

## **Georgia's Business #421 Enterprising Entrepreneurs Edition – Q&A Session**

### **Guest: Rod Laughlin Founder, Regency Hospitals**

**Richard Warner:** Welcome and on behalf of Georgian Bank, I'm Richard Warner; this is Georgia's Business after the show. We just finished a half hour interview with Rod Laughlin, the founder of Regency Hospital. I thought you did well.

**Rod Laughlin:** Thank you.

**Richard Warner:** You feel good about it?

**Rod Laughlin:** I do.

**Richard Warner:** Let's find out if our audience members who are with us for this broadcast feel the same way. We got questions for Rod, go right ahead.

**Janice Carrins:** My name is Janice Carrins and my question to you is I have some friends who have worked in doctor's offices and they said that if the doctor could get rid of dealing with insurance that he could lower his fees a lot because a huge portion of his budget comes just dealing with insurance. How would that effect you if obviously with long-term patients, you have to have some kind of insurance but as a proportion to the doctors do you have to rely more on that or is it the same if you were to limit people would pay how much of your budget, how much of their budget they will be able to cut back?

**Rod Laughlin:** I understand your question and I understand the doctor's pain. In our business about seventy to eighty percent of our patients are Medicare patients and we see two to three percent Medicaid and the ballots are commercial insurance patients. There is a ton of documentation in all those programs though and we have tons of staff in the hospitals as well as in our corporate office that deal with that issue everyday. I think that maybe the nuclear power industry is more regulated than we are but that's about it. We're so regulated in everything that we do.

**Richard Warner:** Is that bad?

**Rod Laughlin:** It's costly and time consuming but could we do it with less? I personally think we could. My pet peeve is hippo legislation which is designed to protect the privacy of patients. I think the health care industry was doing a great job of protecting that privacy before Congress meddle in it myself and so costing billions of dollars in this country for hospitals and doctors and others to comply with hippo and I don' think that much better privacy than there was before.

**Richard Warner:** People have not been through this before. All you have to do is go through this once and you will understand what the system is. Where you have somebody in a hospital who's going to be there for longer than I don't know week or two and that hospital is very eager to get you out of there even if you're not ready to get out of there which I guess is the core business value proposition of what Regency is about. Where to go after that two weeks?

**Rod Laughlin:** Well, we have hospitals refer patients to us all the time that they will like to be rid of because of the way reimbursement is set up in short-term hospitals but we don't take many of those patients unless they are very very sick and meet the criteria that we feel we can make a difference in their lives. We don't take patients that were going to run up a big bill on if we don't think their prognosis is good and that we can make a difference. For example, we don't take a patient who probably is going to belong to Hopis within a few weeks. We don't take a patient who we're convinced can't make some progress. We really desire to get every single patient who comes to us well and send them home and give them their lives back and that's the encouragement that we give to our patients. They come to us thinking their depressed about their medical condition, the fact that they lost their functionality. They think that if they don't die they may be in a wheel-chair the rest of their life and we try to go to those patients and say look we didn't take you to stay like you are, we took you to get well and go home and so work with us and together maybe we can make a difference.

**Richard Warner:** Take another question, yes ma'm?

**Anne Molindor:** My name is Anne Molindor and I am in the business, but I have a hard time and maybe you can explain something called the twenty-five percent rule. I don't understand is this rationing health care to some of us who need it? Can you explain a twenty-five percent rule in the Medicare reimbursement?

**Rod Laughlin:** What Mrs. Molindor is referring to is a reimbursement ruling that CMS who runs Medicare in America passed in 2004 and basically the concept behind the twenty-five percent rule that hospitals like ours will not take more than twenty-five percent if their patients from a single source hospital. For example, here in Atlanta we couldn't take more than twenty-five percent of our patients from Grady for example. The idea behind this when CMS did it was that it would prevent hospitals from colluding and transferring patients back and forth for financial reasons. Unfortunately, the people who run CMS and have charge of Medicare don't really live in the real world where hospitals work. They seem to think that hospital administrators collude with each other to move patients around and that's not actually true. Doctors make the decision to admit or discharge a patient and doctors do that because of their Hippocratic Oath for the good of the patient not for who's paying the bill or those kind of reasons. SO we in health care think twenty-five percent rule is a ridiculous rationing of health care, it sets quotas sometimes we have to say to patients for example I may have to say to a patient in Grady that really needs to come to our setting I'm sorry you'll have to wait we've already taken our quota from Grady and that's ridiculous and is one of the worst aspects of what the government sometimes does to health-care.

**Richard Warner:** And we'll get more into government in a minute. Go right ahead.

**Chris Bock:** Why yes my name is Chris Bock, you've had tremendous growth over last few years. What is your vision for future growth and also are you trying to influence other towards creating a similar model to what your using that may be more cost effective? It seems like running a very cost effective medical practice and there's a lot of hospitals out there, Grady for one example doesn't seem to be doing a very good job.

**Rod Laughlin:** You ask a couple of questions. We have had rapid growth and I believe there's a huge opportunity for growth in the future. Temporarily CMS our Congress has put a moratorium in place on new Alltec hospitals that will run through 2010. We have five hospitals that we exempt to rule so we can go ahead and develop those, but there trying to slow down the growth in the industry until Medicare can figure out how to pay for it and how to manage it. Right now there four hundred of these hospitals around the country, I think there's probably a demand across the country for twelve hundred so there's plenty of room to continue to grow. Medicare who never really studied this industry to figure out if it's cost effective to them at moment is trying to slow it down. Now they have started some research projects to understand the long-term benefit of Alltec. For example, I was explaining to Richard before we started that absent an Alltec hospital. A chronic care patient checks into a short-term, stays there for two or three weeks until the hospital is exhausted with trying to care for that patient who uses a ton of resources. They then transfer the patient to a nursing home, once the patient has been in the nursing home for thirty days, they re-qualify under Medicare, they come back in the hospital with another acute episode and that cycle gets repeated thousands and millions of times everyday across America and it cost the Medicare administration a tremendous amount of money. My thesis to them when I started this company was if I do the right kind of clinical program and I get a big percentage of these patients well and get them out of the system, I'm ultimately saving Medicare money and I still believe that's true and I think if Medicare studies it appropriately, they'll figure out it's true too Because even though we're expensive for that thirty day stay as long as I'm getting seventy or eighty percent of people well and out of the system their not going back in somebody's else's hospital like Grady, Northside or Piedmont and just repeating a cycle and so we feel like this is beneficial to the country in the long-term. Now there is a difference and these types of hospitals been around since 1985 and to date no short-term hospitals been able to replicate what we do and not just a matter of money. WE operate hospitals in a totally different treatment of philosophy. Short-term hospitals try to be all things to all people and sometimes they do a good job of that with certain patients, other patients like those we see that are very very acute and need a high level of intensity fall through the cracks in a short-term hospital and their just refer to as train wrecks. There people who have seven or eight different conditions wrong, multi-system failures and they don't get very good care in short-term hospitals. When they come to us our philosophy is not to be all things to all people, we design a customized treatment plan for that particular patient in what they need. We bring the medical resources together, we rent the equipment if necessary that there going to need during their stay and we bring five or six or seven physician specialties based on their needs and then we have a very intensive treatment

program including these flash meetings that happen every morning to talk about what is it we achieved, what are doing today, what's the prognosis, and when do we think there's a discharge here and so it's focused on success and it happens every single day and it's very aggressive. We don't shut down on the weekend like a lot of hospitals do and cut the staffing and just kind of coast through the weekend and crank it up on Monday. Our people are way to sick for that, this is night and day intensity level intervention and we that's why we get the great outcomes we do that and the nurses that are committed to deliver the care, to deliver the customer service, and short-term hospitals simply can't do it. You can give them money but unless they have somebody to redesign their prophecies, their results won't change.

**Richard Warner:** You big into process. There was an Emory University program called GPS Eagles which focus on process assistance improvement. As that might imply to anybody business here, to what extent is that the reason that you are profitable?

**Rod Laughlin:** It's a big part of it. I'm partial to that and we're part of that eagles program, I'm partial to it though because it's the right thing to do. I don't want one of my hospitals to be achieving a great success with a particularly compatible category of patients and other people in other hospitals out there trying to reinvent the wheel. I want to look for everything good that's happening in the company and tell everybody about it immediately so that we're achieving those results everywhere. To me it's about outcomes for patients, if I we're in that bed and somebody had a solution somewhere, I want to no about it and I want it to apply for me today and so that's why we do it and it's also a good business.

**Richard Warner:** Go right ahead.

**Ishmael Holmes:** Hi, I'm Ishmael Holmes and college student at Georgia State University and an aspiring entrepreneur. I have a few questions, one did you do before started Regency and what motivated you to make that transition and then what single piece of advice would you have for any young entrepreneur just getting started?

**Rod Laughlin:** Well, before Regency I started a similar company and that company was sold in 1997 to our biggest competitor.

**Richard Warner:** Just in time.

**Rod Laughlin:** Just in time actually...

**Richard Warner:** Because...

**Rod Laughlin:** CMS changed Congress changed Medicare reimbursement in a significant way with a bill called BBA 97, the balanced budget amendment and Congress intended to cut a hundred and twelve billion out of Medicare. They actually with all the things they did, they cut a hundred and seventy-two billion out of Medicare and caused a number of companies to file bankruptcy over the next couple of years they realized their

era and put somebody back in the system and that was helpful and that what happens when the government tries to run health care. What I would say to any budding entrepreneur is just go ahead and do it. When I was much younger working for Charger Medical down in Macon and growing the company I used to think about becoming an entrepreneur and the problem is I think most MBA's are smart enough, that they can also think of the ways it can fail but what I learned after becoming an entrepreneur and what I've learned from the other guys that have been on this show and many other entrepreneurs that I've meet. They don't think about all the ways it could fail. They think about the one way it's going to work and they focus all their energy on making it work and that's exactly what we've done with Regency. I joined with some of these other founders of the company and we created an economic model for what we wanted to do. We talked about strategically how we would be better than the ten or twelve Alltec companies in America. What would we do differently and how would it have an impact on the bottom line and we look at that plan and we thought about it and we thought about what is the motivation for other hospitals to refer these patients to us and how can we help patients, how can we make a difference, why would the doctors that are already rounding in four or five hospitals want to stop a us. I mean all doctors need is one more hospital to stop in and see patients and we came up with all those reasons and so at anything that I do, I like to understand the other person's motivation to help me do what I'm asking them to do and so I think if your an entrepreneur that's what a business plan really is for. It's not to convince the bankers although ultimately you have to do that. That business plan first off ought to convince you, that you're going to be successful and you answer all your questions about it and then once you're satisfied just do it. Most things if you take the first couple of steps and you've thought about it, most things work out more often than they fail, but a lot of people are just hesitant because they're worried about failure whether then really planning hard on how to be successful.

**Richard Warner:** Leap and the net should appear. Have you ever failed?

**Rod Laughlin:** I had things that didn't work the way I thought they were going to but they were not issues that were big enough that you know it impacted the company.

**Richard Warner:** Having fun?

**Rod Laughlin:** So much fun and I'm looking forward to the next adventure.

**Richard Warner:** Rod Laughlin is founder of Regency Hospital. It was a great show, thanks for being with us.

**Rod Laughlin:** Thank you.

**Richard Warner:** Appreciate it. I'm Richard Warner and for us Georgia Public Broadcasting, thanks for watching this Georgia's Business after the show.