

## The 5 C's: Keys to Success in Multi-Specialty ASCs

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### A Time-Tested Model

Whenever someone asks me what it takes to succeed in the outpatient surgery center business, I immediately tell them about “the 5 C's.” These are the five core concepts or competencies that must be mastered by physician-owners at all types of ambulatory surgery centers (ASCs), in every region, if they are to prosper. The 5 C's are:

1. Case volume and mix
2. Contracts
3. Case costing
4. Compressed schedules
5. Cash management.

I will highlight each of these in more detail below, but our experience in the industry has taught us that these principles are requirements for highly profitable, clinically outstanding ASC businesses. Thus, they provide the foundation of the business model for all centers in which we invest, and serve as a means to engage our surgeon-partners around common goals and shared responsibilities.

It's important to note that the 5 C's also apply to spine-focused surgery centers. However, given the unique nature of outpatient spine, there are additional requirements for success. The “3 C's for Spine” can transform feasible business plans into absolutely outstanding ones. Read *The 3 C's for Spine: Keys to Success in Spine-Focused ASCs*.

### 1. Case Volume & Mix

ASC success is predetermined long before the doors open. We firmly believe that no surgery center should be launched until the right volume and mix of cases are assured. While many surgery centers start with the

assumption that they'll grow into sufficient volume over time, ours is a fixed-cost business; hence, a baseline volume is required to support operations. At many underperforming facilities, optimistic partners start digging a hole on day one and are never able to climb out.

An analogy from the travel business: an airline with the most experienced and skilled pilots, the friendliest staff, best reservation system and most attractive fares will still lose money if only 50% of the seats are filled.

Business plans should be based on highly detailed and rigorously validated case volume projections. These projections should be viewed as a “go/no-go” decision in the planning process for new ASCs. Once facilities are operational, case volume and mix should be monitored and analyzed carefully, by surgeon, with the results communicated to all stakeholders and compared each month to original projections. That way, issues can be identified proactively and addressed quickly, long before the hole gets too deep.

### 2. Contracting

It's impossible to overestimate the importance of strong contracts to outpatient surgery center success. In our experience, 20% of the cases generate 80% of the profit. An ASC's contract portfolio must reflect that ratio. That's one of the few generalizations that can be made about contracting, however. Questions about in-network vs. out-of-network (OON) rates, particular market conditions and constantly changing reimbursement rates mean each ASC needs to seek contracts tailored to its unique goals, specialties and location. Contracts for supplies, implants and instruments must also be negotiated carefully. Because of the complexity and many details involved, contracting is arguably the area where corporate partners deliver the most value.

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For multi-specialty ASCs considering the addition of spine cases, there are unique contracting issues – like the lack of Medicare groupers and possible inclusion of pain management cases – to be addressed. Certainly, the revenue potential is terrific, but OON contracts must be properly managed to realize the high upside.

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Considerable follow-up work is necessary, too, to ensure contracts are executed properly. First and foremost, claims and billing must be monitored to ensure claims are paid accurately and in line with negotiated agreements. Payor relationships must also be tended carefully over the long term, with an emphasis on mutually beneficial arrangements. Re-negotiation strategies should be ready in case of regulatory changes or market shifts.

The point is that optimal contracts are usually moving targets; ASCs willing to do their homework can often improve contracts after they're signed. In fact, we revisit each contract at least twice each year, and usually end up with valuable changes.

### 3. Case Costing

One hallmark of profitable ASCs is that everybody knows how much it costs to perform and the reimbursement rates for every case. That includes variable costs (like supplies and instrumentation). Further, surgeons and staff alike understand why those figures are important and how they affect the bottom line. In outpatient spine facilities, with more expensive equipment and implants involved, the value of case costing only increases.

The costs of case are closely related to volume projections in that collectively they define the

requirements for profitability and provide insight into contracting needs, physician preferences and practice patterns. Put simply, without accurate case costing data, it's difficult to tell a profitable contract from a money-losing one. With detailed data, surgeon-owners will quickly see what drives profitability and where improvements are necessary. Strategically, case costing provides the transparency necessary to build strong partnerships. Operationally, it clarifies the need for supply standardization, comprehensive fee schedules and other financial management best practices.

### 4. Compressed Schedules

Schedule compression is an important – but often undervalued – technique for improving productivity. It can also boost revenue by making time for non-owner surgeons to use the ASC for add-on cases. Clustering procedures helps ensure that staffing costs and other overhead are minimized at lower-volume ASCs. We counsel our surgeon-partners that it's perfectly acceptable to turn off the lights for a day or two if caseloads are light.

Busier centers will want to employ best practices such as block scheduling, team preparation and clean-up, and OR reservation deadlines. Physician partners have the first opportunity to choose blocks of time based on their historical procedure volumes. Turnover times of 10 minutes or less between cases should be the goal for many types of procedures, with a block utilization target set at 85%. Procedures should start on time as a rule, not an exception. We recommend releasing unscheduled block time 48 hours in advance and making it available to other surgeons for semi-urgent or overflow procedures. Performance against all of these goals should be tracked and communicated regularly.

Meeting targets for fast turnaround and high volumes requires a strong commitment to efficiency and productivity on the part of surgeons and staff, but we believe the effort is worthwhile, as more efficient OR management results in more revenue for the business.

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### 5. Cash Management

Managing cash is all about managing accounts receivable (AR) and ensuring contracts are administered properly. Top-performing ASCs manage these tasks more effectively. That's true for all types of centers. Conversely, almost all unsuccessful centers struggle with AR. "Swamped," "overwhelmed," "nightmare" – those are the words most often used to describe ASCs with serious AR issues. The stakes are high, however. Out-of-network cases may require that ASC staff collect \$20,000 checks from patients.

How to avoid common AR issues? Efficient, knowledgeable and detail-oriented staff – whether employed by the ASC or a management partner – is a must. The goal is to process every claim expediently and stay on top of AR status at all times. That starts by completing insurance forms long before treatment day, securing pre-authorizations and always taking co-payments when patients arrive. It's particularly important for out-of-network cases that potential problems are identified early, with patients made aware of the process and their responsibilities. This approach should be standard operating procedure.

Further, post-treatment, OP notes should be based on templates and processed quickly, claims submitted electronically to payors, and individual claims followed up aggressively. Yes, it's a lot of work, but that's how centers can operate at 38 days or less of receivables. Again, the payoff – strong and predictable cash flow – is well worth the effort.

### Bottom Line: The Hallmarks of Success

Many of our surgeons-partners are motivated to join ASCs because they want to focus on treating patients and delivering the highest quality care. In other words, they have very good reasons for investing in an ASC. And while some surgeons really enjoy the business, most are less interested in the details of claims management, supply standardization or payor negotiations.

That's why we developed the 5 C's (as well as the *3 C's for Spine*). They help surgeon-owners understand the importance of a few simple, but powerful principles that add value to the business and boost ROI. Such high-level understanding is useful, we believe. But the C's are also valuable in highlighting the many moving parts that must be monitored and synchronized if an ASC is to achieve near- and long-term profitability. In other words, multi-specialty ASCs that master the 5 C's are well on their way to success.



*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.*

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Contact us today 513.561.8900 or [info@bluechipsurgical.com](mailto:info@bluechipsurgical.com)**