Cost Reduction and Benchmarking
10 Key Steps to Immediately Improve Profits

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The Ten Keys…

- Managing Change
- Materials Management
- Case Costing
- Recruiting New Physicians
- Staffing
- Schedule Compression
- Financial Management -Rob
- Billing and Collecting - Rob
- Benchmarking - Rob
- Staying focused on…

Manage Change

- Learning Culture
- Leadership

Managing Change

"If you use Mom's stove, Mom's recipe, and Mom's ingredients, you'll get her cake."

This cake is flat!

Managing Change

- Foster a Learning Culture…
  - Peter Senge – *a learning culture is a group of people who are continually enhancing their capabilities to create what they want to create*
    - Director of the Center for Organizational Learning at the MIT Sloan School of Management
      - B.S. in Aerospace engineering which proves once and for all…..
    - ***The Fifth Discipline*** *&* ***The Fifth Discipline Fieldbook***: the art and practice of learning organizations & strategies and tools for building a learning organization

Managing Change

- Leadership:
  - Who spearheads the change?
  - Who needs to buy in?
  - How do you convert others?

Stakeholder Planning

Who has the Power? Who has the Interest?

- What financial or emotional interest do they have in the outcome of your work? It is positive or negative?
- What motivates them most of all?
- What information do they want from you?
- How do they want to receive information from you? What is the best way of communicating your message to them?

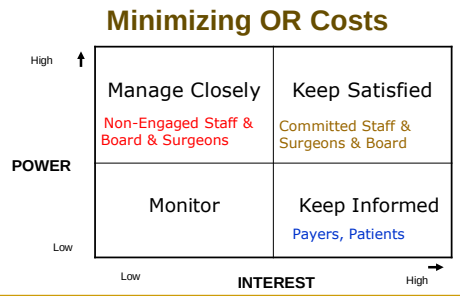
Stakeholder Planning

Who has the Power? Who has the Interest?

- What is their current opinion of your work? Is it based on good information?
- Who influences their opinions generally, and who influences their opinion of you?
- How will you win them around or manage their opposition?
- Who might be influencing their opinions?

Power-Interest Grid

with Stakeholders Marked



Materials Management

- Supply costs are one of the 2 largest expenses in ASCs
- Costs are controllable
- Must be closely monitored
- Checks and balances must be in place
- Embrace technology

The Devil is in the Details

Materials Management (Inventory)

- Materials Management role
  - Assign to one person
  - Not necessarily a full-time FTE, especially during start up
- Set up internal controls
  - Assigns authorization to purchase, establishes control of assets, allows for valuation of goods
- Maintenance of inventory information
  - Current
  - Loaded in computer system
  - Verified upon ordering and again when invoiced

Materials Management (Inventory)

- Limit inventory on hand
  - Consider how often supplies are delivered
  - Review surgery schedule 1 week ahead
  - Ensure supplies and implants are available to cover scheduled cases
- Consign as much as possible
- Assign a nurse to order drugs
- Do not drop ship
- Use a GPO

Materials Management (Storage)

- Control where supplies are stored
- Consider not having cabinets in the ORs or PRs
  - Nurses are hoarders
  - Independently check supply areas for overstocking
- Use movable carts, i.e. suture carts, specialty carts
  - Move them out of the OR when not in use for a case
- Avoid the “Fish Bowl concept”
- Establish par levels
- Put pricing on supplies in storage area

Materials Management – Service Contracts

- Expensive line items
- Review all contracts
  - Do you really need them?
  - New equipment will be under warranty
- Be selective with maintenance contracts
  - Select service option for PM check only, technician labor & travel time
  - Better to take the risk and pay for occasional repair

Materials Management – Service Contracts

Recommended contracts:

- HVAC
- Emergency generator
- Medical gas manifold
- Vacuum pump
- Autoclaves
- Anesthesia machines
- Hi-tech equipment where software releases & upgrades are included
- C-arms – calibration only – not the tube

Materials Management – Service Contracts

Contracts are usually not recommended for:

- Microscopes
- Monitors (anesthesia monitors are covered with anesthesia machines
- Cautery
- Video equipment

Non-contract service calls will usually be less expensive than the amount of the yearly service contract

Implement Case Costing

- Key – Current Inventory, Preference Cards
- 3 Everys:
  - Every one, Every case, Every time
- Monthly review and discussion
- Best practice

Case Costing

- Meter time in & time out
- Cost / Minute =

$$\frac{\text{Total Costs – Direct Supply Costs}}{\text{Total O.R. Minutes}}$$

Simple: Everything revolves around the OR Minute

Case Costing: Calculating the OR Minute

Step 1: By accounting period (month)

*Overhead (minus supplies) / OR minutes = OH per OR minute

Step 2: By 1° CPT/Surgeon:

(OR mins x OH per OR minute) + Supplies = Case Cost

*Overhead is the total expense for the month from the P & L statement (cash accounting) minus medical supplies

Case Costing

- Example:
  - Revenue = $300,000
  - Supplies = $77,000
  - Distribution = $75,000
  - Debt Service = $40,000
  - 200 Cases @ 30 Minutes each

Case Costing

Cost = Revenue - Supply - Dist. - Debt Service
Cost = 300,000-77,000-75,000-40,000
Cost = $108,000
Total O.R. Minutes = 200 cases X 30 min.
Total O.R. Minutes = 6,000 Minutes

Var. Cost / Min. = $\frac{108,000}{6,000}$ = $18 / Minute

Case Costing - Sample

CPT	Procedure	Payer	Standard Charge	OR Mins	O/H Costs $28.66/ min	Supply Costs	O/H Costs Plus Supply Costs	Reimb	% Collected	Income (Loss)	Collection Status
28296	CORRECTIO N, HALLUX VALGUS	MCD	6,662	78	2,235	244	2,480	507	7.61%	-1,973	PAID
28296,2828 5 L8699X2	CORRECTIO N, HALLUX VALGUS	BC	11,412	74	2,121	256	2,377	3,018	26.44%	641	PAID
28296, 28285X2 28270X2 L8699X2	CORRECTIO N, HALLUX VALGUS	BC	25,786	100	2,866	347	3,213	23,328	90.47%	20,115	PAID
28296, 28126 28288 L8699	CORRECTIO N, HALLUX VALGUS	BC	15,952	95	2,723	250	2,973	6,592	41.33%	3,620	PAID
28296, L8699	CORRECTIO N, HALLUX VALGUS	CIGNA	6,662	77	2,207	242	2,449	0	0.00%	-2,449	Carrier Issue- Claim is in process
		TOTALS	66,474	424	12,152	1,339	13,491	33,445	50.31%	19,954	

Best Practices - Sample

NAME OF FACILITY

COST COMPARSON

DATE: 8-2005
Procedure: BMTs

SUPPLIES IN COMMON									
Dr. A		Dr. B		Dr. C		Dr. D		Dr. E	
ITEM	PRICE	ITEM	PRICE	ITEM	PRICE	ITEM	PRICE	ITEM	PRICE
Circuit	$ 10.02	Circuit	$ 10.02	Circuit	$ 10.02	Circuit	$ 10.02	Circuit	$ 4.10
Mask	$ 3.56	Mask	$ 3.56	Mask	$ 3.56	Mask	$ 3.56	Mask	$ 2.65
Blade	$ 5.68	Blade	$ 5.68	Blade	$ 5.68	Blade	$ 5.68	Blade	$ 7.20
Mask	$ 0.64	Mask	$ 0.64	Mask	$ 0.64	Mask	$ 0.64	Mask	$ 0.64
Slipper	$ 0.64	Slipper	$ 0.64	Slipper	$ 0.64	Slipper	$ 0.64	Slipper	n/c
Tow el	$ 4.87	Tow el	$ 4.87	Tow el	$ 4.87	Tow el	$ 4.87	Tow el	$ 2.05
Med cup	$ 0.62	Med cup	$ 0.62	Med cup	$ 0.62	Med cup	$ 0.62	Med cup	n/c
Glove	$ 1.18	Glove	$ 1.18	Glove	$ 1.18	Glove	$ 1.18	Glove	$ 0.31
SUPPLIES THAT DIFFER									
ITEM	PRICE	ITEM	PRICE	ITEM	PRICE	ITEM	PRICE	ITEM	PRICE
Tubes	$ 9.92	Tubes	$ 9.92	Tubes	$ 17.28	Tubes	$ 38.00	Tubes	$ 19.20
Collar Button		Collar Button		Reuter Bobbin		Paparella			
Flexin	$ 39.25	Flexin	$ 39.25	Flexin	$ 39.25			Flexin	2.95
Cannister	$ 5.70	Cannister	$ 2.85	Cannister	$ 5.70	Cannister	$ 5.70	Cannister	$ 2.85
Tubing	$ 1.07	Tubing	$ 1.07	Tubing	$ 1.07	Tubing	$ 1.07	Tubing	$ 1.07
TOTAL COST	$ 83.15		$ 80.30		$ 90.51		$ 71.98		$ 43.02
AVERAGE OR TIME									
	13		17		24		45		18

OPPORTUNITIES:
Use only one suction per case
Change to single use Flexin
ANNUAL REALIZATION IN REVENUE
Proposed change times number of cases annually equals = potential annual savings to facility
Results: Flexin - savings of $11,456.64 annually based on 312/year
Suction - savings of $1,057.68 annually based on 312/year

Recruit New Physicians

- Constant - cold calling vs. networking
- Target specialties – Ortho, Ent, Spine, Lap band, Gyn
- Trial 3 x, VIP treatment protocol
- Top managers with new physician from moment enters building until leaves
- Summary of case when leaves OR for every case

Staffing

- One of 2 largest expenses for the center
- Utilize a core staff of full-time employees
  - Base on scheduling assumptions
  - Business Office – usually full-time
- Supplement with part-time & per diems
- Don't guarantee any set hours or schedules
- Cross train
- Business Office (hire lean at first)
  - Scheduler/insurance verifier
  - Biller/collector
  - Business Office Manager not always justified if case numbers are low

Schedule Compression

- Analyze cases to determine:
  - Days of the week ASC will open for cases
  - Number of ORs or PRs to open each day
- Solicit preferred operating times from physicians but make no promises
- Do not create "typical" block schedules
- Involve anesthesia providers
- Educate physicians - schedule will be reviewed periodically and blocks will be reallocated

Schedule Compression

- Implement vertical scheduling
  - Schedule physicians in sequence to fill ORs/PRs
  - Open rooms only if you can fill them
- Use historical case time to allocate times to physicians
- Involve the Clinical Coordinator
  - Schedule affects staffing
  - Impacts hiring
  - Consider case mix and equipment conflicts

Financial Management

What finances do you manage?

- Accounts Payable
- Accounts Receivable
- Banking relationship
- Billing
- Case costing
- Coding
- Contracts – review and improve
  - Payer
  - Vendor

Financial Management

What finances do you manage?

- Landlord
- Month end
- Partners
- Reconciliations
- Reports – Daily, Weekly, Monthly, Annual
- Segregation of duties
- Staff
- Supplies

Financial Management – Bank relationship

- Cash accounts
- Line of credit
- Loan
  - Covenants
  - Annual Reporting
  - Add-on financing
- Lockbox
- Merchant services
- Positive pay

Financial Management – Reporting

Daily report:

- Maximum oversight
- New, changing, or troubled centers
- Contents:
  - # of cases (MTD, scheduled, next month)
  - Staff hours (clinical, admin)
  - OR patient time
  - Charges
  - Payments
  - A/R balance, A/R Days Outstanding
  - A/P balance
  - Bank balance
  - Average turnover time

Financial Management – Reporting

Weekly report:

- Standard required report
- Bonus contingency
- Contents:
  - # of cases (week, MTD, activities to increase)
  - Contracting
  - Recruitment
  - Goals for the week
  - Report on last week's goals
  - Bank balance
  - A/R balance, A/R Days Outstanding
  - A/P balance
  - Collections
  - Case costing?

Financial Management – Reporting

Monthly report:

- Standard required report
- Bonus contingency
- Contents:
  - # of cases
  - Days of surgery
  - Charges / Collections
  - Medical supplies
  - Payroll
  - Distribution
  - A/R balance and aging
  - Board meeting agenda items
  - Patient satisfaction surveys

Billing & Collections Management

Keys to Success:

- **Administrator**
- Staff
- Process
- Transcription
- Coding
- Training
- Outsourcing
- Quality control
- Follow up

Billing & Collections - Administrator

The most important factor in successful AR:

- Administrator is ***responsible***
- Administrator ***knows*** the AR protocol
- Administrator is ***consistently involved***
- Administrator ***monitors*** the AR process
- Administrator ***follows up***
- Administrator ***tracks*** success
- Administrator ***reports*** results

Billing & Collections - Staff

- Hire the right people
- Pay extra to keep good staff
- Don't scrimp
- Train regularly
- Challenge
- Motivate
- Follow up

Billing & Collections - Process

Accounts Receivable Protocol:

- **Pre**-verify benefits
- **Pre**-notify patients
- **Pre**-collect patient amounts
- Transcribe timely
- Code accurately
- Post payments timely
- Follow up

Billing & Collections - Process

Accounts Receivable Protocol:

- Follow up
- Follow up
- Follow up
- Follow up
- Follow up
- Follow up
- **Follow up !**

Billing & Collections – the rest

Accounts Receivable:

- Transcription
- Coding
- Training
- Outsourcing collections
- Quality control
- Follow up!

Participate in Benchmarking

What is benchmarking?

- Compare yourself to your peers
- Identify good and bad perfomances
- Understand differences

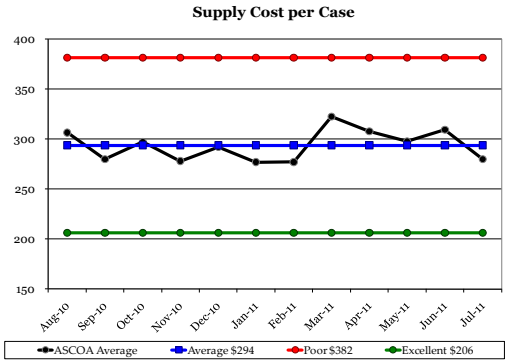
Why Benchmark?

- Improve quality
- Improve performance
- Improve profit
- Accreditation REQUIREMENT
- Learn how your center *should be* running

Benchmarking – what to bench

- Clinical indicators
- EBITDA Margin
- Case volume
- Collections
- A/R days outstanding
- Supplies $ per case
- Payroll $ per case

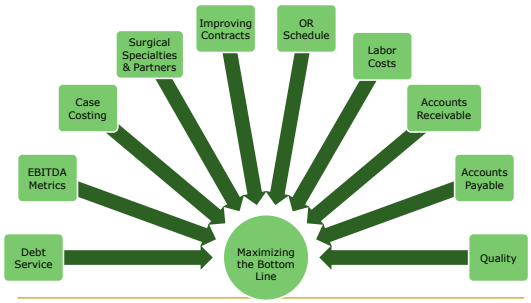
Benchmarking – example



Stay Focused on…

- Partner cooperation & education is key.
- Avoid votes at partnership meetings.
- Avoid a "Representative" Board.
- Pay for new equipment with cash.
- Recruit 1 to 2 new partners per year.
- Weekly visits to partners' offices.
- Did I mention Case Costing?

Stay Focused on…



Questions?