

Migration of Surgical Procedures - Where Will it End?

Clinicians seek to regain control of their busy OR schedules and strive to offer better services to patients at their offices. They also hope to reclaim some of their bargaining power with payers and hospitals, to ultimately exercise better control of their workflow and improve their income. Office-based procedures seem to be the perfect solution for clinicians. Patients and payers also benefit thanks to improved care, greater cost savings and better service.

While the trend toward office based procedures seems inevitable, hospitals won't be out of business anytime soon. For one thing, the technology is neither ready nor affordable enough for clinicians to feel comfortable with conducting OR procedures in the office environment without the necessary logistical and staff support. In addition, there are significant regulatory barriers and safety concerns.

This issue attempts to offer a fresh look at outpatient office based procedures and explore a different perspective - the payer's viewpoint. Also covered in this issue are the technology and market trends of surgi-centers as a potential proxy for what could happen in the office market.

MARKET OVERVIEW: Ambulatory Surgical Centers

Background:

- The first facility was opened in 1970. By the early 2000's, the number of ASCs was growing at nearly 300 new facilities a year. The number of Medicare certified ASCs has grown from 2,786 in 1999 to 4,506 in 2005 at an average rate of 8.3% per year.
- The number of procedures performed in ASCs has increased from 380,000 procedures in 1983 to 31.5 million procedures in 1996 and 57.1 million procedures in 2006.
- According to the National Survey of Ambulatory Surgery, the two major reasons for the increase are the advances in medical technology and cost containment initiatives. Medical advancements include improvements in anesthesia and the development of minimally invasive and non-invasive procedures.
- Medicare's adoption of diagnostic-related groups (DRGs) in the early 1980's created a financial incentive to shift certain procedures to the outpatient setting. The growth of managed care and the consolidation of hospitals have also contributed to this growth.

Key Figures:

- Ownership Mix (ASC Salary and Benefits Survey, FASA 2004)

61% Physician Only	7% Corporate Only
16% Hospital/Physician	3% Hospital Only
11% Corporate/Physician	2% Corporate/Hospital
- Major Specialties served by ASCs (2006 Medicare data)

GI/Digestive	Ophthalmology	Pain/Neurology
Orthopedics	Urology	Dermatology

- States with the most ASCs (2007 Medicare Data):

1) California (668)	7) Washington (221)
2) Florida (358)	6) Pennsylvania (221)
3) Maryland (357)	8) New Jersey (201)
4) Texas (346)	9) Ohio (193)
5) Georgia (253)	10) Arizona (150)

CASE STUDY: Movement Toward Office Based Surgical Procedures

- The Company: A leading multinational medical technology device company with a history of developing innovative products addressing the vascular, urology and oncology markets.
- The Challenge: Assess the appropriate factors to use in segmenting the URO/GYN physician population to determine which specialties are more likely to support office migration and determine the likelihood of certain procedures moving from the hospital/ambulatory care center to the office.
- Our Solution: TMTG conducted a nationwide survey and in-depth interviews with physicians practicing in the targeted specialties. TMTG identified four key physician "personas" within the URO/GYN field, outlined recommendations for effectively engaging each segment and identified specific procedures that appear to be most preferred for migrating to the office.
- The Impact: The client gained a better understanding of the URO/GYN office procedure market and was able to tailor its physician support program to match the characteristics and needs of each identified physician segment. The client was able to selectively introduce its products to the market and overcome physician concerns about migrating these services to the office environment.



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of the Quarter: Payer's Perspective on Procedure Migration

Donald Sacco, retired CEO of Regence Blue Cross and Blue Shield of Oregon; Co-founder and former Executive Vice-President of The Regence Group

Q: What do you think about the migration of medical procedures into the office? Is this a desirable trend?

A: Office based surgery can be a real benefit to patients. It can add to their convenience and comfort, and it also has the real opportunity to be more cost effective. Concerns that I have are primarily related to safety and quality. From a safety and quality perspective we have to be assured that the procedures can be done safely by qualified staff and that we have a system for reporting all of the experiences in the office setting. We don't have that today. Utilization is a secondary concern. In the past we have seen that when we have an abundance of facilities we end up with a higher volume of services. That is a concern in terms of cost effectiveness for the whole system.

Q: Reimbursement can influence a physician practice. When payers set office reimbursement rates, what motivates their decision?

A: Historically, the initial reaction was to discourage movement of procedures from the hospital to freestanding surgical centers and physician offices. More recently the insurance benefit structure has begun to change. There have been efforts to get consumers more engaged in the healthcare process. In most cases today benefits for surgery include a co-payment. Patients are paying a percentage of the charges or acceptable costs at the time of service. So it then becomes a benefit for patients to look for the lowest cost setting.

In essence, reimbursement is moving away from variable payments based on location, to getting the consumer more engaged by lowering out-of-pocket costs when they choose the lower cost setting.

Q: From a public health policy standpoint, would the availability of more treatment options in the physician's office lower the cost of healthcare?

A: In theory, quality care rendered at the lowest cost setting obviously helps improve the whole system's effectiveness. Growth in office procedures certainly can add to the convenience and comfort for a patient. Access for patients is definitely improved. From a consumer standpoint, the main issue becomes whether the office is an appropriate setting for the type of surgery proposed. Is the staff trained? Is the equipment appropriate? This is an issue of safety. As we see more types of surgery migrate to the office setting, I believe that there will be even stronger calls for office based standards in order to be eligible for reimbursement.

Q: What are the pros and cons of this trend in regard to a patient's interests and experience? What concerns should patients have?

A: It boils down to the issue of safety first and quality outcomes second. I think that patients need to be assured that when a surgery is proposed to be performed in an office setting, it is safe to do so and that the physician and staff in that office are capable and have the appropriate experience for providing that service.

Q: Will the migration trend continue or has the trend reached a plateau? In which particular clinical areas do you believe the migration is intensifying and in which clinical areas is the trend reversing?

A: Medical device companies should definitely continue to invest in research and development to discover smaller and easier-to-use devices to continue the trend. It is more than just a cost savings issue. If you take a look at what we have been able to accomplish over the years in surgical techniques, there is a tremendous positive impact on the quality of care. That has continued to be an overriding emphasis in terms of what is needed in the health care systems. Medical device companies that offer an opportunity for both cost effectiveness and improved quality have a positive and bright future.

For more information about The Regence Group, please visit: www.regence.com

Long version of this interview: www.themarketechgroup.com/minute/tmtg-min24-Sacco.pdf

ON THE HORIZON: Future of Ambulatory Surgery Centers

HIGHLIGHTS

- Increased demand for surgery due to an aging population will fuel the growth of ASCs because of higher surgeon productivity and increased patient comfort.
- Lower co-payments, advancements in anesthetics, improvements to minimally and non-invasive procedures and higher patient satisfaction will continue to increase the participation of ASCs in the surgery market.

AT STAKE!

- The Center for Medicare and Medicaid Services' (CMS) proposal to reduce ASC reimbursement rates to 62% of hospital outpatient procedures could significantly impact the economic interest in ASCs, especially smaller single specialty freestanding centers.
- Increased popularity of surgical procedures performed in ASCs raises concerns about over-utilization and could lead to increased scrutiny and regulation through more stringent licensing and facility requirements.

SO WHAT?

- MedTech companies should consider integration with other medical devices to streamline surgical procedures and increase ease-of-use for the outpatient market.
- New trends in the design, ownership and business objectives of ASCs currently make these a valuable target for OEM vendors of MedTech equipment.

Source: National Health Statistical Reports 2009

THE ASSOCIATE CORNER: Less is More

While there are numerous benefits to minimally invasive surgery, many obstacles still exist including articulation, miniaturization, accuracy, suturing, tactile feedback and disorientation. Advances in MedTech design, such as the integration of robotics with X-ray and MRI scanners are revolutionizing medical fields, including neurology and orthopedics.

This cutting-edge technology has traditionally only been within reach of hospitals. However, development of these top-end systems has created the demand for smaller, less sophisticated and less expensive equipment, which is better suited for the ambulatory setting. The continued growth of ASCs will also fuel demand for more integrated and better designed medical devices.

Historically, healthcare has been slow to develop new technology. This is mainly due to the lack of collaboration between engineers, scientists and clinicians. While smaller start-up companies find it much easier to be innovative, larger companies find it more difficult to create cross-departmental collaboration.

Regardless of how integration between these parties is accomplished, few MedTech companies can afford to ignore the significant new markets for innovative, minimally invasive surgical technologies.

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