

Spine ASCs: Avoiding the Common Causes of Failure

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I am a great believer, personally and professionally, in the potential of spine surgery centers to deliver a higher quality of care and greater satisfaction for patients and a higher quality of life and practice for physicians (as well as a reliable source of ancillary income). The successful projects I've been involved with at Blue Chip have confirmed my faith.

But, as a physician and businessperson, I'm a realist. Up to 30% of ASC projects perform sub-optimally or fail, and the rate is even higher for spine ASCs. That's an astonishing figure when you consider that the most common causes of failure can be avoided, given effective planning, strong management and a firm commitment to partnership. The main risks are:

- Physician failure to deliver cases
- Poor case costing and sub-optimal payor contracts
- Lack of physician engagement
- Death by administrative detail
- Overbuilt facilities

Physician Failure to Deliver Cases

Unfortunately, many physicians overestimate the number of cases they will bring in. They may claim that they can bring in 200 cases to the ASC, when 100 is more realistic. Some doctors are mistaken in their calculations perhaps counting on referring older patients who in general are not a good fit for outpatient surgical environments. Others misjudge their stature in the local medical community or their own productivity. Another group may be so desperate to join a physician syndicate developing an ASC that they wildly overstate their caseloads. Whatever the motivation, if physician-partners don't deliver the cases they say they will, the business will fail.

Poor Case Costing & Sub-optimal Payor Contracts

To a significant degree, the high failure rate of spine ASCs can be attributed to the difficulty of establishing profitable contracts. The contracts on which the partnership is based must reflect accurate volume estimates, but also address the right types of cases. To identify those cases precisely, a number of factors must be taken into account, including the age and health of the patient, in-network vs. out-of-network reimbursement, and Medicare groupers and payments. It's not a simple task. For instance, there are fewer cases for out-of-network, but they pay better. If a spine surgery center includes physiatrists and pain management specialists, they may need to accept the lower Medicare payment for epidural injections at an ASC (as opposed to in their offices) to ensure the referral stream stays strong from other neurosurgeons. Similarly, the physician partners must commit to standardized processes and suppliers for implants and hardware. Standardization means some doctors have to compromise, but they will be paid back with a strong financial foundation for the business. Spine ASCs don't work as effectively if all the doctors do their own thing.

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Especially for spine centers, financial success starts at the beginning. If you don't negotiate strong contracts and good prices on procedures, implants and supplies, your prospects for success will be severely limited. You'll start with a distorted business model and likely face a cash flow crisis later. Further, you must monitor contracts, and renegotiate them as reimbursement rates change. For all of these reasons, many spine surgery centers turn to partners with experience in case costing, contract negotiation and determining when "carve-outs" make sense.

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Spine ASCs: Avoiding the Common Causes of Failure *continued*

Lack of Physician Engagement

We believe surgeons make excellent business decisions, provided they are well-informed, trust their partners and have access to the best available data regarding market demand, their own surgical center and contracting matters. But engagement takes time. Doctors must carefully review the business plans and data provided to them and ask questions of each other. Spine surgeons who are only lukewarm to ASCs, or aren't fully committed at the beginning won't become strong long-term partners. Like any other collective endeavor, ASCs require everyone working together toward common goals. Having interest, both financially and philosophically, matters.

An effective vetting and selection process helps ensure the right surgeons join the partnership. Just because a surgeon has the money and claims to be interested in developing a spine surgery center doesn't mean he or she is automatically a good candidate for ownership. The key questions to ask are:

- “Do the individual surgeons have the cases?”
- “Do they buy into the vision?”
- “What roles will they play in the oversight or leadership of the surgical center?”

Physicians must also understand how the business is structured, in terms of investment and cash flow requirements, ROI targets and pay-out timelines.

Death by Administrative Detail

Strong spine surgery centers must do a few things well – starting with quality care – while making sure that thousands of small things don't overwhelm the business. The operational issues seem small relative to the end goal of clinical excellence, but they are important. Contracting, billing and accounting, legal and regulatory affairs, scheduling and staffing, patient administration and communication, marketing – there are many moving parts to manage. Therefore, there must be clear accountability, with all surgeons understanding their responsibilities, as well as those

of external management companies, in ongoing administration and management.

Overbuilt Facilities

Spine surgery centers usually succeed because operating rooms are managed for maximum efficiency and throughput – not because there is extra space. In our experience, additional ORs are not necessary for profitable businesses, and especially not at the outset. Plus, if the demand is there, a second OR or new facility can always be added in the future. The ideal capacity and expansion potential should be determined through a careful evaluation of the market and the caseload.

The Bottom Line

The large percentage of failed spine surgery centers rightfully give pause to surgeons considering the development of their own. Physicians should absolutely think long and hard before they get into the ASC business. But the good news is, the ASCs that fail usually do so on account of a few common risks that can be mitigated through careful planning, strong partnerships and effective management.

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