Surgical growth hinges on good service line information

OR Business Performance is a series intended to help OR managers and directors improve the success of their business.

Does your hospital’s CEO expect you to grow surgical volume in the upcoming fiscal year?

Hospitals have always depended on surgical services to drive revenue and profit. Today, in the face of increasing costs and declining payment, many executives see OR volume growth as the key to maintaining a positive operating margin. But there are 2 challenges that prevent ORs from achieving both growth and margin.

• Competition. Most private not-for-profit hospitals continue to experience declining surgical case volumes as procedures migrate to surgery centers and physician offices.
• Not all service lines are profitable. “Growth for the sake of growth” may end up increasing expenses without improving department profitability.

OR leaders can overcome both challenges by gathering accurate service line information and using it effectively. Analyze data to pinpoint service lines for profitable expansion, and leverage surgeon feedback to understand how best to pursue expansion opportunities.

Create a data-driven strategy

The first step is to quantify the profitability of each OR service line. This requires access to the invoice system, so you will need to work with your hospital’s finance department (some hospitals have created a dedicated “decision support” team within finance). Ask finance staff for a report showing revenue, contractual allowances, and expenses per procedure. Aggregating the per-procedure data by surgical specialty will allow you to see the average profitability.

The profitability analysis on p 24 shows aggregated charges and expenses for neurosurgery. The analysis includes average gross patient revenue, average contractual allowance (blending all payer discounts), and average direct and indirect variable expenses for all neurosurgery performed within a specified time period. The bottom line is the specialty’s average contribution margin per case.

The next step is to identify market share by service line. In most hospitals, the planning department is responsible for calculating this information, using publicly available hospital discharge data.

Compare your hospital’s discharges per OR service line to your competitors’, and develop market share percentages for all specialties. In some cases, it makes sense to calculate market share for specific procedures, such as robotic prostatectomy.

The third step is to combine profitability and market share information to outline your OR’s basic strategic opportunities. In the April issue of OR Manager, we included an example of a service line “bubble graph” that visualizes the OR strategic landscape. Breaking this idea down to its simplest components, we can group service lines into 3 categories (see p 25):

• higher-profit services that currently command a high percentage of market share
• higher-profit services with lower market share
• lower-profit services.

Services in the second category are an OR’s core growth opportunities. These are high-margin specialties with room to win more market share. Strategic efforts should focus on growing case volume in these profitable service lines.

Just as important, however, are service lines in the first category. Highly profitable services with a strong market presence are critical to your OR’s financial performance, so you must also focus on retaining this existing profitable volume.

Low-profit service lines (category 3) should not be part of efforts to grow or expand in the near future. At the same time, a well-rounded strategy cannot ignore services in this category. Many of these services are driven by community need, hospital mission, and core competencies spelled out by hospital leadership.

Once you have identified strategic priorities, the next step is to cultivate growth. That means developing a sales process that draws surgeons to your OR.

The good news is that a strong “needs-based” selling process can achieve positive results across all 3 strategic categories.

Focus on needs-based selling
A growth strategy cannot be passive. OR managers must understand surgeons’ needs and be proactive to help them achieve their goals.

Hold regular meetings with surgeons to discuss their concerns, listen to their suggestions, and go over recent data. This process not only builds goodwill with the surgical staff, but will enable you to identify surgeon needs that will help you grow volume.

Say you have targeted cardiovascular surgery as a growth service. What can you do to persuade CV surgeons to bring more cases to your department?

Talks with surgeons could reveal that the heart group wants access to the latest series of interventional catheters. Of course, further discussion and financial analysis are necessary, but an investment in this equipment could pay off in increased market share.

Meetings are sure to uncover complaints, but that is a good thing. For example, a surgeon might insist that the OR needs to hire 5 more scrub techs. Try to uncover the root issue. Asking the right questions might reveal that the surgeon is frustrated by high turnover times. If that is the case, the solution is likely not adding staff, but improving processes. Either way, the discussion gives you the chance to clear away the obstacles that are keeping cases out of your department.

Use analysis to fine-tune the selling process. One technique is to segment the surgical staff into “loyalists” and “splitters” — surgeons who divide their caseloads between your hospital and other facilities. Ask splitters what you can do to earn more of their business. The answers will allow you to prioritize changes that can be made to attract more volume.

A refinement of this technique is to identify surgeons who appear to be transitioning caseloads away from your OR. Talk to these surgeons to understand how they perceive your department, and then try to make improvements that will help win back case volume.

Meetings with surgeons who are critical to OR strategy should include a representative from senior hospital administration. In all of these discussions, it is impor-
tant to be responsive. If a surgeon voices a concern during a meeting, follow up on that concern promptly.

**Match your competition**

For hospital OR directors, 1 issue that comes up consistently in discussions with surgeons is efficiency. In most markets, surgeons can perform cases more quickly and efficiently in an ambulatory surgery center (ASC) than in the hospital. This is a serious challenge to growth strategy, but it is not insurmountable.

First, hospital ORs must do their best to match the convenience offered by their competitors. For surgeons, the elements of convenience are:

- **Access.** Cases can be scheduled easily and within a reasonable time frame. Hospital ORs can improve schedule access by implementing an efficient block schedule (see OR Manager May 2013, p 21).
- **Preparation.** Patients are fully prepared for surgery, with no last-minute issues causing a delay or cancellation. Developing a strong preadmission testing (PAT) process helps ensure patients are ready.
- **Readiness.** Nurses understand the case, and the correct supplies and equipment are ready and available. Work with staff to optimize nursing team skills and materials management.
- **Efficiency.** Efficient turnover between cases makes the best use of surgeon and staff time. In certain situations, consider providing high-volume surgeons with a transition-to-practice room (or “flip room”) to maximize productivity.

In addition to increasing surgeon convenience, OR managers should leverage strengths in the area of quality. Surgeons want to perform procedures in a reputable institution that ultimately delivers superior clinical outcomes. As a competitive strategy, this represents several opportunities:

- **Specialty support.** The chance to work with a nursing team that specializes in orthopedics, vascular surgery, or spine surgery is very attractive to physicians. The additional cost of a specialty team can be offset through cross-training and will often be justified by additional surgical volume. Another option is to work with the anesthesia department to develop specialization in anesthesia services.
- **Safety.** In the current environment, a reputation for surgical safety is increasingly valuable. Strong PAT processes boost safety, and the use of checklists, good team communication, and error reporting help create an exceptional safety environment.
- **Disease management.** Hospital ORs can help surgeons improve patient outcomes by developing clinical pathways for common diagnoses—for example, perioperative protocols for preoperative anemia or diabetes. “Centers of excellence” that provide comprehensive disease management for procedures like joint replacement or bariatric surgery are another option.

Begin with pilot programs in 1 or more core specialties. Monitor outcomes and publicize the results. Strategically, you need to provide key surgeons with a compelling reason to choose your OR. Surgeons and patients alike will migrate toward institutions that provide superior results.
Just ahead
As you begin to grow volume in profitable service lines, protecting your profit margin will become increasingly important. A key element of guarding profitability is managing direct variable costs. The next “OR Business Performance” will show how to control spending on the low- and mid-price supply items that make up a large part of OR expenses. Learn how to identify waste, rationalize supply use, reduce inventories, and get the most out of supplier contracts.

This column is written by the perioperative services experts at Surgical Directions (www.surgicaldirections.com) to offer advice on how to grow OR revenue, control costs, and increase department profitability.