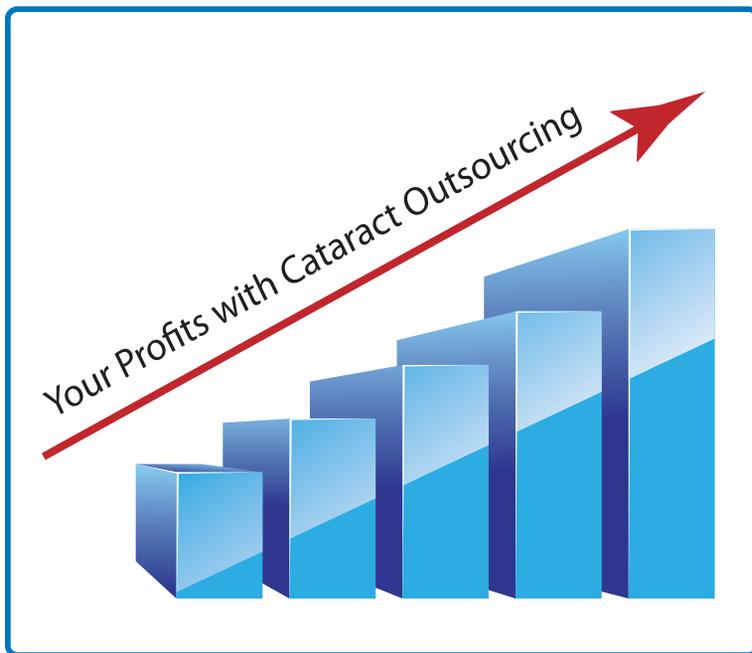


Learn how to **Transition** from **Equipment Owner** to **CATARACT OUTSOURCER**



Eliminate capital expenditures and costly repairs and reduce staffing costs through outsourcing





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FROM OWNING TO OUTSOURCING

The ability to offer cost-effective healthcare becomes increasingly challenging, especially now with the expectations of the growing aging population and 32 million newly insured Americans. Healthcare facilities struggle offering more care with less reimbursement and other regulatory hurdles. How can executives reposition operational strategies to drive down costs, improve efficiencies and create profitability? Outsourcing.

The Effect of the Growing Aging Population on the Cataract Surgery Industry

Consider the number of cataracts performed on the 65 years and older population that will grow over the next 25 years:

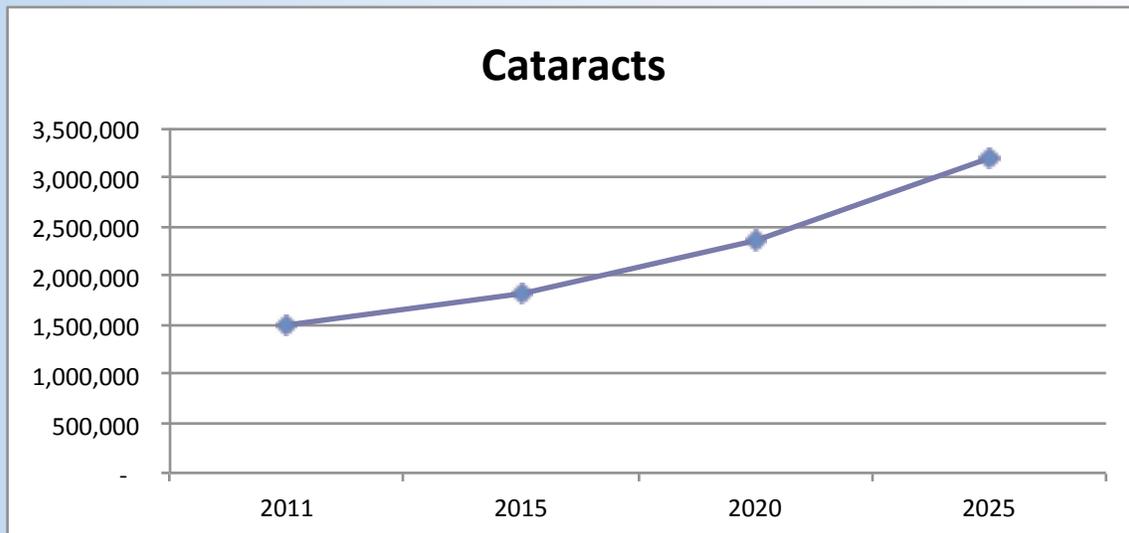
Due to the “baby-boomer” influx, this senior citizen group increased by 15% in the past 10 years, with the males increasing at a rate of 21% and females increasing at 11%.

As such, the average annual increase in cataract procedures over the next 14 years will exceed 8% on average. Please see the table below for projected growth.

According to the “The Changing Demographic Profile of the United States” in the Congressional Research Service Report for Congress dated March 31, 2011, the senior citizen group (“65 years and older”) will more than double from the current population of 40 million. In fact by 2025, this age group will increase to 85.5 million people.

Given these statistics, total cataracts procedures and related growth are projected to be:

| | # of Cataracts | Cataract Growth |
|------|-----------------------|------------------------|
| 2011 | 1,500,000 | 15% |
| 2015 | 1,825,000 | 22% |
| 2020 | 2,349,000 | 29% |
| 2025 | 3,184,000 | 36% |



Source: CRS Report for Congress, "The Changing Demographic Profile" March 31, 2011

With the exponential growth of senior citizens, patient satisfaction in the cataract area will become increasingly important, particularly given the change in patient make-up. The passive "World War II Greatest Generation" of senior citizens will be replaced with the more aggressive and demanding "Baby Boomer" generation, who are more verbal about their expectations and needs, particularly in relation to their healthcare services.

This means that this generation will be looking for the latest in technological advances in a highly organized and professional setting that is priced reasonably enough that it is covered by the guidelines mandated by the Centers for Medicare and Medicaid Services (CMS).

How Cataract Outsourcing Will Meet Healthcare Reform Requirements

Outsourcing niche industry services such as cataract surgery services makes good financial sense, particularly for those facilities looking for a way to convert fixed costs to variable costs.

Outsourcing companies have the ability to provide equipment, products and services to hospitals, ASCs and private physician groups at lower prices than if the facility were to coordinate and organize the services in-house. Among the benefits facilities can expect from outsourcing:

- Eliminated capital expenditures
- Eliminated supply costs
- Eliminated inventory and spoilage costs
- Eliminated equipment repair and maintenance costs
- Enhanced staffing with technical expertise

With the impending healthcare reform, facilities that own their ophthalmic equipment are increasingly turning to outsourcing services as a viable solution to lowering their case costs and ensuring regulatory compliance. Many hospitals today use a company like Cardinal Healthcare, for example, to outsource their disposable needs. Outsourcing companies can offer hospitals and ASCs the same savings and support for cataract surgery services.

“How does one go from owning equipment and inventory to contracting with an outsourcing company that provides everything?”

Making the Change to Cataract Outsourcing

The conversion from owning to outsourcing is easy and, most important, economically worthwhile. Here are the steps one should expect from an outsourcing company:

1. **Observation Visit and Assessment Analysis** – An outsourcing representative will spend time at the facility observing the surgery schedule, doctor’s preferences, operational workflow, etc. In addition, he/she will evaluate the on-site equipment and doctor requirements, in terms of equipment, micro-instruments, IOLs (intraocular lens) and medical supplies.

(Tip: Ensure the staff is prepared to provide specific information about the owned equipment (such as purchase date, annual maintenance fees, etc.), average number of cataract cases performed annually, preferred instrumentation by surgeon, etc.)

2. **Savings Consultation** –Some outsourcing companies prepare a comprehensive cost savings analysis and review the report in detail with the facility administrator, director of surgery and/or a surgical leader. Analysis reports generally include comparison savings on equipment, micro-instrument sets, IOLs, medical supplies and caseload. In some cases, “best practices” information may be shared relative to operating and room efficiencies. If requested during the analysis, some outsourcing companies can also provide information on a doctor’s referral patterns and related caseloads.

(Tip: Be sure the outsourcing company is a vendor-neutral supplier, meaning it negotiates purchases of equipment, supplies and disposables from all manufacturers to offer the best possible pricing to clients, even those who require customized, multi-brand packages. Some companies have exclusive partnerships with suppliers for selected products such as IOLs. Outsourcing companies utilize value-based pricing strategies and pass along the savings to Hospitals and ASCs, so they can in turn make more cost-efficient allocations of their resources.)

3. **Equipment Transition** – Outsourcing companies purchase the existing equipment from the facility at a fair market value price and remove it from the facility. On each scheduled day of surgery a newer piece of equipment with the latest technology will be provided along with a highly experienced technician. Some facilities are “fixed sites” and keep equipment on-site if their case volume is high.

Outsourcing companies are able to offer the latest in technological advancements in part because of their large purchasing power and multi-client utilization of each piece of equipment.

4. **Medical Supply Transition** – In most cases, facilities sell the supplies on hand back to the outsourcing company at fair market value prices. On a go-forward basis, the outsourcing company takes over all purchasing, managing and financing “headaches” related to these inventoried products, some even include IOLs. On each scheduled day of surgery, an outsourcing representative brings in all needed products based on the number of cases scheduled for that particular day. In some cases, the full consignment of IOLs may include Specialty IOLs.

5. Schedule and Inventory Coordination – Once the executive/management decision is made to outsource, the communication process moves to a turnkey operation process common with outsourcing companies. Representatives specialize in communicating and orchestrating the logistical puzzle to ensure the proper protocol for the scheduling of cases, whether it is on a daily, weekly, monthly or bi-monthly basis, and work tirelessly to secure successful outcomes.

(Tip: In addition, many outsourcing partners also take care of all compliance and regulations standards, including Medicare compliance paperwork. This could be especially important to administrative personnel.)

In summary, the transition process from owning to outsourcing cataract surgery services is simple, and can result in expanded capital budgets, enhanced operational efficiencies and happier healthcare providers. Outsourcing companies can provide facilities and surgeons with their choice of ophthalmic equipment, surgical instruments, intraocular lenses, cataract surgical disposables and any other cataract surgery products or staff.

Bottom line: Outsourcing saves facilities overhead and enhances capital budgets.

About the Authors

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Kipp has more than 20 years' experience in the ophthalmic industry, serving in leadership positions such as vice president and general manager, and as CEO of an entrepreneurial start-up. He is Vice President of Business Development at Vantage Outsourcing.

Kipp earned his Bachelor of Science degree in psychology from United States International University, San Diego, CA.

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