



# Using Financial Metrics to Measure Performance

## THE CASE FOR BEING PROACTIVE

*By Aaron Murski*

**T**he ASC industry finds itself not too far from where it left off in 2011, with 2012 expected to be another year characterized primarily by consolidation for the ASC industry. The pool of potential physician-investors relative to the number of ASCs is not expected to increase any time soon, which means industry-wide growth opportunities remain few and far between. While not in a high growth phase, the mature ASC industry continues to have a bright future ahead, with physicians, patients and payors all benefiting from the quality, convenience and lower cost structure for which surgery centers are known. In addition, existing healthcare reform laws stress lowering costs for patients and payors, which should reinforce the competitive market position of surgery centers in the healthcare landscape.

### **The Effects of a Mature Industry**

It is true that high growth or perceived financial success can mask operating inefficiency for any business, surgery centers included. While processes to maintain efficiency may be in place, healthy profitability and distributions to physician-investors have a way of lulling managers into believing that things are better than they really are (“If it ain’t broke...”). As a negative operational trend persists through time and begins impacting the bottom line, the impact may be much worse, more difficult and time-consuming to address than if it were proactively managed.

As the ASC industry continues to mature, more and more surgery centers are finding themselves with stable revenues – and costs that will just not cooperate by falling in line. Simply because case volumes are steady month-to-month doesn’t necessarily mean that the facility rent won’t escalate or that employees will not expect a raise.

Therefore, proactively gauging performance becomes imperative in a mature industry. Whether benchmarking to internal metrics (e.g. prior year actual

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data) or external benchmarking data, making performance measurement part of the equation is no longer a best practice but a minimum standard to which managers must be accountable. Gauging performance is a necessary prerequisite in order to proactively and competitively position an ASC for any challenge or change, whether it's macro-industry issues such as healthcare reform, or ASC-specific issues such as refinancing debt, maximizing a valuation prior to affiliating with a hospital or management company partner, or reaffirming physician-investors that shareholder value has been maximized (sometimes the biggest challenge of all).

### Gauging Performance

At many surgery centers, the benchmarking process begins the week before the board meeting in which the information will be presented, and the process ends the day of the board meeting. Not surprisingly, as not every comparison will be favorable, the only statistics that make the cut in the board presentation are often cherry-picked based on the magnitude of the favorable variance. To effectively gauge performance and create value from the process, performance measurement must be conducted regularly and in a consistent manner. For example, Figure 1 presents a revenue dashboard which allows for quick and consistent presentation of key revenue drivers. Setting up a template such as this in advance and consistently reporting metrics can keep an organization in front of any unfavorable trends. In the example below, one can quickly tell that while the surgery center is ahead of the prior year and budgeted volume in the current period, the overall realized net revenue per case is lower than budgeted due to the lower acuity (reimbursement) cases which have increased substantially.

**Fig. 1** - Quarterly Performance Dashboard Example

1Q 20XX

Metric	Actual	Budget	Variance	Prior	Variance	Bmark	Variance
Surgical Volume	225	228	-1.3%	194	16.0%	n/a	n/a
Procedure Volume	150	123	22.0%	146	2.7%	n/a	n/a
Total Cases	375	350	7.1%	340	10.3%	n/a	n/a
Net Revenue	\$501,563	\$484,050	3.6%	\$442,561	13.3%	\$534,319	-6.1%
NR per Case	\$1,338	\$1,383	-3.3%	\$1,302	2.8%	\$1,425	-6.1%
AR Days Outstanding	30.0	30.0	0.0%	34.0	-11.8%	33.0	-9.1%

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### Other Issues to Consider

Of course, every surgery center will have reasons why variances from external benchmarks persist through time. For example, reimbursements could be abnormally higher (due to an out-of-network strategy or payor mix weighted towards higher reimbursing payors) or lower (due to managed care penetration) than typical surgery centers. Also, facility rent or labor costs may be much higher than industry norms in certain markets. For surgery centers with reimbursement or cost outliers that are difficult to change, gauging performance in all other areas becomes even more critical, as there is lower margin for error should variances disappear overnight.

### Performance Measurement Is Critical

Many surgery centers measure performance regularly, but most (in my experience) flirt with benchmarking only periodically, and only when it is beneficial to do so. Fully gauging performance requires regular and consistent processes be in place to ensure reliable results and accountability. As the ASC industry continues to mature, this has become a critical issue for surgery centers.

While annual budgets and organizational goals for the New Year have all been set and approved (or should be by now!), administrators and physician-leadership still need to monitor and update expectations proactively throughout the year. 



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