

ASC Profitability in Tough Economic Times

Supply costs and inventory control are key components to a healthy bottom line.

BY JAN AMATOR, MBA



This is the second part of Jan Amator's two-part series of discussing the challenges of managing an ambulatory surgery center (ASC) from a CEO's point of view. Jan is a superb leader who has guided Spectra very successfully. A skilled administrator must be the standard bearer of the ASC's priorities. At Spectra, our priorities are clearly cemented. First priority: provide exceptional patient care. Second priority: be profitable. The order of these two priorities is crucial and must never be forgotten by anyone in the ASC.

As Jan writes in this column, controlling the overhead by inventory and contract management is important, but it is the second priority. As such, Jan does not work in isolation. Her ability to partner with physicians is critical. If a physician feels that a costlier piece of equipment will provide better patient care (the first priority) Jan will provide that equipment. Cost control by overhead management is important, but never at the expense of patient care. In Spectra, our mantra is "efficiency." This means the proper prioritization of our two goals: first, patient care and second, profitability.

-Pravin U. Dugel, MD

Included in the key steps necessary for ambulatory surgery centers (ASCs) to remain profitable during these trying times are the proper management of supply costs and inventory control. Many ASCs, however, fail to thrive because of poor management in these areas. Many believe it is because ASCs by their very nature are patient-focused and staffed with individuals with impressive clinical backgrounds but little to no financial background. Proper leadership and management of both of these functions are essential and paramount to the success of an ASC. Aside from staffing costs, supply costs and inventory control are the leading contenders for a surgery center's profit and, if not managed properly, can have devastating results.

BACKGROUND

Spectra Eye Institute is a freestanding ophthalmic-based outpatient surgery center comprising three operating rooms and one minor procedure room. On average, 7,200 patients per year are treated at Spectra under monitored anesthesia care. Our success is never taken lightly. Just ask any one of the staff members and they will tell you that to remain successful, everyone must be actively involved in ways to increase revenue while decreasing costs.

SUPPLY COSTS AND INVENTORY CONTROL

All ASCs deal with a myriad of costs. Surgery center administrators are often at the helm of controlling those costs while striving to produce an outstanding product—for

Spectra that product is stellar patient care. To some administrators, this topic may sound simple to manage, but in reality it is anything but simple, as the average ASC will purchase a broad array of supplies, with counts ranging into the thousands. Controlling those costs can appear daunting when factoring in the vast and varied preferences of surgeons, the timing and quantity of supplies, and the space requirements to house such inventory. Although challenging, it is critical because supply cost and inventory control can have a profound effect on the success or failure of the ASC. Spectra employs four key strategies to successfully manage costs: 1) review of historical data, 2) contract negotiation and compliance, 3) supply usage, and 4) just-in-time inventory.

Historical data: review and act. Knowledge and information is important. Access to historical data is imperative in managing costs and, to ensure sound business decisions about purchases, this data must be readily available and reviewed on a continuous basis. Although many software vendors have built-in inventory and supply cost accounting modules as part of their software bundle, a simple spreadsheet will suffice. This spreadsheet will provide the same information necessary for review and, at a minimum, should include the vendor name, items purchased, and cost of the items, all for a given time period. This report gives an at-a-glance snapshot of potential areas for negotiating discounts with vendors. But the key to any data is proper utilization. Whether using fancy accounting modules or a simple spreadsheet, the value of the information

is realized only if it is frequently reviewed and acted upon.

Contract negotiation and compliance: who's winning depends on who's watching. Negotiation with vendors for discounts or rebates is an often overlooked but extremely necessary component to cost efficiency in the ASC. The necessity to monitor and ensure contract compliance is paramount. This last step can prove frustrating and time consuming for the materials manager, but the administrator should be challenged with the job of mandating compliance from both ends, that of the vendor and that of the materials manager. The theory we uphold at Spectra is, "Don't believe the vendor is going to watch out for you." As such, we routinely double-check for contract compliance, as many people are involved in the supply chain process and people make mistakes. Ultimately, it is the ASC's responsibility to ensure that supplies are approved prior to purchase, that costs are reconciled against contract pricing, and that all discounts and rebates are being received in a correct and timely fashion. Although we believe it is mandatory that our vendors be responsible and participate in our quest for cost control, we also understand that it is ultimately our responsibility to see that the agreements are upheld.

Supply use: variety is the spice of life, but with variety comes a price. As any ASC administrator will tell you, surgeons like variety and they like what they like. Period. It is the administrator's job to work with the surgeon to come to an agreement on the supplies necessary vs the supplies wanted and, as we all know, the two are not the same beast. A case-costing analysis is just one method used by Spectra to manage this issue.

Case-costing analysis is a proven way for ASCs to manage costs. The analysis should be performed routinely with areas for possible cost improvement noted. Case-costing analysis is a powerful tool and can be used to educate and update surgeons and staff about the costs associated with a particular case. The analysis is simple to perform and can be presented using a simple Microsoft Excel (Redmond, WA) spreadsheet. No fancy software is necessary, even though most ASC information management systems include a case-costing module. No matter which format is used, the spreadsheet should detail the physician supply costs and compare those costs with alternative supplies being used by others at the center. By comparing costs and presenting this information in a straightforward, graphic form, both staff and surgeons become knowledgeable in the cost of doing business, thus enabling them to take an active part in finding ways to reduce cost and minimize waste. Spectra follows this procedure, but the final decision as to what supplies are used is left to the discretion of the individual surgeon; the case-costing analysis just arms them with the information necessary to make informed choices in the products they use.

Just-in-time inventory: juggling that requires all to

perform with precision and timing. The theory of just-in-time inventory is a must for the survival of any ASC. Shelved inventory is costly, and although we all know that not having enough can be a costly mistake, having too much may be the most costly mistake of all. Excess inventory reduces available cash and, as such, proper utilization is a must for survival. Spectra's inventory volume is tightly controlled and on-hand inventory is maintained at only 1 week of operations. Supplies are ordered on a weekly basis and are based on historical norms and upcoming surgery schedules. Par levels are set on everything from surgical packs and implants to needles and gloves, and are tied into case volume. Supplies are monitored on a continuous basis to make sure they are being utilized according to their expiration dates (ie, new stock shelved behind current stock thereby ensuring minimum waste due to expiration date). There is no room for error, and all staff members play a key role in the efficiency of the inventory process.

STORAGE SPACE: IS ENOUGH EVER ENOUGH?

At Spectra Eye Institute, storage space is limited. This has driven the staff to have a very efficient mechanism in place to manage the inventory requirements necessary to manage a caseload of approximately 7,200 cases per year. Because of this limitation, all staff members take an active role in the process of inventory management. Everyone from the pre-operative nurse to the surgical scrub technician is in constant communication with the materials management staff, alerting them to low product levels. This communication channel helps to ensure adequate supply levels while maintaining the just-in-time philosophy of ordering. Because of the creativity of the staff in what is purchased and when, inventory is limited and cost control is maintained.

SUMMARY

Finally, administrators must remember to actively involve surgeons and staff in the cost of supplies. Most of the staff members at Spectra have been with the ASC since its inception and take a personal interest in the success of the business. All newer employees are coached in this same model of efficiency and cost savings strategies, all of which result in the success of the ASC and a positive effect on the bottom line. ■

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