

So You Want to Own Your Own ASC?

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Asking the Right Questions

Just when you thought your plate couldn't possibly get any fuller, a surgeon in your group comes up with an idea: why don't we build our own free-standing ambulatory surgical center? That's no small request, especially when you learn that it can take up to 2,000 man hours to develop and launch a successful ASC.

If you're like most surgeons, your colleague's question is only the first in a long series of interrelated questions that will help you determine if an ASC makes sense for your practice.

- Why develop an ASC?
- What about the financials? What are the costs and potential gains?
- How should we work with payors?
- What are the competitive and regulatory issues?
- Should we go it alone or take on a management partner?

Why Develop an ASC?

The first step is to assess your needs and goals to see if an ASC is a viable option. For starters, what is your motivation for owning an outpatient facility? In some cases, physicians are motivated by the ancillary income. But, in our experience, most physicians want to own their own ASCs because they find hospital environments inefficient, difficult and generally not conducive to doing their best work. They can't schedule patients for surgery in a timely manner. Their surgeries are frequently delayed by more urgent inpatient cases. There is as much as 30 minutes of downtime between surgeries; that's 30 minutes of lost productivity and lost revenue. By contrast, the most efficient outpatient ASCs barely allow enough time even for a cup of coffee between procedures; less than 10 minutes between cases is the benchmark for Blue Chip-managed facilities.

One other critical concern: because hospitals have every specialty under the sun using the same ORs, very few members of the supporting staff are well-versed in specific procedures. A free-standing facility, with limited types of specialties, allows staff to concentrate on a select few procedures. This level of focus creates a more comfortable and flexible workplace, which also aids in recruiting the "cream of the crop" professionals.

The bottom line is that the inherent inefficiencies of hospitals can cut deeply into a surgeon's schedule, limiting time for family and personal commitments. That's why surgeons often see an ASC of their own as an opportunity to get a tighter grip on their professional life and create more time for their personal lives. Increased control and productivity in the workplace and more time for personal pursuits – these are very good reasons to open your own center.

Improving the quality of care and the patient experience are the underlying concerns for nearly all physicians. An ASC can offer a convenient and comfortable environment for the patient, a less-costly option for those with self-pay, large deductible or co-insurance responsibilities. Outpatient ASCs also bring with them an atmosphere of technological leadership and support for advanced, minimally invasive surgical procedures. How important is it to your group that they be perceived as innovative and leading-edge? Are they looking to advance the quality of healthcare delivery by shifting inpatient procedures to an outpatient setting? A free-standing center often is the best choice for such groups.

What about the Financials?

The prospect of increased control and freedom typically gets physicians very excited about ASC ownership, but it's important to carefully analyze the full range of financial considerations before jumping into a project. The first consideration is the cost of owning a center, which includes up-front investments to develop

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the business, as well as ongoing costs to operate and manage it. The overall cost, clearly, depends on the size of the planned facility, which should be based on the number of cases you anticipate performing. But it also hinges on the cost of real estate and the number of surgeon-investors. The goal should be to have as few surgeons as possible handling as many cases as possible. In other words, you only want to build an ASC with highly productive physicians who can deliver a sufficient number of cases.

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In projecting your potential caseload, there are a number of regulatory issues to bear in mind. For instance, you must be sensitive to Federal Medicare Anti-kickback laws and existing safe harbor requirements when choosing other physician-investors. Remember, ASCs are exempt from Stark self-referral laws.

Some physicians wonder about the pros and cons of single-specialty versus multi-specialty facilities. There's no easy answer. Single-specialty ASCs typically require less customization, and equipment/supply standardization is easier. On the other hand, multi-specialty participation provides some protection from dramatic reimbursement changes by Medicare and commercial payors and can help boost annual per-OR procedure volumes. It's a question that must be analyzed on a case-by-case basis.

The volume required for financial success in a free-standing facility varies according to expenses and reimbursement. We recommend, for example, that you build for existing volume, with a target of 1,500-2,000 cases per operating room. And even that number will vary depending on the procedure mix.

While you should build based on current volumes, don't forget to look ahead. If you're planning to recruit another physician soon, you might want to consider simply shelling out a room and equipping it later when demand warrants.

Don't underestimate the importance and complexity of how the project is financed. Typically, these projects require capital of \$3-5 million. Figuring out the ideal structure with regards to recourse vs. non-recourse debt, joint and several vs. pro-rata liability, interest rates and other factors will have significant financial and legal implications on the physician partners.

As you can see, the list of financial considerations is long. But the good news is that the potential upside makes all the careful analysis worthwhile. The ASCs Blue Chip has helped to develop have seen annual ROI levels of 50-100%. It's that sort of success that has made ASCs a very attractive alternative to using hospital-based ORs and, therefore, a powerful recruiting tool for new surgeons.

How Should We Work with Payors?

For your ASC to succeed, you must have effective working relationships with payors – period. That means someone on your team must understand the frequently used CPT codes, high-end implants and hardware, as well as reimbursement rates, case costing and “favored nation” agreements within the provider community.

It's an awful lot of detail to manage, which is why successful ASCs rely on highly skilled administrators, experienced partners or both to handle it. Surgeons don't have to be experts in these matters, though they it's important to understand why they're important to the business and to commit to supply standardization and other relevant best practices.

One last point: don't consider health plans the enemy, but rather as a partner in the delivery of cost-effective care. The relationships take work, but they're critical.

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What Are the Competitive and Regulatory Issues?

Surgeons thinking about ASC development must consider the competitive and regulatory environment. Though administrators or development partners are likely to take the lead in the necessary licensing and certification processes, surgeons should know if a Certificate of Need is required for development. If so, you face a whole new set of implications (like a potential limit on the number of ORs).

Surgeons also need to recognize political ramifications. For instance, many community-based hospitals oppose free-standing centers, because they fear the loss of profitable business. Thus, they may try to block regulatory approvals. Also, make sure you know how many other ASCs exist in a 25-mile radius; you don't want to add to a saturated marketplace.

None of these factors are automatically “deal killers,” but addressing them upfront greatly increases the likelihood of long-term success.

Should We Take on a Partner?

For many physician groups considering an ASC development project, the final question is often whether to go it alone or work with a corporate partner. You must first assess your current in-house resources. Remember, it can take up to 2,000 man hours to take an ASC project from concept to reality.

Next, check out the external resources you'll need, including architectural, legal and financing services. What kind of expertise and bandwidth is available to address critical areas like payor contracting, equipment selection, regulatory issues, human resources, governance and inventory control? Do you or a colleague personally have the time and knowledge to manage all this? The best partners are able to provide sound practical advice and clear recommendations in all of these areas.

Corporate partners can help you avoid common causes of ASC failure, including overbuilding, overstaffing and lack of trust among partners. Specifically, experienced partners can help ensure that potential surgeon-partners don't overestimate the case volume they can bring to the center, and that candidates are fully committed to the business vision. Further, they can take the lead in defining the mission and business plan, communicating clinical and business performance data, and building a culture of trust and transparency.

The Bottom Line: Finding the Right Answers

In our experience the surgeons who find the most success with outpatient surgery centers are usually the ones who give the most careful consideration to all the aspects of running an ASC. They are in touch with their core motivations. They understand the financial implications and are honest with themselves about their – and their partners' – ability to deliver cases. And they are realistic about taking on additional management responsibilities. Usually, that means they do the necessary work to find a qualified partner who can help them succeed.



Blue Chip Partners creates and manages highly profitable, physician-led ambulatory surgery centers.

Find out more about our people, passion and many successful partnerships. Contact us today. 513.561.8900 or info@bluechipsurgical.com