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Different Approaches Help 5 ASCs Find Turnaround Success

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Good third-party management companies that have specific expertise in the ASC industry are often successful in turning around financially struggling facilities. This is because they are able to evaluate an ASC's operations and effectively identify problem areas and resolve them. While a management company may not be the solution for every ASC, the five case studies presented here depict ASCs that benefited greatly from working with one and may assist an ASC in identifying its own potential areas of concern and provide some solutions.

Case study No. 1: Prexus renegotiated key fiscal contracts to pull an ASC out of the red

In 2002, a failing multi-specialty ASC approached Prexus Health Partners for help. The 13,000 square foot center opened in 1999 and had 19 physician investors. Despite a volume of more than 6,000 cases in the previous year, the ASC lost approximately $300,000 that year. Prexus discovered many fiscal and operational problems within the ASC; foremost among them was an out-of-touch management team that had advised it poorly.

"Because the management company was remote it did not understand the local market and therefore did not have the knowledge to properly guide the ASC in matters related to the local commercial sector," says Donald J. Jansen, MHA, vice president for development of Prexus Health Partners. This resulted in four main problems: inadequate managed care contracts; rent far above the community standard; debt financed by excessively high interest rates; and disproportionately high used equipment costs.

Upon taking the ASC on as a client, Prexus resolved most of the problems. First, it evaluated the ASC's managed care contracts and renegotiated those that were unprofitable so that they would provide adequate compensation. "In some cases Prexus was unable to obtain sufficient compensation and in those cases advised the ASC to drop contracts," explains Mr. Jansen.

Second, Prexus renegotiated the ASC's facility rental contract to a monthly payment the ASC could afford and one that was more reflective of the market rate for the community. The ASC had been paying a rent that was 65 percent higher than the standard in the community. "This renegotiation was not an easy one and basically occurred 'under the threat of bankruptcy', a concept the landlord could understand," says Mr. Jansen.

Third, to cure the enormous debt expense, Prexus refinanced the ASC's debt to a more manageable rate that better reflected the current lending market. "We were able to work with a bank experienced working with our company in order to achieve a more reasonable interest rate for the ASC's loan," says Mr. Jansen. In three years, Prexus successfully decreased the ASC's debt expense by more than 25 percent. Lastly, Prexus addressed the issue of the equipment costs but could not undo the past mistakes. "The prior management company acquired used equipment for the ASC at prices comparable to new equipment. Because the equipment could not be returned, the money was lost," regrets Mr. Jansen. However, Prexus advised the ASC on how to make knowledgeable equipment purchases in the future, he adds.

Prexus' turnaround scheme at the ASC has been a great success. After instituting these changes and making the ASC more efficient, in three years the ASC went from a loss of 8 percent of its net revenue to a gain of 23 percent. "We continue to work with this ASC and the physician owners continue to garner a profitable return on their investment," says Jansen.

Case study No. 2: Surgical management hired a leader to turn an ASC around
A multi-specialty joint venture ASC was losing money and came to Surgical Management Professionals for help. On its face, it appeared that the ASC simply had some billing problems that adversely affected revenue. However, on closer inspection, Surgical Management determined that the ASC was failing because it lacked any real leadership. In response to the immediate fiscal issues, Surgical Management reviewed and resolved the ASC's billing and revenue issues. For the long-term, it sought out and hired a qualified and effective leader for the ASC.

The ASC was operating with an unproductive and inefficient front-office resulting in a loss of cases. "For example, the front office did not operate in a customer friendly manner and so physicians and patients had a difficult time scheduling appointments," recalls Doug Johnson, executive director of Surgical Management Professionals.

In addition, there were billing problems. "We found big piles of charts that were either not billed or re-billed in accordance with the payor's requirements. Many of the charts were also coded incorrectly so that maximum revenue would not be billed. Cleary this resulted in a huge loss of revenue for work that had been performed and because this earned revenue was not entered in accounts receivables, there was no way for a bookkeeper to know it was missing," he explains.

To resolve these issues, Surgical Management instituted a customer friendly policy throughout the ASC, reworked the charts, submitted or resubmitted the bills to payors and restructured the entire coding and billing system so that all charts would be coded correctly and submitted properly.

However, the biggest underlying problem was the lack of leadership. It was this leadership void that ultimately led to the billing and revenue problems because the staff had no concrete guidance. It also led to the hiring of an ineffective director of nursing and business officer manager. Not surprisingly, the ASC had huge staff turnover.

"The ASC had no leader and was not functioning as a team," says Mr. Johnson. "The anesthesiologists thought they were in charge, the physicians thought they were in charge and, the investor group and board did not know who was in charge. Ultimately, the Board's role is to set policy and ensure leadership, neither of which was done here."

Also not surprising is that Surgical Management found that a lot of people were angry with the ASC.

After firing the director of nursing and front office manager, Surgical Management sat down with the staff and asked for patience while it restructured the facility and hired effective leaders.

“Fortunately the board and staff trusted us and we hired a site manager with excellent leadership skills, hired an effective director of nursing, and stabilized staff turnover," says Mr. Johnson. "With these staffing changes alone, that first year we skimmed the losses and broke even and since then we have been profiting more each year."

Case study No. 3: HealthMark invigorated physician base to bring financial health to ailing ASC

A 12-year old multi-specialty ASC losing close to $50,000 a month and burdened with excessively high debt approached HealthMark Partners to assist in a turnaround. HealthMark determined that the ASC was not generating sufficient revenue because many of the physician owners were not committed to using the facility and non-owners believed the center would soon fail. HealthMark concluded that the physicians’ non-use mainly resulted from three problems: The ASC was old and out-dated; it was not considered a healthy, vibrant ASC within the community; and there was a perception that some difficult physicians were operating at it. Further, HealthMark uncovered that many of the cases being performed at the ASC were not generating sufficient revenue.

HealthMark resolved to invigorate the ASC’s ownership base with committed, highly-regarded physicians through marketing its turnaround and modernizing the facility.

“This step was taken so that any successful turnaround initiatives would accrue to the benefit of the members who understood the financial risks and were willing to commit to turning the ASC around,” explains William G. Southwick, president and CEO of HealthMark Partners.

In order to attract new, committed and qualified physicians, HealthMark reestablished its core types of cases and chose those with high turnover and low acuity that would work successfully within the small ASC (two ORs and two procedure rooms). It then, with the help of a few of the remaining physician owners, identified physicians within the community who fit the new focus of the ASC and whose needs would be met by the ASC. In addition, HealthMark developed a summary booklet detailing the turnaround plans for the ASC that it used as a tool to attract physician-owners.

“With this targeted approach to find high-quality, committed physicians, we were able to double the number of active physician owners at the ASC. The ASC is performing very well now and has become a go-to facility in the community,” explains Mr. Southwick.

Further, the ASC has been able to obtain robust contracts with area payors, some of whom were in a position to direct business to the ASC. Lastly, with the expansion of active physician investors and a restructuring of the surgical case focus, the ASC is presently undergoing a renovation to make it technologically modern, more efficient and aesthetically appealing.

"By boosting its physician base, the ASC has gone from being in debt and in doubt, to being a reliable profit center with community recognized quality," says Mr. Southwick, "and this could not have been achieved without rigorous study, difficult choices and the commitment and entrepreneurial spirit of the ASC's physician leaders."

Case study No. 4: WoodrumASD turned around ASC with new operating system and policies

A marginally profitable large Midwest multi-specialty ASC took proactive measures and contacted WoodrumASD to help it increase its profitability and avoid future financial problems. WoodrumASD examined the ASC's revenues and expenses and found opportunities for improvement in both areas. "Fortunately this ASC approached us early so money had not been lost yet and its problems were solved in a manner that did not disrupt its business; we found essentially that no one was watching the till," says Joe Zasa, ASC consultant and CEO of Woodrum Ambulatory Systems Development.

On the revenue side, the ASC had not been operating to its fullest financial capacity in three main ways. First, it had not raised its fees in 10 years. Second its contract with its one major payor did not provide for carve-out reimbursements for expensive implants and other high-cost items. Lastly, none of the ASC's payor contracts were loaded into the database system so those payments were not part of the system's accounts receivables. WoodrumASD evaluated the ASC's fees and adjusted them to market rate.

"So much in regards to technology and processes had changed in ten years, that the ASC's rate structure did not provide adequate compensation for the services it was providing," explains Mr. Zasa.

In addition, WoodrumASD renegotiated those payor contracts that did not provide for carve-outs and loaded all of the ASC's payor contracts into the data system so that the ASC could properly monitor its payments and accounts receivables. As Mr. Zasa details, "accounts receivable days is the financial measuring stick for a business office and provides the necessary data needed to determine if the business office is operating efficiently."

Further, WoodrumASD took important proactive measures.

"To avoid similar revenue issues in the future, we established policies requiring the ASC to review its fees and payor contracts at least annually and established a management program to monitor billing, coding and collecting," says Mr. Zasa.

On the expense side, the ASC had not evaluated its vendors' costs, including its group purchasing organization in years and as a result was overpaying for a lot of supplies and equipment. It also had not converted its employee benefit plans to other, less expensive but equally suitable plans, resulting in overpaying on this line item. WoodrumASD evaluated the ASC's supply costs and identified GPOs and vendors that offered less expensive options.

"This worked out well because the physicians did not have to change what they were using but simply got to pay less for those items," says Mr. Zasa.

In addition, WoodrumASD presented the ASC with alternative employee health plans that provided the same or better coverage but at lower rates. Lastly, WoodrumASD again established policies that required the ASC to examine it equipment, supply and health insurance costs on an annual basis. As a result, by lowering its fixed costs and realizing all of its revenue, WoodrumASD helped the ASC to increase its profits exponentially.

"Professional management and the necessary policy changes provided this ASC with the tools to thrive and flourish," says Mr. Zasa.

Case study No. 5: Regent's conversion of an ASC's ownership structure was a winning strategy

Regent Surgical Health approached a hospital owned multi-specialty ASC with a plan to restructure itself to become profitable; the facility had no history of distributing profits since its inception in 1987. Regent determined that the ASC could become profitable if it diversified its ownership and was not wholly owned by the hospital. "Being hospital-owned, physicians did not have a great incentive to provide services there," recalls Regent Surgical Health founder and CEO Tom Mallon. However, the hospital wanted to retain control of the ASC and was thus resistant to selling off any ownership shares.

To provide the hospital with the control they desired and the profitability, Regent separated the ASC's real estate from its operations and created two distinct entities. The hospital then retained one-hundred percent ownership of the real estate and the operations side became a joint venture between the hospital (39 percent), the physicians (51 percent) and Regent (10 percent).

"The hospital liked this idea because it still retained a fair amount of control. It also was in an advantageous fiscal position whereby it would now enjoy two revenue streams," says Paul Skowron, the administrator of Palos Surgicenter. "First, as the owner of the real estate and landlord of the facility it would receive rental income. Second, it would receive profit distributions from the joint venture operations entity," explains Paul Skowron, Administrator of Palos Surgicenter.

The venture has been a success. Mr. Skowron reports that only six months after converting its ownership base, the ASC made its first profit distribution ever. He states that the monthly case volume has increased and the gross margins have sharply improved.

"Further, the ASC was able to improve its payor mix in part by decreasing its Medicare from 65 percent to 40 percent of that mix and drawing in more commercial payors and worker's compensation business," he adds. With Regent's continued involvement and guidance, the ASC will next launch a new spine program and plans to renovate and expand are currently being reviewed.

Sources

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