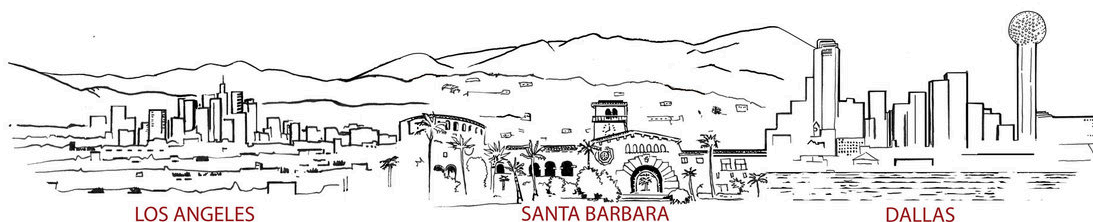


WEISS



August 29, 2025

Several years ago, it would've been difficult to write too much about the strategy of responding to an RFP, i.e., a request for proposal, for physician services. Today, however, with an extreme shortage of physicians, RFPs are not so much a thing.

But, just as the seasons change, dresses get longer and shorter, and men's ties widen and narrow, RFPs will be back, and you must be prepared to understand their basic auction dynamic.

Even more important for those with strategic vision, the current physician workforce shortage presents an opportunity to flip the script on RFPs.

Forward and Reverse Auctions

A request for proposal is a form of "reverse auction". In general terms, a reverse auction is a situation in which the usual roles played by a buyer and a seller in a "normal" auction are reversed.

A normal auction, also known as a "forward auction", is what happens at an auction of fine watches at Sotheby's Hong Kong, at an auction of collector cars by Mecum in Monterey, or even at an auction of weekend trips and pet portraits at a school fundraiser.

In forward auctions, the buyer and seller play their traditional auction roles: There's one seller and multiple potential buyers. Perverse psychology is at play, including fear of missing out, scarcity bias, and consensus. Going once, going twice, and with a whack of the hammer, sold! A 2004 Porsche 911 Turbo crosses the line for \$5,500 more than the asking price of a near identical car with lower mileage for sale on Autotrader.

In an RFP, the roles are reversed: there's one buyer, and multiple potential sellers.

To put this into context, in an RFP for, say, anesthesiology or radiology services, a hospital puts out information about the expected volume of cases and a laundry list of (supposedly) nonnegotiable elements of a potential exclusive contract. The RFP is distributed to multiple potential providers of the service, whom the hospital hopes to whip into a frenzy, underbidding one another. [Similar psychological pressures are at play.]

Forward auctions exist in many business settings. Amazon uses them to play cities off of one another for the location of their next distribution center. So, too, do large auto dealerships and giant retailers (think Costco) for the location of their next store. Each of those is a form of forward auction.

For the same reason that hospitals would struggle in issuing an RFP, a reverse auction, for physician services today, medical groups should consider whether they could adopt the forward auction strategy in approaching facilities, especially those facilities short on coverage and long on locums expenses.

The reality is that forward auctions in healthcare are nothing new, just rarely publicized. And, I'm not talking about anything illegal, not kickbacks or Stark violations, etc.

The place for medical group leaders, especially those of groups that have traditionally competed in response to RFPs, i.e., the hospital-based specialty groups, to start is to adopt a new mindset: Even though you might be a seller of medical services, you can always have the mindset of a buyer of relationships.

If the metaphorical price in the window isn't attractive, you can just keep walking.



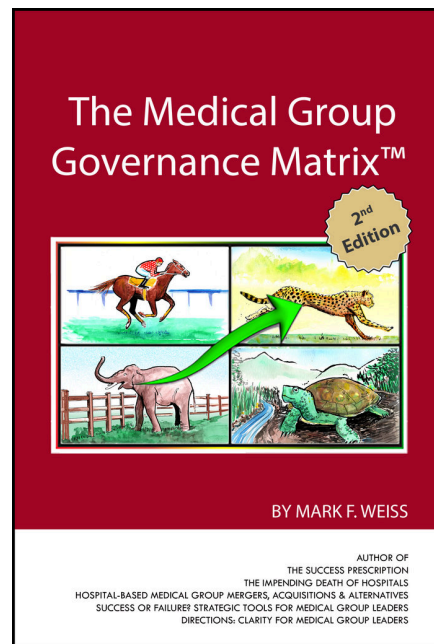
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