.

A New Emergency Care Setting

Options for emergency care are no longer confined to the four walls of a hospital. Accessible in more than 40 states, freestanding emergency rooms (ER) offer patients a hybrid between the urgent care clinic and a traditional hospital emergency department (ED) experience. These freestanding ERs operate with the modern-day comforts and efficiency of an urgent care clinic, combined with the full scope of services and 24/7 access provided by a hospital ED. Equipped with lab and radiology services, freestanding ERs have the resources needed to treat most high-acuity patients, and they can often do so in half the time as a typical hospital ED due to lower patient volumes.

The number of hospital EDs declined nearly 30 percent from 1990-2009, according to the Journal of the American Medical Association\(^1\), but the prevalence of freestanding ERs is soaring. Why? The demand for emergency care remains strong and growing, as does the revenue potential.

A Complex Business Model = Longer Implementation

A freestanding ER is more than just a healthcare delivery setting – it’s a business. While some freestanding ERs are owned and operated by hospital affiliates accustomed to navigating this complex business environment, others are developed by independent business owners. From this business perspective, building a freestanding ER poses many unique challenges that someone with a healthcare background may not be equipped to solve alone, including: site selection, construction project management, resource management, vendor contracting and financial planning.

Taking into account the aforementioned considerations, freestanding ER business owners should prepare for an IT implementation time spanning a minimum of 25 weeks. Indeed, implementations at a freestanding ER tend to take double the time generally estimated for a hospital ED. By anticipating the challenges and delays freestanding ERs experience prior to go-live, owners can save themselves significant time, money and frustration.

Freestanding ER Business Challenges

SITE SELECTION
Choosing a location for a freestanding ER requires thorough analysis from day one. Any one factor could result in success, failure or starting over. Business owners must take into consideration:

- The area population: historical and forecasted growth projections, residential density, demographics (age, household income, household structure, race, etc.), local labor market (employment density) and payer mix.
- Competitor locations (both inpatient and emergency services)
- Industry dynamics, such as physician network and alignment
- Ease of access and visibility from the road
- Safety in the surrounding area
- Drive times for patients as well as proximity to suppliers and/or local hospitals
- Zoning regulations – is a business of this nature allowed in the area?
- Taxes (income and sales taxes)
- Traffic – how many cars pass by the location everyday?
- Cost – is the location affordable, or will the cost of rent or construction need to be passed onto patients or staff?
- Regulations – What are the licensure requirements for the state? For example, the State of Texas regulates freestanding ERs’ operating hours and facility attributes; in addition, it requires freestanding ERs to provide an appropriate medical screening regardless of an individual’s ability to pay.

Recommendations for Planning
- Research, research, research. Many freestanding ERs have closed within months of opening due to a lack of patients presenting. The ER site should support an annual patient volume of at least 12,000.
- Develop a comprehensive business plan that outlines how the ER will market the availability of new services in the community.

Questions to Ask
- Is this location fulfilling an unmet need and/or providing a new benefit in the community?
- Will this location be attractive to the kinds of patients and staff the facility wishes to serve and recruit?

CONSTRUCTION PROJECT MANAGEMENT
Independent freestanding ER owners typically either build a facility from ground zero or renovate an existing space. Both options require different considerations.

1) Building From Ground Zero
In the case of starting from scratch, the challenges are elevated. Business owners must obtain permits for the land, secure contracts to purchase the land and finalize the purchase. Numerous laws are tied to the purchase and use of land, so one is not automatically guaranteed the ability to build a freestanding ER atop his/her purchased land. Many new owners lose their designated land and search for a new place in a continuous cycle. These location changes tend to push the ER’s go-live date further.

Once an owner secures the land, the next challenge is to finalize the contract and actively manage a timeline – when can the groundbreaking occur, the final construction delivery date, move-in date, opening date, etc. The timeline includes hundreds of “moving parts,” and can be compromised at any time without careful attention to detail. Unforeseen issues with construction (e.g., rain days, delayed supply delivery, etc.), final inspection and occupancy certificates can alter a construction timeline significantly.

Real-life Scenario
The building is complete, but the city inspector has no appointments available for the next 20-30 days. When the inspector finally arrives, a problem is found. The fire alarms are placed inside patient rooms, but they must be placed on the outside. This issue requires significant changes to the walls and electrical system. Once those changes are made, the time to obtain approval is approximately 30 days. The owner decides to appeal the inspector’s decision. However, appeal meetings occur only once a month. If the appeal is denied, then the timeline for reconstruction is pushed even further.
2) Renovating an Existing Space

Renovations are not as simple as moving in furniture and opening the doors. A site must comply with numerous standards in order to be used as an ER space. Though new construction is not necessary, owners may run into many of the same construction-related issues because they must meet the specifications and requirements for healthcare in that city. Compliance with these requirements takes momentous time and effort, for which many new business owners do not plan.

Recommendations for Planning
• Work closely with a general contractor who is experienced in building healthcare facilities.
• Set realistic expectations for the construction timeline, and adjust the timeline accordingly as the need arises.

Questions to Ask
• Is the layout of the building optimized for patient flow in an ER environment?
• Taking into account time, cost and resources, is it more affordable to build the facility or renovate an existing space?

Real-life Scenario

A freestanding ER owner buys a 9,000-square-foot retail space and sketches out an aggressive timeline for opening. On the set delivery date, the vendor arrives with hardware in hand. However, no one is working at the site to receive the expensive equipment, nor is there a data center in which to store the hardware. The site is unable to keep up with its timeline for renovations.

Recommendations for Planning
• Hire a project manager – the new business needs someone to manage details and secure communication with all vendors and external resources.
• Hire a consultant to help plan the space in the ER for maximum patient flow efficiency.
• Designate a data center. Hire an IT expert to help guide and facilitate the data center and infrastructure for hardware and networking.
• Allow sufficient staffing and training time in advance of testing.

Questions to Ask
• Will staffing/training be complete with enough time to validate and test the system(s)? Will staffing/training begin with reasonable time before the facility opens? (Staffing/training four months in advance may not be ideal and can result in unnecessary payroll.)
• Does the designated project manager have the expertise to address and manage each component of the process?

Real-life Scenario

An information system is deployed and tested by the vendor two weeks prior to the opening of the facility. However, the ER staff is not yet fully trained or prepared to provide meaningful feedback to the vendor regarding workflow.

RESOURCE MANAGEMENT

The communication process between an individual owner and a vendor is radically different from a hospital’s interaction with a vendor. A hospital has a set infrastructure in place, so the vendor has access to an IT department/director, a CIO, clinical analysts, systems analysts, etc. The hospital is able to offer resources and subject matter experts to address each component of a project.

In a new business setup for freestanding ERs, none of these resources are in place, which can cause serious communication rifts between the business and its vendors.
VENDOR CONTRACTING
Freestanding ER owners must sign IT contracts with multiple vendors, including vendors for a radiology information system, a lab information system, medication dispensing, etc. Each of these vendor relationships requires a separate contract, and the contract signature is only one small part of the equation. The business owner must also consider the delivery dates and integration of these systems.

Recommendations for Planning
• Carefully consider all the needed vendors and contracts. Conduct in-depth discovery calls with each vendor.
• Most vendors have a work order lead time of 90-100 days. Plan for delivery dates accordingly as all systems must be connected on the same day a the same time.

Questions to Ask
• What features and interfaces are included in a vendor’s product? What features and interfaces are not included?
• What is the end-to-end cost of integration with all relevant vendors? (i.e., the cost of integration necessary to “send” the data and the cost of integration necessary to “receive” the data)

FINANCIAL PLANNING
Perhaps the most important element of the overall business plan is a solid financial plan. A smart plan takes into consideration all costs related to the business, how revenue will be generated and used, and it includes a contingency for unplanned expenses.

Recommendations for Planning
• Obtain multiple bids for all work orders to ensure competitive pricing. Also, investigate each vendor’s reviews and/or request client referrals. Sometimes less expensive really means “cheaper” and winds up costing more in the long run.
• Consider payment due dates when building the financial plan and negotiate the dates as needed. An owner might secure all the funding needed for a project but may not have access to all the funding all at once.
• Keep any lender(s) apprised of the financial plan as it evolves to minimize surprises.
• Review industry standards to forecast revenue with as much accuracy as possible.
• Re-evaluate the budget at least once a month to ensure there are no changes.

Questions to Ask
• What is the actual total cost for an item, accounting for any costs related to shipping, taxes, installation, service fees, etc.?
• What parts of this project’s cost are negotiable?
• Are my revenue assumptions realistic?
• What are the financial goals for my business, and how will they change after year one, year two, etc.?

Conclusion
While an ER affiliated with a hospital has a lot of additional resources available to it, independent business owners can also achieve remarkable success by creating and actively managing detailed plans for site selection, construction, resource management, vendor contracting and finances.

Real-life Scenario
A business owner purchases lab information system integration from their vendor, without also taking into account the cost of integration from the lab information system to the EHR. The owner failed to plan for the full cost of integration with both vendors, adding tens of thousands of dollars unexpectedly to the budget.