

4 considerations for creating successful ASC strategies

Ambulatory surgery center (ASC) volumes continue to increase as the healthcare industry shifts its focus for growth and care delivery innovation to non-hospital sites. Advisory Board models project an **9% increase in ASC volumes** between 2023 and 2028, compared to a 7% increase in hospital outpatient department (HOPD) volumes and 1% increase in inpatient volumes.¹ In addition, the development rate of new ASCs outpaces that of new hospitals by a factor of 7:1.²

But traditionally, health systems have preferred to keep cases in the hospital to ensure greater reimbursement. As a result, most health systems currently have a limited ASC presence. As of 2023, only about 20% of ASCs had some degree of health system ownership, and only 3% were fully owned by a health system.³

Given the continued growth of procedures in the ASC setting, health systems need to consider their ASC footprint more proactively, especially for surgical specialties core to the health system's business.

For health systems new to owning or operating ASCs, we offer four items to consider as they evaluate ASC opportunities.

01 Don't sacrifice ambulatory specialty growth to maximize hospital revenue.

Conclusion:

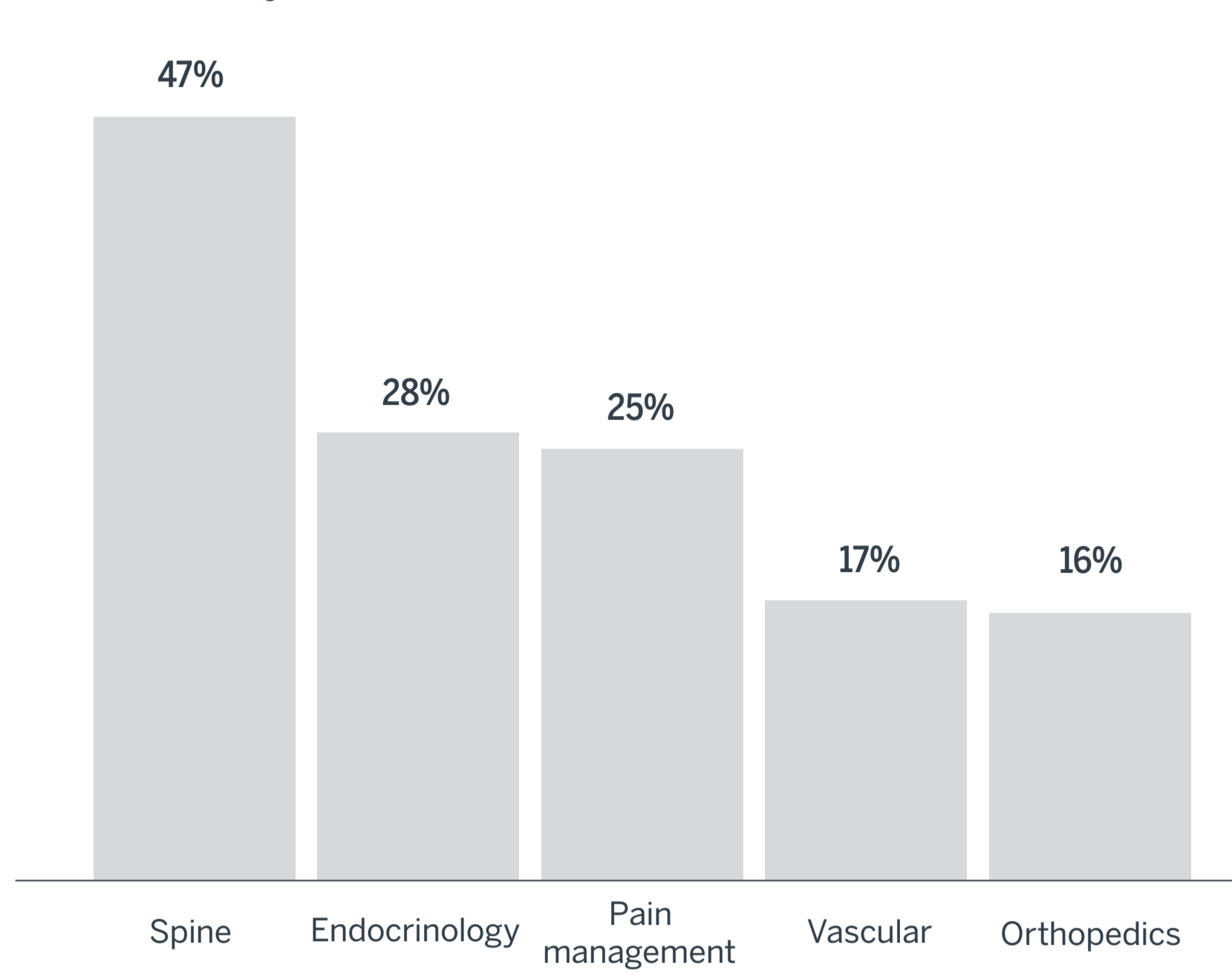
Specialties that are core to hospitals' success are shifting to other settings. But health systems need to evaluate potential ASC investments as an opportunity for the system's specialty care growth rather than a threat to their hospital-based business. Disrupting their own hospital revenues in the short term might be more beneficial to long-term strategic goals than allowing a competitor to become the provider of choice for certain procedures.



Rationale:

- ASCs are projected to grow in areas core to hospital identity and for which health systems must see growth for optimal sustainability, regardless of setting.
- Most health systems view this growth in ASCs as a threat because they often aren't in control of the pace or breadth of this site-of-care shift.
- However, health systems can anticipate shifts and invest in their ASC footprint proactively to negotiate favorable contracts with payers and ensure patients remain in their system.
- By proactively leveraging this site-of-care shift, health systems can facilitate specialty care growth as they leverage ASCs to improve access, reduce wait times, and grow market share.

Volume growth in ASCs by service line
Advisory Board Market Scenario Planner, 2023–2028



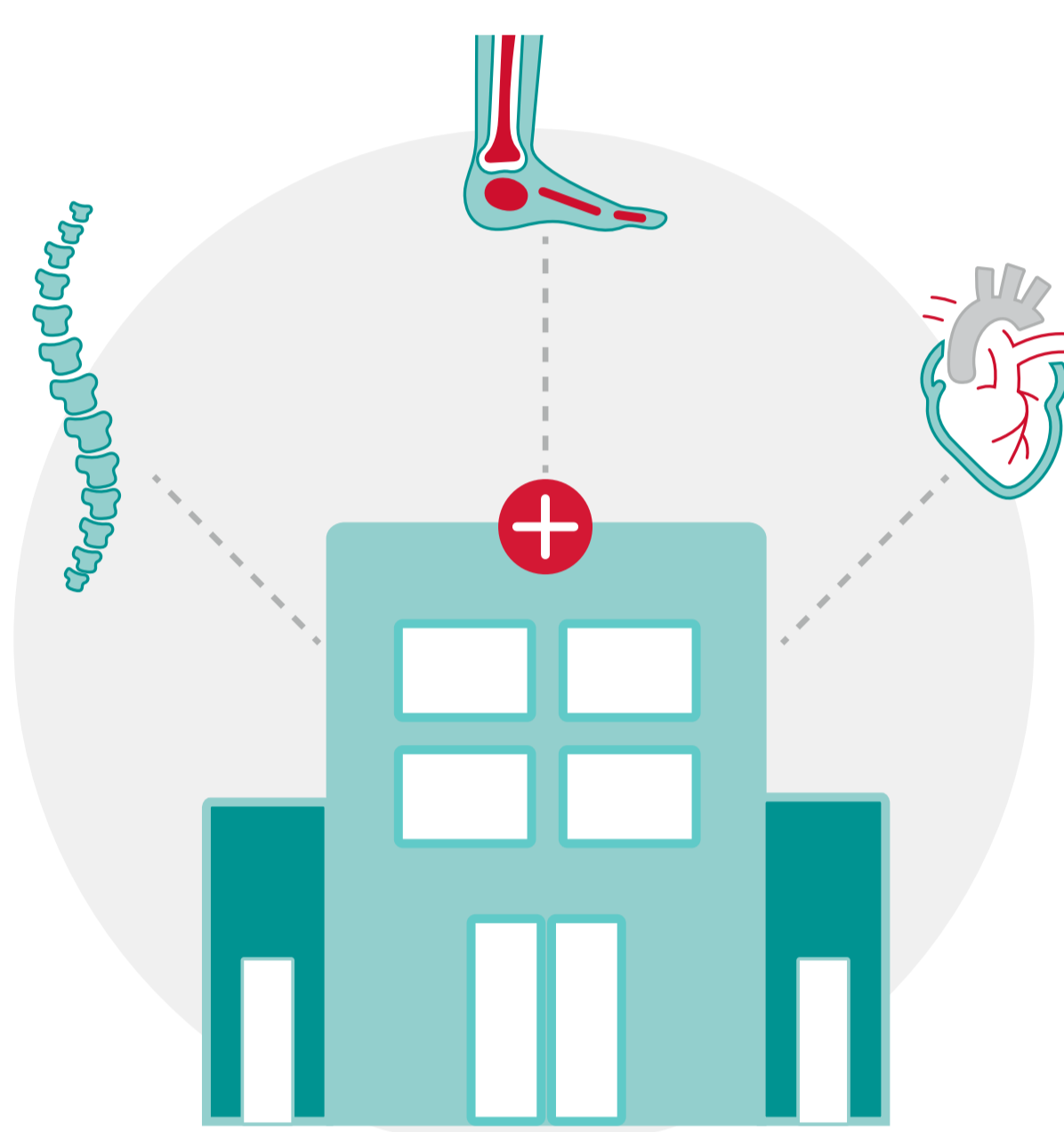
Trade-off health system leaders must accept:

Health systems often can't — and shouldn't — build out ASC infrastructure for every service line. They must determine which set of surgical specialties they should prioritize for growth. Health systems should choose which specialties are best suited and most advantageous to shift out of the hospital based on the system's local market factors and unique specialty care growth goals.

02 Unless you're confident you can consistently operate near capacity with a single specialty, choose multiple.

Conclusion:

Any operating model can be successful in an ASC under the right circumstances. However, unless a health system is looking to establish an ASC for a specialty that has reliably high volumes, the system may have better chances of success if it opts for a multispecialty model. This is particularly true for emerging specialties in ASCs — like orthopedics, cardiovascular, and spine — for which there are unlikely to be sufficient volumes in the near term to support an ASC alone.



Rationale:

- Single-specialty ASCs are more efficient and therefore should allow for greater margins. But they also depend on the success of a narrow range of procedures.
- Multispecialty ASCs diversify risk across specialties and can accommodate fluctuations in demand, making them less susceptible to operating below capacity.
- As new specialties shift to the ambulatory setting, it's good to pair them with other compatible and more established services to ensure adequate volumes in the near term.

Single-specialty

- Endoscopy
- Ophthalmology
- Dermatology

Multispecialty

- Orthopedics
- Pain management
- Plastic surgery

Suitable for

- Specialties with consistent, high volumes
- Emerging specialties in ASCs
- Specialties with low volumes
- Specialties with variable demand

Trade-off health system leaders must accept:

Health systems may have to sacrifice hyper-efficiency in their ASCs in favor of reliably filling their operating rooms (ORs). While single-specialty ASCs are often more efficient than multispecialty ASCs, they run the risk of failing to secure adequate volumes if demand for that one specialty is low. Health systems may therefore need to offer multiple specialties in a single location to ensure they are always maximizing use of their ORs.

03 Joint ventures are the fastest way to establish sustainable financial success in an ASC. But if you can't find a strategically aligned partner, don't partner.

Conclusion:

Most health systems will need partners — management companies, other health systems, or physician groups — to maximize the success of their ASCs. But all partners involved must be culturally and strategically aligned to avoid adding unnecessary tension and conflicts of interest to the joint venture.



Rationale:

- Health systems often have enough power to obtain favorable reimbursement and supply contracts, as well as lobby and navigate legislation.
- However, to maximize ASC performance, hospitals will require seamless operations and access to established patient relationships.
- These benefits are often best obtained by working with third parties.
- Partners who don't share strategic aims and values are likely to experience conflicts of interest in ensuring the success of the joint venture. This tension could negate the potential benefits that additional parties would bring.

Benefits of:

- ASC management company**
 - Operational support
 - Marketing and advertising
 - Data collection and benchmarking tools
- Health system**
 - Negotiating power with payers
 - Scale to secure favorable supply contracts
 - Administrative staffing support
- Physician group**
 - Referral bases
 - Improved physician engagement and value proposition

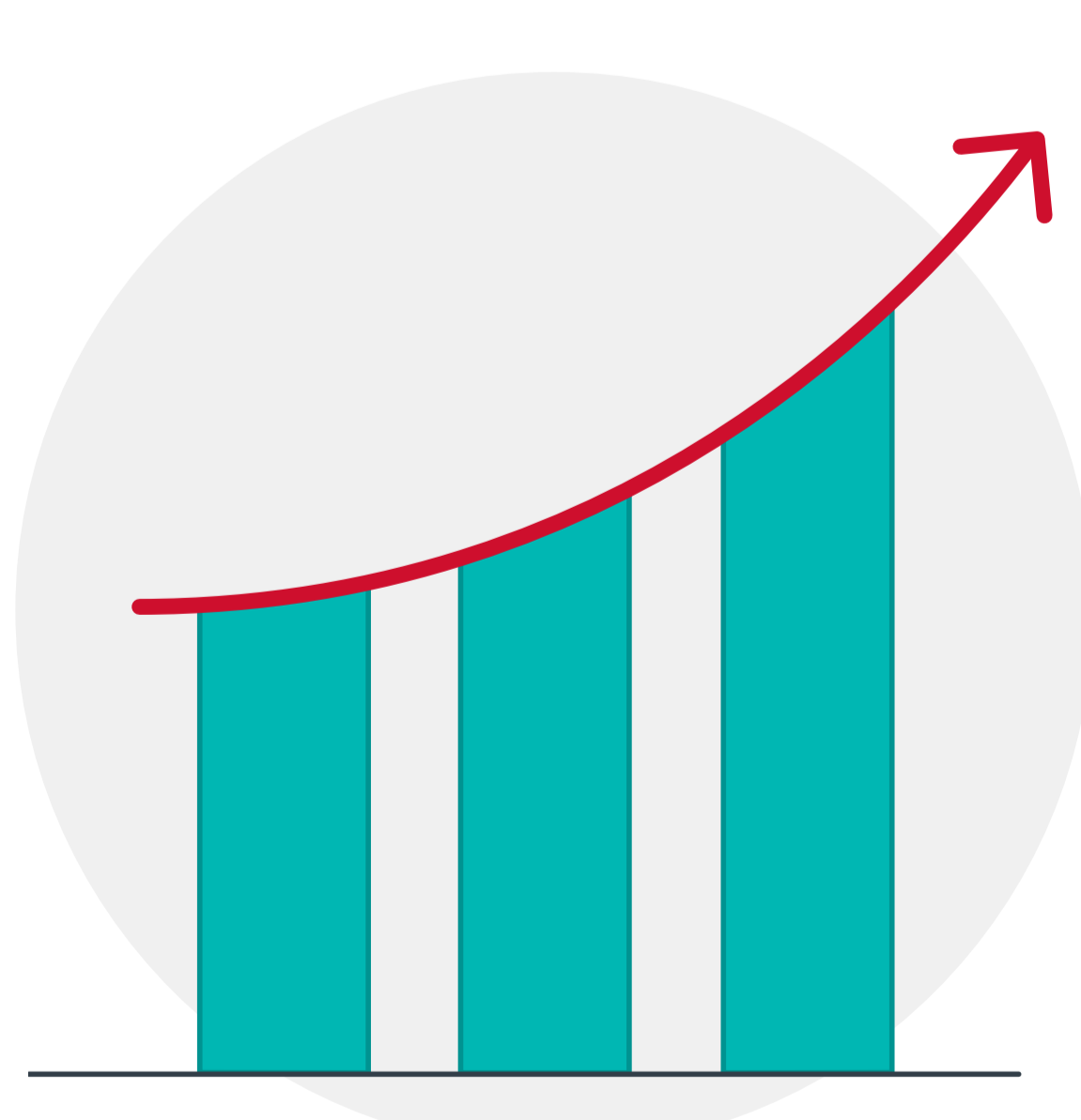
Trade-off health system leaders must accept:

Partnering on ASC ownership will mean sharing control and equity with another stakeholder. Decision-making will be more complex and less agile as a result. However, finding a strategically aligned partner minimizes these challenges while providing access to operational support, data collection and analysis capabilities, more engaged physicians, and negotiating power in payer and supplier contracts.

04 Continuously prioritize ASC margin performance to offset financial trade-offs.

Conclusion:

Most health systems measure the success of their ASCs by how much they minimize the organization's market share loss, as opposed to how much they can maximize margins. However, although there is no universal margin benchmark for health systems to meet, health systems must continuously focus on growing their margins in ASCs, given their high investment costs and relatively low reimbursement.



Rationale:

- Investing in an ASC has a high price tag and comes with accepting lower reimbursement rates.
- For many specialties, health systems will struggle to generate enough volumes to outweigh these financial trade-offs if margins are slim.
- Health systems must therefore prioritize margin performance to secure the financial sustainability of ASCs and ensure they reliably contribute to the system's long-term goals.

\$8M

Average annual cost to run an ASC⁴

50%

Average reduction in reimbursement when moving case from HOPD to ASC⁵

Trade-off health system leaders must accept:

Strategies health systems use to contain costs, improve efficiency, and/or boost volumes in the hospital may not translate directly to ASCs. Health system leaders will need to adopt new margin-improvement strategies (or modify existing strategies) to account for unique opportunities and challenges within the ASC setting.

1. "Market Scenario Planner," Advisory Board, April 2024.
2. "Provider of Services List," Centers for Medicare and Medicaid Services.
3. "ASC Industry Overview," ASC Data by BN Sales Group, June 2023.
4. "ASC Operating Costs," Stepien, Heidi, Becker's ASC Review, June 2023.
5. "ASCs vs. HOPDs: 12 insights on the federal reimbursement gap," London, Becker's ASC Review, October 2021.