Executive Summary

In order to thrive and survive in today’s environment, it is essential for ambulatory surgery centers (ASCs) to control the cost of implants in addition to handling more complex cases. To this end, facilities, physicians and group purchasing organizations (GPOs) must work together to find a way to control implant costs.

Political and economic changes will continue to increase reporting and financial pressure on ASC providers. ASC administrators, working with physicians, can utilize new implant technology and benchmarks to achieve excellence in ASC supply chain through high dollar supply projects. These physician engagement opportunities coupled with other physician collaboration incentives, can significantly improve quality and reduce operational costs.

Overview

In today’s dynamic market, forces are aligning for increased collaboration between healthcare providers and their physicians. Operating margins for ASCs are shrinking, facilities are losing money on the top 10 Diagnosis Related Groups (DRGs) and implant costs continue to rise. At the same time, legislators and national media are paying attention to physician preference dynamics. Recent Limited Liability Corporation (LLC) GPO models have opened the door for new incentives. Rulings on gainsharing and new service work agreements allow for physician payments and new collaboration incentives, while deferred prosecution agreements with leading orthopedic suppliers are relaxing ties between physicians and suppliers. In this environment, it is imperative that healthcare providers, including ASCs, use collaboration and data to improve margins.

In this report, we will look at the financial, consumer and reporting challenges that ASC managers and administrators are faced with today and how these challenges will affect their business in the future. We will review new implant and device technology, discuss tips for engaging physicians and offer an overview of implant and device contracting opportunities which will legally assure physicians are aligned with ASC goals and missions.
Market Conditions and Opportunities

In reviewing some of the key consumer, political and financial challenges the healthcare industry is faced with today, there should be no doubt as a consumer, and as a provider of healthcare, that pending healthcare reform is dominating the conversation. There are two main goals that have emerged from this debate – expanding coverage and reducing costs. With this reform, ASCs will face increasing rate pressures, possible restrictions on physician-owner surgical hospitals and a renewed emphasis on quality and pay for performance. As difficult as these conditions may seem initially, they offer a tremendous opportunity for ASCs.

Reform has created pressure and opportunity to offer procedures more cost effectively, which for many less complex procedures may mean moving them to the outpatient setting. With possible changes to health insurance coverage, there is the logical outgrowth of doing more procedures on more patients as insurance coverage potentially widens. Cost-effective, well-managed ASCs have the potential to do very well.

The Educated Consumer

In addition to the pressure of government reforms, the healthcare industry is now dealing with an Internet savvy, educated consumer base. Healthcare consumers want the latest and greatest technology and procedures delivered safely – and they want the lowest cost provider. Today, due to the economy and access to quality and safety reports, consumers are driving value-based purchasing of healthcare. Consumers are researching where they should go for safe, convenient, personalized and low cost healthcare. ASCs clearly provide this value. As patients are required to pay more out-of-pocket expenses, they are going to ask ASCs to provide consumer-friendly expense calculators – a simple tool, which in advance of their admission, estimates a patient’s out-of-pocket expenses, including anesthesia, facility and physician fees. These calculators are a marketing advantage and will become an industry standard in the very near future.

Increasing Acuity and Complexity vs. Reimbursements

Patient acuity and complexity are escalating. Examples of the complexity of some cases are
Lap-Band procedures, total joint replacement, spinal discectomies and fusions, pacemakers, growth in orthopedic trauma and now LIF procedures – the use of single port entry endoscopy for gallbladders and other minimally invasive procedures.

The complexities of these ASC procedures are driving up facility costs. The costs, combined with the further divergence between the ASC and hospital outpatient department (HOPD) payment rates, threaten margins.

The new Medicare rates for surgery centers are generally more negative than positive. For 2008, ASCs were paid only 63 percent of the HOPD for the exact same procedures. For 2009, the ASC reimbursement was only 59 percent of the hospital outpatient rate. Under these rates, of the top 20 procedures performed in surgery centers, approximately 17 suffered a decrease in reimbursement. Reimbursement for GI and pain management procedures decreased nearly 20 to 30 percent. Many of the ophthalmology procedures experienced a 5 to 10 percent reduction in reimbursement.

In contrast, there is some good news. Many high acuity procedures, such as orthopedic procedures, will receive improved reimbursement. As these high acuity procedures move to centers and rates are compressed, ASCs must develop value analysis processes, including risk management and stringent financial review of new procedures and device adoption as part of their standard processes and policies.

The most broken part of Medicare is the physician fee schedule. The use of resource based relative value scales, combined with sustainable growth rate, which ties overall Part B spending to the growth in the economy, has produced the worst of all worlds – high spending rates for Part B overall and a decade with no change in the fees paid to physicians for individual services provided to our seniors. As a result, there is no way that a conservatively practicing physician could have his or her cost covered under Medicare.

Quality of Care

New rules, including conditions for coverage, reflect current ASC practices by focusing on the care provided to patients and the impact of that care on patient outcomes. They require minimum health and safety standards that all ASCs must meet. Covered topics include, but are not limited to, requirements for the ASC's governing body and management, the provision of surgical services, patient rights, infection control, and patient admission, assessment and discharge.

Another challenge facing ASCs is the National Quality Forum (NQF) and its five endorsed quality measures. These measures are patient burns, prophylactic IV antibiotic timing, patient falls and the five Ws – wrong site, wrong side, wrong patient, wrong procedure and wrong implant. We can anticipate that this list will continue to expand as state governments and accreditation bodies push for higher quality and transparency standards. There is no doubt that Medicare and commercial payers are changing from passive payers of claims to an active purchaser of quality care.
A New Model: ASCs and Outpatient Procedures

As fee schedules are slashed, physicians will have a renewed interest in outside investments, such as joint ventures with ASCs. ASC investments provide physicians efficient use of their time, financial incentives and allow them to have oversight and input into the safe care of their patients.

A recent Spine Society survey focused on spine surgeons and their attitudes towards cost containment. This general information probably holds true not just for spine, but also for orthopedics, cardiac rhythm management and any other area where physician preference is a factor. Of the 35 doctors surveyed, 76 percent felt the prices paid for implants were fair or underpriced, but only one out of four has been involved in the process. So in other words, three out of four have not even been asked to help out. A further interesting point is that two thirds would help if they were asked, and 65 percent said that if the savings were significant, it would be an issue that they would look at. With the ASC, some of these issues are already taken care of. These surgeons may be partners already in a facility. If not, they may plan on doing so in the future, so the financial incentive may already be there. The only thing lacking is someone from the facility sharing the data and working with them to figure out the particulars.

In terms of normal medical and surgical supplies, there is still a fairly healthy percentage growth rate, with wound closure a little less so. But the spend on orthopedic implants and cardiovascular products is increasing at a much higher rate per year as far as dollar spend and as a percentage spend vs. medical/surgical. This highlights the need to put attention into the ortho and the cardiovascular product areas if those procedures are being done in your centers.

Medical Devices and Implants Represent a Larger, Growing Market

Source: Frost & Sullivan – U.S. Medical Device Outlook 2007 A662-54
Traditionally, in terms of time spent on cost savings by product area, most time has been spent in sutures, gloves and other medical/surgical supplies, with a much lower percentage of the time being spent on technology adoption and in the areas of spine, orthopedic and the specialty pharmacy products. Why? In the past, those products were very challenging and participation could be difficult because it required physician engagement, time and resources. But with current economic conditions demanding even more stringent pricing controls and suppliers willing to protect their bottom lines by being more willing to discuss “deals,” now is the time to engage both physicians and suppliers in those product areas. Suppliers want, and are willing to lock in business for a longer length of time at more competitive prices, or they are willing to bid for an opportunity to gain market share.

Some of the new technology products that are highly physician choice – spine procedures, prostate procedures, colonography – are all procedures that were traditionally done at the hospital as an outpatient and are now moving towards the ASCs. More and more, that’s the norm. It is easier for the patient. It is easier for the doctor. And the outcome is equal to what is being done at the hospital. For example, wrist fractures are very common in young and old alike, and a very high percentage of those are being done as an outpatient. Hip, femur and pelvis procedures are generally still being done at the hospital.

### The Misdirected Efforts of Cost Savings

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*AREAS OF FOCUS

Suppliers want, and are willing to lock in business for a longer length of time at more competitive prices, or they are willing to bid for an opportunity to gain market share.
Patient Selection

Orthopedics is a lucrative field with favorable reimbursement and increasing demand. More and more procedures are moving to the outpatient setting or the ASC setting. ASCs can cater to a wide range of patients, including older patients, and many of these patients are insured, but they also can be self pay. One of the key factors to consider when you move into these areas in orthopedics is patient selection.

In particular cases such as cardiac rhythm management, a high percentage of patients are Medicare patients. They are in their 60s and beyond. Reimbursement can be very good versus the cost of the device, but it must be evaluated on a local level. The bottom line, with a same day stay, these can be a very profitable opportunity for an ASC. Again, patient selection is key. An ASC does not want to have a patient with a lot of other conditions that perhaps would require them to go to the ER after the procedure or have them revisit the surgery center at a later date. That is a very key part of doing these procedures.

Engaging the Doctors

How do you get a doctor engaged? Relevant, actionable data is the basic building block for an organization’s economic direction and also provides the facts and evidence needed to communicate the realities facing every stakeholder both internally and externally.

Supply Chain Management

Armed with data and actionable information, effective supply chain leaders can create a marked impact on the overall efficiency of their supply chain operations, including effective management of clinical preference items, with their significant cost and impact to the quality of services delivered to the patient. Efficient value analysis processes will ensure that all bases are covered with regard to high tech and high touch healthcare products, including reimbursement, safety, education and clinical credentialing, product standardization and appropriate utilization. It is also vital to maintaining the organization’s cost structure, compliance with negotiated contracts and agreements. Everyone
needs to be aware of the technology doctors are using and realize it has a profound impact on the cost of the implants that are being used and how margins may be impacted by that usage. Even though products may look similar, the cost differences can be great.

In analyzing data, evaluate which physicians may be using a supplier that is at a higher cost and which are using a lower cost supplier. Once physicians see this type of data, and especially if they have a stake in the ownership of your facility, they will engage the suppliers in getting those costs lowered. What this also allows a facility to do is benchmark those costs versus a database that shows where they need to be with that particular supplier on a particular product.

Also based on credible data, facilities can work to develop custom contracts based upon a surgeon’s supplier choice and the quality outcomes they want to have for their patients. This can be customized to local conditions to get the best possible result going forward.

In regard to overcoming physician loyalty to a particular brand, implants, particularly devices, sometimes carry a substantial amount of loyalty. Some of this is due to where the physicians are trained, some to comfort level with the instrumentation, and a lot is due to the relationship with the local representative. The loyalty has to be dealt with based on credible data, and that data is cost by procedure, benchmarking them against their peers, not just within their own facility, but within their region. Again, it involves a thorough value analysis process that looks at the risk assessment and quality of care.

Evidence-based protocols must then be established in collaboration with the physicians at the facilities. There are suggested overviews, which come from the academies, but these are always customized to meet the needs of the facilities and supported by the physicians’ risk management and value analysis teams at the facilities. Capitated rates need to be coordinated with protocols. Facilities need to have established protocols as to what is appropriate. For example, what patient at what time? What is the appropriate time? Who is the appropriate patient? What is the appropriate product? Who should get a high-end knee? Who should get the high-end cervical fusion with the additional spacers or bone products? All should be identified upfront. These should be identified with physicians collaboratively and they should agree on the protocols put in place.
Transparency in Choices and Reporting

Facilities must also take a very aggressive role in prohibiting sales representatives from going into the surgery suite. Obviously there are some legal issues involved, but it is highly recommended that policies and procedures are put into place. If an ASC is really going to control cost and protect patients’ privacy, suppliers should not be in the operating rooms.

The process must also include a tracking and outcomes evaluation component. Tracking outcomes and correlating this to standardization initiatives will ensure product use and selection is also a contributing factor to overall organizational quality improvement efforts. Outcomes tracking by the value analysis team will evaluate clinician adherence to approved standardization programs, quantify the savings gains, build credibility by attending to any unforeseen issues, and establish a new baseline for the next initiative. Proactive tracking also allows the team to ensure that protocols are working properly and make adjustments if necessary.

In terms of physician incentives, ASCs that are owned or have a joint venture with physicians have a distinct advantage in incentivizing their physicians. In addition to their ownership models, as part of the collaborative implant reduction process, ASCs may want to consider engaging a company similar to Surgical Implant Services. This GPO is farmed as an LLC and is owned by the implanting physicians. The formation of this LLC legally provides physicians with ancillary income through negotiations of best in region pricing for implants.

Summary

Alexander Graham Bell once said, “Great discoveries and improvements invariably involve the cooperation of many minds. I may be given credit for having blazed the trail, but when I look at the subsequent developments, I feel the credit is due to others rather than to myself.” Collaboration and cooperation will ensure physicians function as true owners of your ASCs, not as individual practitioners. Physician collaboration, in conjunction with a culture of employee ownership of processes, including the value analysis processes grounded in good business acumen, will assure your ASC is successful.

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David Forquer brings more than 25 years of radiology experience to Amerinet’s team. Forquer negotiates custom contracts for Amerinet members with an emphasis on Amerinet Clinical Advantage projects.

Prior to joining Amerinet, Forquer served for four years as instructor and supervisor in the radiology department at Barnes Jewish Christian Hospital. Forquer also spent 21 years in radiology sales and service with organizations such as Diagnostic Imaging Inc. and Konica Medical Corporation.

Forquer has also served as a radiology instructor for Washington University in St. Louis, Mo., where he performed a wide variety of radiology exams, supervised the radiology department and taught radiology courses. Forquer is a past recipient of the Mallinckrodt award for outstanding achievement in radiology technology.

Forquer holds a bachelor of arts in biology and certification as a radiologic technician from Washington University.

About Amerinet

As a leading national healthcare group purchasing organization, Amerinet strategically partners with acute and alternate care providers to reduce costs and improve quality through its performance solutions. Built on a foundation of data, savings and trust, and supported by a team of clinical and supply chain experts, Amerinet enriches healthcare delivery for its members and the communities they serve. To learn more about the Amerinet difference, visit www.amerinet-gpo.com.

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