

Why ASCs Fail

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As ambulatory surgery centers (ASCs) have become standard features of the healthcare landscape, physicians have sorted themselves into optimistic and pessimistic groups. The optimists are those who have experience with successful ASCs and have enjoyed the benefits of higher patient satisfaction, ancillary income and more control over their operating environment. Pessimists are typically those who have been involved in failed or underperforming ASCs.

The latter group is large. According to estimates, up to 30% of ASC projects fail, or perform sub-optimally. There are a number of common causes:

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

The culprits vary based on individual circumstances, but there is good news in that most of these risks can be managed effectively, with a little careful planning.

Poor Physician Vetting and Selection

Just because a surgeon has the money and claims to be interested in developing an ambulatory surgery center doesn't mean he or she is automatically a good candidate for ownership. When putting together a partnership, the key questions to ask are:

- "Do the individual surgeons have the cases?"
- "Do they buy into the vision?"
- "Are they committed to the project?"

These questions speak to the need for clear communication and broad consensus around the

key principles for the business. Physicians must also understand how the business will be structured, in terms of investment and cash flow requirements, ROI targets and pay-out timelines. An effective vetting and selection process helps ensure the right surgeons join the partnership, setting up the partnership for success right from the start.

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 300 cases to the surgery center, when 100 is more realistic. Some doctors are just mistaken in their calculations, and some misjudge their referral network or productivity rates. Still others may be so desperate to join a physician syndicate developing an ASC that they overstate their caseloads. Whatever the motivation, if physician-partners don't deliver the cases they say they will, the business will fail. It really is that simple.

The risks that cause 30% of ASC projects to fail or perform sub-optimally can be managed.

Lack of Physician Engagement

We believe surgeons make excellent business decisions, provided they are well-informed, trust their business partners, and have access to reliable data regarding case costs and contracts. But engagement takes time, and requires more than making a vow. Doctors must carefully review the plans and data provided to them and ask questions of each other. Physicians who are only lukewarm to the vision at the beginning are not likely to become strong long-term partners. Like any successful team-based endeavor, ASCs require

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everyone working together toward common goals. Having interest in the game, both financially and philosophically, matters. Fully-engaged physicians are capable of building trust with each other and their partners – a key ingredient for successful ASCs.

Poor Case Costing, Sub-Optimal Payor Contracts

Thanks to inaccurate costing and weak contracts, many ASCs never give themselves a chance to succeed. In some cases, doctors don't know or don't trust the cost projections. Other times, there is insufficient understanding of payor contracts, which leads to unprofitable or inappropriate cases being referred. It's an easy trap to fall into given all the considerations – whether carve-outs make sense, in-network vs. out-of-network, etc. Ideally, all participating physicians in an ASC should know the cost of each and every case, and agree on clear, objective projections up front. That level of insight allows ASCs to negotiate strong contracts, which lay the groundwork for profitability. But strong contracts alone don't guarantee ongoing success. Contracts must be implemented effectively and reviewed regularly to ensure they still work as reimbursement rates evolve.

Death by Administrative Detail

Strong ASCs 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 may seem small relative to the end goal of clinical excellence, but they are critically important for the business. There are many moving parts to manage, including contracting, billing and accounting, legal and regulatory affairs, scheduling and staffing, administration, patient communication and marketing. Surgeons must understand their responsibilities, as well as those of external management companies, in the ongoing administration of the business.

Overbuilt Facilities

Ambulatory 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 third or fourth OR can be added in the future, or an entirely new facility built. 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 surgery centers rightfully gives 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, ASCs that fail usually do so on account of a few manageable factors that can be addressed through careful planning and strong partnerships based on trust, shared goals and attention to detail.



Blue Chip Partners creates and manages highly profitable, physician-led ambulatory surgery centers. Our businesses help physicians gain more control of their practice and their life in environments where they can do their best work.

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