Improving Your ASC Profitability

Focus on these three critical factors to boost your facility's bottom line.

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Increasing the profitability of your ambulatory surgery center (ASC) is dependent upon three primary factors: effective utilization of available capacity, aggressive management of the cost per case and customer-relationship management. This article examines ways to manage these three critical factors to increase center profitability.

Utilization/Capacity

For the purpose of this article, utilization is defined as the type and volume of surgical cases performed in the ASC. The objective is to maximize utilization of your operating room capacity. Capacity is a function of available operating hours each week and the number of operating rooms. A center achieves "break even" when surgical volume generates sufficient revenue to cover fixed and variable expenses. Once a center achieves or reaches the break-even threshold, each case performed thereafter contributes to the center's profitability. The break-even point will vary by center depending on factors that include, but are not limited to:

- capital costs of developing the center
- financing of the center's capital investment
- case mix
- surgeon efficiency
- operating costs of the center.

By way of example, a one-room, single-specialty ophthalmic ASC might have a break-even of 30 cases per month, whereas a four-room, multispecialty ASC might have a break-even of 200 cases per month.

Most ASCs have owner and non-owner physicians utilizing the facility. The owners expect premium surgical block time to facilitate effective management of their personnel, practice time and energy. The non-owners have less clout, so they frequently are relegated to a less desirable block time. Critical to maximizing operating room utilization is a concept called the "release point." This is the point prior to the scheduled block time at which the unscheduled time is released and made available for other surgeons to utilize. Unless the ASC takes the initiative, released block time often goes unused and the center's financial performance suffers. It is recommended the release point be reduced to 3 to 7 days. This gives the owner-surgeon(s) and surgical coordinator maximum opportunity to fill the block. The key to benefiting from the "release point" is to have the surgery scheduler work the phones to get that available time scheduled. These outbound calls to affiliated surgeon offices will pay dividends when it comes to increasing utilization.

The "release point" concept can be controversial among the surgeon staff. No surgeon is happy about being forced to release his/her block time. Surgeons prefer to hold on to it just in case a patient comes along to fill it. This is when owner education is imperative. Owners are more likely to cooperate when they can see how unutilized block time negatively impacts center profitability. Here is the "opportunity cost" if two cataract block time slots go unused each surgical day over the course of a year:

Cataract Facility Fee: $950
Facility fee times 2 cases: $1,900
Times 4 days/week: $7,600
Times 40 weeks: $304,000

It is recommended that a center track surgical statistics on a daily basis, including: physician, procedure, start and end times, supply cost per case, labor cost per case and the number of case cancellations. Tracking the reason for case cancellation, when it occurred and whether the case was rescheduled is also valuable. These statistics will provide vital data needed to complete a detailed scheduling analysis and assessment of available capacity. The goal is to assess current scheduling patterns, identify available capacity and discover opportunities to manipulate the current schedule to maximize utilization. A thorough analysis can lead to some crucial discussions. If the owners want to improve profitability, meaningful action must follow this analysis.

The Volume Alternative

When excess capacity is identified, the alternative to curtailing operations is expanding procedure volume. Consider recruiting additional physicians or adding new service lines (i.e., retina, pain management, etc.) to fill unused operating room time, thereby improving profitability. As of this year, CMS has begun increasing ASC reimbursement levels for retinal services (the new formula will be fully implemented by 2011). The revenue opportunity resulting from the addition of this service line needs to be weighed against the cost of securing the capital equipment necessary to support the service, expanding staff and required staff training.

Managing Cost per Case

Cost-per-case management is both an art and a science. Commitment and diligence are required of the facility managers, nursing staff, surgeons and owners. The first step is to calculate the cost per case on larger-volume procedures, such as cataracts. Track the IOL, custom pack, drugs, viscoelastic and anything else that is opened during the case. The variability on cost per case can be significant from surgeon to surgeon. Based on experience, the cost per case for a cataract can range from $117 to $388. Think of the impact this range can have on profitability. To get a true handle on supply cost per case, back out any equipment financing premiums that may be added to the custom pack.

Here are some tips to accurately assess and effectively manage a center's cost per case:

■ ***Track supply costs on a monthly basis***. Utilize an annual bid process to keep the vendors competing for the center's business.

■ ***Meticulously go through the custom pack and analyze each component***. Evaluate whether or not every custom pack component is being used by each surgeon. One surgeon may be utilizing everything in the pack, while another is throwing away three components and not using the piggybacked viscoelastic. This waste has a direct impact on profitability. Consider having more than one pack, or have a basic pack from which all the components are used.

■ ***Some vendors provide rebates***. Take advantage of them. Make sure the center is receiving maximum rebates based on the center's commitment level of IOLs. Some proposals include up to a 20% rebate. Verify the rebate is being received as promised. It is also recommended centers utilize one primary IOL manufacturer. Having multiple manufacturers providing IOLs minimizes the ability to negotiate volume discounts and rebates. Administratively, there are often substantial costs every time a center cuts a purchase order (I have found the cost to be approximately $75 each time). There is also an administrative burden in dealing with four IOL manufacturers.

Please be cognizant there is a significant watch-out with surgical contracting decisions and pharmaceuticals postop kit arrangements. According to attorney Richard A. Wright with Kalison, McBride, Jackson & Murphy in Warren, N.J., "The Medicare/Medicaid anti-kickback statute contains very broad prohibitions applicable to remuneration arrangements between pharmaceutical companies and ASCs. If your ASC is receiving surgical manufacturer rebates or price concessions and the same manufacturer is asking you to change to their pharmaceutical regimen, caution is warranted. The arrangement may violate the Medicare/Medicaid anti-kickback statute. Care should be taken to structure the arrangement so it fits within a safe-harbor exception to the anti-kickback prohibition. If that cannot be achieved, the ASC should refrain from entering into the arrangement."

■ ***Consider the use of reusable phacoemulsification tubing, phaco tips and diamond blades***. The proprietary disposable phaco cassettes and phaco tips often include a significant mark-up and margin for the manufacturers.

Who Is Your Customer?

A center's primary customer is the surgeon. The surgeon does, after all, direct the patient. However, when it comes to surgeons who use the center, the center may or may not be receiving the majority of their surgical cases, even if the surgeons have an ownership stake. Remember, it is quite common for a surgeon to have privileges at other ASCs, area hospitals and/or teaching institutions. As an ASC owner, you are competing for a (hopefully significant) share of their cases. Every additional case added to the schedule has a direct impact on center profitability.

Below are several tips geared to put the ASC in a better position to win over its "customers" and have them regularly schedule a majority of their cases in the center.

■ ***In most cases, the location of where the surgery will take place is a significant part of the patient/daughter/son discussion with the practice's surgical counselor or coordinator***. If the surgical counselor/coordinator provides two or three surgical location choices, and the ASC is geographically farther away, it could be a challenge winning those cases for the center. It is recommended a center

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diligently work on developing or enhancing the relationship with practice administrators and surgical counselors. The best method to accomplish this is by educating them about the center and the superior level of service provided. It is important that surgical counselors know the benefits of sending patients to the center. Solicit input and listen to feedback to improve all processes. Invite the surgeons to complete a preceptorship at the center. Most importantly, increase ongoing communication with all parties, be it by phone, e-mail, fax or text message.

■ ***At every ASC owner meeting, discuss the need and importance for the surgeon's commitment to sending cases to the center***. Review the center's financial and production reports and point out the impact on center profitability of increasing center case volume.

■ ***Celebrate the center's success***. Frequently, a grand opening party will be held within a few months of the center opening, and that's it ... forever. It is important to celebrate milestones and involve referral sources and past patients in the celebrations. Invite surgeons, staff and former patients to the center for a wine and cheese reception after work, etc. Missionary patients (those who want to tell others about the center) can influence other patients to want to come to the center.

■ ***Patients are more demanding about the level of care they receive***. Surgeons need to advise the patient that the center is where the procedure will be done. The surgeon should have a list of patient benefits to be gained by having the procedure performed at the center. Have physician owners add a Web site link to the center on the practice Web site.

Opportunity Knocks

Managing the critical areas of opportunity examined in this article will help improve the profitability of an ASC. By employing the strategies we have set forth above, you will have an opportunity to significantly improve the bottom line, while continuing to offer outstanding care and optimal outcomes. OM


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