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Editorial

"In My Experience…Seven Strategies for Enhancing ASC Profitability"

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Conflicts of Interest Statement for Derek Haas

b Porter serves as the Vice President of Clinical Transformation at Avant-garde, leading initiatives to implement cost-saving and revenue-generating strategies in hospitals and Ambulatory Surgery Centers (ASCs). Porter also oversees the research team at Avant-garde Health, guiding studies that highlight the organization's innovative approach to clinical transformation and healthcare optimization.

Porter brings a wealth of experience from his career in hospital administration. He has led multiple departments at the Albert Einstein Hospital in Sao Paulo, Brazil, and founded a network of medical clinics providing healthcare to the medically underserved regions of the city.

Porter is a University of Utah School of Medicine graduate with an MBA from Harvard Business School.

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Conflicts of Interest Statement for Dr. Jones

c Matt Obenhaus is the Executive Vice President of Facility Operations for NueHealth, LLC, a company that owns and operates Surgical Hospitals and Ambulatory Surgery Centers across the United States. In this capacity, Matt is responsible for the overall Profit and Loss for the facility portfolio and manages the facility leadership teams. Matt combines General Management and investor/owner principles and practices to focus on operational, clinical, financial, and growth outcomes as well as investor return on investment. Matt has been serving in general management, product management, and business development roles within healthcare operations and healthcare information technology since 2011 and is committed to roles and companies that are focused on driving consumer-oriented value-based care. Matt is a graduate of the Tuck School of Business at Dartmouth. Prior to Tuck and after graduating from Texas A&M University, Matt served in the United States Army as a Patriot Missile System Officer in successive roles of Platoon Leader, Executive Officer, and Brigade Operations Officer.

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Conflicts of Interest Statement for Matt Obenhaus

d Prashanth Bala currently serves as Shields' Chief of Ambulatory Surgical Services and has been with Shields Health Care Group since 2017. He successfully oversees the development and operations of Shields' network of ASCs. In this capacity, Prashanth has led the organization's programmatic expansion into more complex procedures such as, outpatient total joint replacments, spine, vascular and cardiology.

Prior to joining Shields, Prashanth led the growth and expansion of the ASC network for Froedtert and The Medical College of Wisconsin. He also held positions with Huron Consulting Group and started his healthcare leadership career with the Veterans Affairs health network. Prashanth was Lean certified at The University of Kentucky Chandler Hospital, where he was also an instructor in Lean methodology. When coupling his drive for continuous improvement with fostering relationships and building partnerships, Prashanth has been able to assist organizations in their progress from good to great. Prashanth holds a Bachelor of Arts from Wittenberg University (Springfield, Ohio), a Master of Science in Agricultural Economics from Purdue University (West Lafayette, Indiana), and a Master of Healthcare Administration from the University of Kentucky (Lexington, Kentucky).

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Conflicts of Interest Statement for Prashanth Bala

e Chris Strickland was hired by Shields Healthcare in September of 2022, and currently serves as the Vice President of Ambulatory Surgery Center Operations for Shields Healthcare. Chris oversees the operations of all Shields ambulatory surgery centers. Chris has extensive experience in running multi-specialty ambulatory surgery centers, and hospital operations for for-profit health systems in Houston and Austin, Texas. He has also served as Chief Operating Officer and Chief Executive Officer of CAH and PPS rural Hospitals in Texas and Missouri. Chris holds a Bachelors of Arts in Global Business Management and Marketing. He also holds a MBA with a concertation in leadership, as well as a Master's in Healthcare administration from the University of Houston.

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Effectively employing these seven strategies will help ASCs maximize their profitability.

Profit margins for ambulatory surgery centers (ASCs) can vary significantly. Top decile ASCs have EBITDA (earnings before interest, taxes and depreciation allowance) profit margins exceeding 40%, while those in the bottom quartile struggle with EBITDA margins below 15%. Increasing ASC profitability is more important than ever for surgeons as the ASC income can help offset reductions in their earnings due to decreasing or stagnant payment rates combined with rising practice costs.

Effectively employing the seven strategies below will help ASCs maximize their profitability. These strategies draw from our experience at Avant-garde Health, Nue-Health and Shields Health running and/or partnering with dozens of ASCs to increase their profitability. These strategies are universally applicable regardless of the ASC's affiliation (health system affiliated or independent), the number of operating rooms or clinical focus. The strategies for enhancing profitability encompass reducing the cost per case, maximizing revenue per utilized operating room, ensuring complete collection of accounts receivable and speed of decision making/taking action.

SEVEN STEPS TO IMPROVE PROFITABILITY

1. DECREASE SUPPLY ACQUISITION COSTS

There is considerable variation in how much ASCs pay vendors for supplies, with some centers paying more than twice as much as others for the same medical/surgical products. This can cost an ASC hundreds of thousands or even millions of dollars per year. Vendors often share pricing confidentially and make it hard to compare prices through rebate structures and large numbers of SKUs.

The first step is to determine, for each payer, which products the ASC can bill for versus those that are a cost to the ASC. For instance, Medicare generally holds ASCs responsible for the cost of supplies used, whereas some commercial payers have cost-plus contracts that allow ASCs to bill for the cost of certain products. This knowledge allows ASCs to focus renegotiation efforts on the products which are true costs to the center (which is most of them). The second step for ASCs is to accurately measure their supply costs including any manufacturer rebates they may receive. Since there is large variability in supply costs across ASCs, significant value can be unlocked through utilizing granular supply pricing benchmarks. This information can then be synthesized and shared with the surgeons operating at the ASC to make data informed decisions around the willingness to pay (if any) for products that come at a price premium. In many cases with good data and strong physician alignment it may be possible to reduce supply prices without reducing vendor selection through utilization of cap pricing arrangements. Consolidating purchasing with fewer vendors has the potential to further reduce prices and helps with inventory management by reducing the number of different products that need to be stocked.

2. OPTIMIZE SUPPLY UTILIZATION

Standardizing supply usage across procedures and physicians can lead to substantial cost savings and improve patient outcomes. Not surprisingly, delivering care more consistently leads to both better outcomes and lower costs. Interestingly, the supply utilization improvement opportunity is even greater for ASCs than the supply price renegotiation opportunity. This is in part because there can be even larger differences in average pricing across types of products that can be substituted for one another (e.g. plain vs. antibiotic cement) than there are between what ASCs pay for a particular product. There are also usually substantial opportunities to reduce the use of a particular product that surgeons may be using more than they need to or in populations for which there is limited clinical evidence to suggest that it is effective.

Our experience is that the best way to address supply utilization opportunities is by providing data on the products currently used for each procedure by each surgeon for each of their patients, identifying the alternative products that could be appropriately used for these patients, showing the financial implications of the choices, and summarizing the medical evidence (published or center-specific data) around the efficacy of the different product choices. It is also important for one or more of the lead surgeons at the ASC to discuss the data with their colleagues and reach alignment on appropriate utilization guidelines. This peer-to-peer interaction usually results in the most engagement and behavior change.

3. IMPROVE OPERATING ROOM (OR) UTILIZATION

Maximizing OR utilization is pivotal for ASC profitability. Planning and laying the foundation for OR Utilization begins in strategic planning and budgeting, and in interviews and conversations with surgeons regarding case volume commitments, vacation times, and updates on any procedures that may have recently been authorized by payers as appropriate to be performed in an ASC. From there, managing OR utilization shifts to a daily priority for ASC leaders.

ASC leaders need to have three primary data metrics at their fingertips for planning and managing OR Utilization on a consistent basis:

A. An understanding of OR Utilization by physicians and their care teams relative to their procedure grouping peers.
B. Knowledge of how much of a block is being used on average for each physician (a physician may be effi-

cient on a per case basis, but if they consistently use only a portion of their allotted block then there are potentially better uses for that block time).

C. An understanding of revenue/margin earned per block and per minute.

These financial metrics are extremely useful when understanding the tradeoffs associated with granting and shifting block schedule times from one provider to the next. Even when block schedules are optimized on average there are frequently times that come up where it is possible to do one or more cases in a block than are currently scheduled through utilizing technology to identify and alert administrators to these slots far enough ahead that they could schedule another case in them.

Another component of improving OR utilization is to increase the efficiency of the cases that you are performing. This increased efficiency usually primarily comes from using data to understand where certain providers are outliers in OR case lengths and on-time starts, and improving the wheels-in to incision, close to wheels out and room turnover times. If one can shave 7 minutes off a case that would otherwise take 1 hour, it frees the capacity to do an additional case in the OR that day.

An additional lever to improve OR profitability is to reduce staff overtime expenses if an ASC currently has rooms that run late in the day. Sometimes running long is unavoidable or is a conscious choice, but oftentimes this can be avoided through a combination of addressing reasons why cases may be starting late, more accurate times for expected case lengths or through proactively rebalancing the OR schedule if one or more other ORs are scheduled to finish earlier in the day.

4. ENSURE TIMELY REVENUE COLLECTION

Efficient revenue collection is essential for maintaining cash flow and profitability. ASCs must have clear visibility into outstanding payments owed to them on a case-by-case basis. This clarity allows ASCs to identify which payments have been made in full, which are partially paid and which are still outstanding. It is essential to determine whether the outstanding payment is owed by the patient or the insurance provider. To begin, ASCs should implement systems that provide quick access to detailed information about each case's payment status. This includes the ability to track payments, understand who the payer is for each case, and determine whether the patient has not paid in full or if the insurance company is the source of the delay.

Identifying patterns in payment delays by specific payers is crucial. By understanding these patterns, ASCs can negotiate contracts to encourage timely payments and reduce payment delays. These systems should provide clear visibility into pending claims and facilitate efficient follow-up. Proactive management includes negotiating with payers who consistently delay payments.

Often, ASC leaders fall into the trap of being singularly focused on that months' collection goals against that months' cases. It is critical to stay on top of and manage proactively and aggressively what in industry parlance is called the "aging buckets" - those accounts that are above 60 days old, with documented corrective action plans with physicians (if finalizing documentation is the culprit), business office staff, billing vendors (if used), and payers. ASCs should have written and executed strategies around turning over cases to collections. Technology and strategies around proactive patient payment plans are essential.

It is also critical to optimize the prior authorization process before the patient comes in for the operation. ASCs should routinely review op notes and implement clinical documentation improvement strategies to maximize pre-op authorizations to post-op documentation to ensure timely payment.

5. MANAGE CASE MIX AND CONTRIBUTION MARGINS

Understanding the direct contribution margin on a per-case, per-physician basis is essential for optimizing profitability. By analyzing payer mix and scheduling practices, ASCs can prioritize the most profitable procedures and payer contracts. This data-driven approach maximizes financial returns of each surgical case.

Start by calculating the direct contribution margin for each case and physician, which involves understanding the revenue and costs associated with each procedure. Contribution margins can improve either by decreasing costs or by securing better payment rates. Analyzing the payer mix is crucial, as different payers reimburse at different rates. Even with cases that are profitable for the ASC it may be advantageous to do them in a different location if the margin in the other location is even greater, e.g. the payment rate for the case may be much higher when done in a hospital.

The contribution margin analysis often reveals cases with negative contribution margins. Through the cost improvement strategies described above it is possible to make some of these cases profitable or at least close to break even for the ASC so that it can sustainably see these patients.

ASC leaders will need to ensure that costs are being documented and captured correctly on a case-by-case level within the EMR and supply chain systems. Understanding costs per case, surgeon, block, procedure, and service line are all important.

6. LEVERAGE TECHNOLOGY

Advanced technology solutions are critical to executing these profitability strategies effectively. Comprehensive reporting and executive dashboards enable real-time data access and informed decision-making. Integrating with electronic medical record (EMR) systems ensures timely updates and streamlined operations. For those who may be leery of high cost EMR infrastructure, there are multiple options that exist focused on the needs of the ASC that balance the right amount of functionality with cost models that make sense for ASCs. ASCs should also implement ASC specific digital supply chain solutions and financial management software. Additionally, generative AI technologies enable even those with limited analytical expertise to gain valuable information. Technology should be used to ensure inventory and product usage is accurately being tracked, which is critical to reducing carrying costs and identifying supply opportunities. By utilizing these technologies, ASCs can significantly enhance their operational efficiency and financial performance.

7. RIGHT SIZING THE INITIAL FACILITY BUILD

Before an ASC even has been built yet designing the right size facility is an important driver of future profitability. It is important to ensure there is enough space so that the surgeons and staff do not spend time waiting for rooms to be available. The cost of the people's time is collectively many times more than the annual cost of the building. On the other hand, building more space than is needed can dramatically reduce the profitability of the ASC. Reducing a four OR facility square footage by 25% with modern design, use of technology (such as reducing the waiting room size with digital apps), and reducing the frills that often have no impact to patient satisfaction, can drastically reduce debt and increase annual cash flow by $500K per year due to lower interest, lease, utilities and maintenance cost. Depending on the debt-to-equity level, this improvement could nearly double the ROI for the equity investors.

SUMMARY

Adopting these seven strategies can greatly improve an ASC's financial health, turning it into a top-performing center with strong profit margins. These approaches go beyond simple cost-cutting representing a complete management approach focused on efficiency, data-driven decisions, and technological integration. The success of all these strategies is greatly enhanced when the right partnerships are in place and all partners (the management company, the surgeons, and any hospital or health system owners) are committed to maximizing the potential of the ASC.

By reducing supply prices, optimizing supply use, maximizing OR efficiency, ensuring timely revenue collection, managing case mix and contribution margins, leveraging technology and building the right size facility, ASCs can achieve best in class EBITDA margins of over 40%. This rigorous approach to improvement benefits not only the bottom line, but also patient outcomes through delivering care in a more consistent and data driven way.

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