

10 KEY FACTORS TO IMPROVE RESULTS IN THE OPERATIONS OF SURGERY CENTERS

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The officers both have extensive experience in operating ambulatory surgery centers throughout the United States. The purpose of this article is to delineate the 10 most important factors to improve the operating results of surgery centers. The following will assist the administrator in a surgery center to focus on the 10 critical factors for the success of a center and prioritize key objectives for the physician owners.

1. Establish measurable Critical "Success Factors" and use routinely. Attached to this article is a list of critical success factors that are used to measure the key results in a surgery center. The MGMA, Ambulatory Surgery Management Society has developed a survey that helps measure these. This survey is available to all those that are in the Ambulatory Surgery Management Society and other members within MGMA. The critical success factors, deal with staffing, pricing strategy, cost per case, and other factors, which need to be measured on a routine basis. The first recommendation of this article is to define measurable key success factors for one's own individual surgery center and compare those with the national survey results. This should be done on a routine basis with results reported to the management committee of the Ambulatory Surgery Center (ASC) and physician owners.

2. Assure Debt Financing is at the lowest possible rates with good terms. Usually there are three sets of financing. The first is the financing related to the real estate and property. The second is the financing related to the equipment; and, the third is financing related to working capital. This may be represented as a credit line at the bank. It is important that all of the existing financing is reviewed on a relatively routine basis (at least every three years). Many times, non-recourse financing is available for equipment and/or some portion of the working capital. Non-recourse scenarios enable the physicians and other owners of the facility to obtain a loan or lease without requiring them to personally guarantee the funds. This type of financing is typically available for a slightly higher interest rate. In many cases, it behooves the physicians to sign a loan like this, rather than further indebted themselves to the center. It is also important to avoid long-term debt on equipment with fair market values at the end of the term. Preferably, the lease should be capitalized. This is accomplished by structuring the lease terms so that the equipment can be purchased by the facility for one dollar. This strategy precludes the center from paying further consulting fees for valuation of the equipment as well as the 10-15% fair market value for the equipment's residual value. Most of the equipment may very well change in terms of the technology; and, the center should not be in the position of purchasing equipment at fair market value when the technology is already

obsolete. Investigate "synthetic" real estate financing by using assets of the clinic to create a loan for the construction of the facility and land financing. There are several specialize in this type of financing. Financing should never be signed with joint and severable terms nor should documents be signed with spouses' signatures (unless this is a requirement of the State). There are many financing companies and opportunities available outside of local banks that will not require joint and severable terms. In looking at the various financing companies, you must deal with established players. These are firms that have been around for over 15 to 20 years and have an extensive list of health care clients, which they have served in the past.

3. Establish an ongoing, Managed Care Contract Review process. It is imperative to continually review the revenue derived from HMO's and PPO's. Comparisons should be made on the discounts given to each payer by CPT Code. Compare the most common terms of the contracts among all payers. If a contract does not make sense after a comparative review, don't be afraid to re-negotiate or cancel the contract especially if the center is unable to get appropriate terms from the individual payers. Use the comparison terms to compare the contract among each of the payers and correct any deficiencies seen in each payer's contract. Let the payer know none of the other players in the market are requiring such demands. This has been a successful negotiation tool at many centers. Sometimes, the institution of a non-participating provider status can be helpful. It may be more profitable to institute this strategy rather than sign up for all the contracts in an area specifically, when the payers submit contracts to the surgery center at rates, which are close to the cost of performing the case, or very close to Medicare. It is not worth adding volume to the center for no increase in Net Income. In this instance, the contract may simply cause the facility to extend hours with no additional profitability. Rather, it would behoove the center to be a non-participating (non-contracted) provider. Many surgery centers finally decided to cancel contracts after review of the volumes that they received from certain payors for the significant discounts that were given. In short, an ASC may see half the number of patient's for over twice the fees and not have to worry about such large contractual allowances. It is important that an ongoing review of contracts is done routinely. The reimbursement and comparisons of reimbursements by CPT Code or by the new APC Codes (once they become instituted) should also be reviewed at the center at least every three months. This is part of the ASC's pricing strategy. A good manager can control the net revenue per case, outside of the mix of services that it offers by clearly watching the discounts given and contracts signed with various payors.

4. Assure Organizational and Ownership Structures that are fair and current. It is important for the administrators to stay current with state and federal regulations and statutes. Each year, a brief review of the National and State health care statutes and should be performed by the center's healthcare attorney, to make sure that the ASC is in compliance with all regulations and

statutes. In addition, if there are any significant changes within the federal regulation statutes that may assist or hinder the center from practicing in a certain manner, these are reviewed as well. Investigate whether there are any beneficial changes in the law. For example, in certain states it is beneficial to change limited liability corporations (LLC's) to LLP's because of the state tax codes. Also, it is important to "prune" the ownership using buy-out provisions in the operating agreement to make room for new physicians before offering new units or shares to existing physicians. This practice is employed to avoid dilution of existing partners and/or LLC unit members. Often times, physicians are retiring and they wish to liquidate their shares. These are excellent units to sell to additional physicians joining an existing partner's practice or new surgeons in the community that would be able to benefit from using the surgery center. Strongly avoid overly aggressive partner and non-partner compensation formulas. Some surgery centers have very strong patterns of over compensating partners; and, the cash reserves of the center are depleted due to distributions, where as the non-partners are still continuous users of the center and need to have equipment and other kinds of investments by the surgery center. If the cash is all taken out at the end of the year, non-partners, as well as partners, will not have enough cash reserves to continue the business in an appropriate way. It is also important to rotate the membership of the medical advisory committee and the governing board to gain fresh ideas and to broaden participation. This occurs every year in most well run surgery centers. It is important that the units in the surgery center or partnership shares, are not sold to groups but sold to individual physicians. The composition of group practices is fragile. Often times, the surgeon who was a key user of the center may leave. If the group owns the share rather than the surgeon, the group retains the unit despite the fact that it has no participants in the surgery center. This may cause legal problems with Stark Laws as well as other kinds of problems. Additionally, there may be arguments to regarding who the share belongs to - the group or the individual physician who allowed the group to participate in the first place. Thus, it is easier for the center to buy and sell shares if individual surgeons own the shares, rather than group practices. However, this scenario is not true if the surgery center is owned solely by the Group Practice on its site. Inc this case, the unit(s) should remain with the group.

5. Establish the center's "Distinctive Competence" to create a marketing edge. The "distinctive competence" is something that the surgery center is known for within the community. It is important that the center administrator identifies "holes" in the ambulatory care market and tries to fill those holes within the ambulatory surgery center. The surgery center will probably be known for two or maybe three good specialties, such as an excellence in Orthopedics or GYN. This will be a reflection of the quality of the physicians using the surgery center. It is important to identify specific specialties and market the specialties to create a position in the community's collective mind that the center has particular expertise in a defined area of medicine. For

example, the center may have a number of orthopedic surgeons who like to work in the sport's medicine area. There may be a large number of knee and joint and foot surgery procedures performed in the surgery center that would give it distinctive competence in sports medicine. That could be emphasized by holding clinics for runners, having lectures by the surgeons about sports medicine, and the center sponsoring a run or another sports medicine type of event in conjunction with the local YMCA or athletic club or football team. The center may have a contract with several sports teams in the area or high schools that would further distinguish itself in sports medicine. In short, the surgery center manager should define two or three areas where it is clear that the center has a "distinctive competence". This definition creates a magnet for the surgery center in these services.

6. Establish an ongoing review of Pricing Strategy. At least twice a year, a comprehensive review of the ASC fee schedule should be conducted. At a minimum, the cost per case on a procedure basis should be verified; and, prices should be reset so that the facility's Net Income margins are achievable. To determine the maximum fee that the market will bear in an effort to exceed these goals, comparisons to the competitors' pricing should be made. Finally, the percentage by which the facility fee schedule exceeds the major payers' reimbursement schedule should be studied. These comparisons can be achieved by researching multiple sources of information. However, three of the most productive avenues are to: 1) Buy bills from local patients by running an advertisement in the local newspaper and offering to pay patients for any competitor bills or Explanation of Benefits (EOB's); 2) Have your surgeons ask their patients to bring them their bills or EOB's; and 3) Study the contractual trends and the Usual and Customary allowables (UCA's) from your top 10 payers. When purchasing bills and EOB's through an ad, it is important to specify that the surgery should have been performed within the last (6) months to ensure the data is current enough for use in the study. Secondly, specify the type of procedures which you are interested in purchasing. You should establish your top 20 types of cases prior to the study and purchase only bills and EOB's that fall into this category. Note: typically, the top 20 procedures will represent 80 percent of the total volume of the center. This method of acquiring data is surprisingly successful if the patient is given the proper incentive. Payments of \$25 to \$40 per bill are usually sufficient and will generate 20 to 30 responses within a month long ad campaign in a metropolitan area. The surgeons in a facility are also a great source of data for fee analysis. Their patients are the ASC's patients. Particularly when an ASC is set up as a physician partnership, the surgeons are more willing to get involved in the operations of the facility than is true in other settings. Make sure that specific procedures are tracked and the preferred dates are specified so that the data obtained is usable. The payers are often reluctant to share data with the facility; since, their objective is to bring the required reimbursement rates down as low as possible. However, by tracking the contractual trends among the ASC's 10 top payers and building payer profiles into the center's computer system, a determination of

how much the fee changes will impact your net revenue can be made. Once the data collection phase is complete, compare the competition's data and the contractual trends to the fee schedule employed at the facility. When looking at the bills, the guiding principal should be to stay 20 to 30 percent below the fees of the competing hospitals and within 10 percent above or below the competing ASC rates. With the contract study, the key is to track the trends. Obviously, if most of the contracts are on a discount from fee type of basis, an increase to the fee schedule will impact the Net Revenue of the center significantly. On the other hand, if most of the contracts are based on Medicare groupers or a flat fee per case, raising fees won't make much of a difference. Moreover, if the Usual and Customary allowables are close to the facility charges, the ASC's fees are too low. The industry standard for write-offs is around 40 percent. Thus, The ASC's fees should be at least 45 percent above the UCA's in your area.

7. Establish and utilize proper Employee and Physician Incentives. Aligning employees' and physicians' goals with those of the center is crucial in achieving ultimate success. A profit sharing plan for employees is a sure way to keep them focused on the goals of the center particularly if the plan is tied to specified goals, which show the staff how each parameter impacts the "bottom line". Employees should be educated on the Profit Plan for the center and should be updated monthly on how their performance compares to this plan. Examples of such goals are:

- Man Hours per Patient
- Staffing as a % of Net Collections
- Supply Cost per Case below what is used in the Profit Plan
- Phones answered in less than 3 rings
- A/R Days at 45 or less
- Inventory less than a certain \$ amount per month
- Net Revenue per Case above a benchmark
- Contractual Allowance and Bad Debt less than the budgeted percentage
- Pre tax Net Income greater than the Profit Plan

8. By employing clinical and business criteria such as those listed above, the specified goals lead to the achieved Profit. These goals, however, are more tangible and show the employees how they can impact the profitability of the facility (i.e., the Net Income are more likely be reached if the explicit goals are being met). Profit Plan formulas vary from one center to the next. In those centers experiencing \$200,000 or more in Profit, incentive pools of 2 to 5 percent of Net Income are common. Distributions are typically handled at any time other than Christmas. The employees should know that the reward is something they earned, not a gift. Most profit plans are distributed at the discretion of the Board of Managers who have the authority to change the plan to reflect changes in the actual achievement of the goals, which may be outside of the employees' control. A center that has lost its license or accreditation is usually disqualified from profit sharing. Motivating physicians

is an important part of ensuring success. The more they feel like part of the facility team, the more they will bond with the center. Forming a physician Partnership is an obvious way of achieving this goal. However, be careful in the way the partnership is structured. Make sure that the partnership is not set up in a way that would cause inducement of cases (i.e., never make payments tied to number of cases the surgeon performs at the center). Rather, distribute any cash based on the pro-rata share of the total investment that the surgeon contributed for his ownership in the center. Whether or not a partnership is in place, it is important to make the surgeon part of the decision team. While the limited liability of a surgeon partner precluded he or she from participating in the day-to-day management of the facility, there are many areas where they can participate particularly in problem solving. Getting a physician to participate in the formation of a solution to a problem ensures that he or she is motivated to see the solution work. Additionally, it is very important to ask the physicians what their needs are; measure how well the center is addressing these needs; and then, report these results back to them. A final encouragement for physicians is to make them feel important while they are at the Center. Personalized lockers and scrubs, breakfast and lunches with their favorite foods, and personalized music go a long way in making a surgeons feel "at home" and keep them coming back.

9. Continually conduct market assessments to Establish New Services. It is important to stay up to date on the latest trends and developments in surgical technology as well as the changes in the standards of care in the area where the facility is located. Conducting market assessments on a routine basis, will enable the center to identify procedures which have been: 1) historically performed only on an inpatient basis but are now performed in an ASC setting; 2) newly enhanced as a result of advances in technology; and 3) newly created categories of treatment as a result of medical research. Over the past several years, there has been a constant shift of surgery from the inpatient hospital Operating Rooms to the ASC's. This fact is true for many reasons. The predominant change is occurring in the Community Standard of Care around the country because of improvements in anesthetic agents and the availability of quality home care. An illustration of concept is the movement of T&A's, Knee and Shoulder Arthroscopies, and most recently Discectomies. When these procedures are routinely being performed on an outpatient basis in the center's community, they should be brought before the Medical Advisory Committee (MAC) for review and potential addition to the Delineation of Privileges for qualified surgeons. Additionally, the healthcare technology industry is one of the fastest growing in the nation. There are new advances in technology being marketed to the surgeons on a daily basis. Many of these new enhancements allow the physicians to perform treatments on their patients with totally new methodologies. An obvious example is laparoscopy, which opened up a whole new arena of outpatient surgery. The growth of the use of lasers in surgery is another example. Most recently, a substantial portion of the Female Stress

Urinary Incontinence (SUI) market has moved into the minimally invasive category through development of a tension free vaginal tape, which can be placed into the pelvis via tiny incisions. These advances are continually presenting the surgeon and the center with new and improved ways to deliver care in a less invasive manner; and should be monitored and incorporated into the center's scope of services as soon as possible. Another important area of market assessment for the center is in newly created categories of surgery. Dermatologists, Oral Surgeons, Neurosurgeons and Pulmonary physicians were not typically part of the utilizing surgeon list in the past. However, with the onset of: 1) varicose vein stripping, 2) new types of dermabrasion, 3)"rubberbanding" instead of wiring in jaw osteotomies, 4) advances in broncho-dilation and other new procedures, we are seeing more and more of these specialists working at ASC's. When considering the addition of new services to the facility, be careful to check out what reimbursement (if any) the insurance carriers in the area are willing to pay for these services. Because of the nature of these new procedures, there may not be a payment category established for the procedure; and, the facility may get caught "holding the bag" if this issue is not address up front. However, since these most of these services represent somewhat complicated cases, they are usually reimbursed at relatively higher rates. Finally, prior to allowing the surgeon to perform the case, make sure that the MAC and Governing Body of the center grant approval for the procedure and the physician. Likewise, this information should be documented in the Physicians' application file. The physician should have similar privileges at a local hospital, and have the appropriate medical education and proctoring to perform the new procedure.

10. Implement Flexible Staffing and Group Purchasing with "Just in Time" Inventory. Very few surgery centers guarantee their employees 40 hours per week or offer preset shifts. It is important that this expectation be clearly communicated to the staff of the facility prior to hiring so that the expectations of the employee are appropriate. Employees should know up front that when case volumes are low, they will be asked to go home early even this means working less than a 40 hour week. Additionally, the traditional 8 hour day may not always be an option in an ASC. Many employees work four, 10 hour days or have schedules that vary even greater. While most employees have a set clock-in time, this time is typically not the same for all employees. For example, the pre-op staff may come in at 5:30 am while the OR staff doesn't arrive until 7:00 am. The business office staff should have varying arrival times as well so that there is always someone available to greet the patient upon arrival at 5:30 am as well as schedule cases from the surgeons' offices as late as 5:00 pm. Group purchasing is another operating guideline that lends the center significant cost savings. If the center is free-standing (i.e., not affiliated with a hospital) it is imperative that some type of leverage be gained with the vendors by participating in a buying group. Amerinet is an excellent purchasing group which is ASC friendly. Groups like Amerinet typically charge a per month

membership fees in exchange for guaranteeing maximum costs that can be charged by a host of vendors. If the center has the volume to justify costs lower than the standard purchasing group rate, it is usually permissible to strike a deal with the local/regional sales rep and lower the price beneath the contracted rate. Savings of 10 to 40 percent are typical when participating in a group purchasing program. Another major cost saving tool is to ensure that the center only has the minimum amount of supplies necessary on the shelves. Inventory should be counted quarterly to ensure that the accounting methodologies employed for cost per case are accurate. At this time, it is wise to inventory what is on the shelves that need not be; and, get rid of it. Expired drugs can be sent to charities; and, those which are still good can be shipped to other OR's for cash or traded for items with other centers and the local hospital. A rule of thumb is to maintain less than 1.5 months worth of total supplies on your shelves. On those items, which can be ordered "just in time" keep no more than a seven day supply. Also, keep as much inventory on consignment as possible. Items such as IOL's, breast implants, and orthopedic screws and plates are commonly offered as consignable items from the manufacturers or distributors. Moreover, the center should maintain par levels (i.e., maximum and minimum levels of inventory) and ensure that the volumes of each item stay within these parameters. If the center does not have par levels established on routine items such as syringes and gauze, a simple way to set these levels is to determine what the average supply usage of each item is by analyzing the utilization amount over a three month period and dividing this number the number of days in the three month period (i.e., 90 days). Next, determine what the lead-time between ordering the item and receiving it from the vendor is. If it takes one day to receive the item, order only a one day supply. If it takes 5 days, order a five day supply. This is your minimum. The maximum amount in "just in time inventory" management will match the minimum amount except in those circumstances where the item cannot be ordered as a single. In instances when the item must be ordered by the case, the case amount is the maximum. Obviously, there will be many items that are not routine and are needed only for a given case. These items should be ordered to arrive "just in time" for the case. This goal can be easily accomplish once the lead-time analysis has been conducted and the distributor is making daily deliveries to the center.

Review and Revise Service Contracts. All surgery centers have a multitude of service contracts in place due to the limited staff employed at this type of facility. These agreements cover services such as housekeeping, preventative maintenance and bio-medical , pharmacy, laundry and linen, hazardous waste removal, landscaping, ambulance, blood bank and the like. Most contractual obligations require a minimum of a one year commitment. For this reason, it is a good idea to go through all of the contracts in place at the facility on an annual basis and determine: 1) Was this a good relationship? 2) Was this service truly needed; and, did it properly cover the services it was set up for? 3) Could I get the same level of service from another source at a

better rate? 4) Is there language that should be changed to enhance the service, And, 5) Have there been any changes to the service requirements implemented by the State or Federal licensing regulations or the accreditation standards? Reviewing these contracts routinely will ensure that the center is in full compliance with all regulating bodies and that the center is receiving the proper level of service at the best price.

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