Why ambulatory care trends offer revenue growth potential

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The distribution of care delivery to ambulatory sites of care is well underway, with outpatient and physician revenues for many large health systems now equaling or exceeding core inpatient hospital and diagnostic payments. Trends such as the reorientation of the industry towards B2C business, rapidly rising consumer and employer expectations, and the redistribution of risk from payers to providers are changing the basis of competition and providing new opportunities to create value in the ambulatory care market.

The shift from inpatient to distributed ambulatory care settings, according to a recent McKinsey analysis, resulted in:

- Loss of $36 billion in revenue from inpatient care settings in 2016
- Gain of about $29 billion in revenue for ambulatory health sites, mainly in hospital outpatient settings
- Gain of $7 billion from distributed convenience sites such as urgent care centers and freestanding emergency clinics

The advent of enhanced clinical digital technology, coupled with a growing and aging population, will fuel further growth in demand — particularly in ambulatory settings, where consumer preference for convenience has emerged as a major factor in provider selection. The so-called “consumerization” of healthcare requires a service-based strategy designed to meet the underlying needs of consumers at the time they interact with the system.

Academic medical centers such as Mount Sinai Health System in New York are partnering with startups such as One Medical to provide concierge-like primary care in a move to protect and grow their commercial-segment business. Insurance companies such as UnitedHealth Group, Humana and some Blue Cross Blue Shield plans have become providers, buying practices and hiring physicians who offer ambulatory care through retail urgent care clinics, surgery centers and offices in over a dozen states.

Adding to the disruption are the new vertical integrations still in their infancy, such as Cigna/Express Scripts and CVS Health/Aetna, and employer entrants like Haven, the new Amazon/Berkshire Hathaway/JP Morgan Chase healthcare joint venture led by Atul Gawande, MD. In addition, healthcare venture investments in 2018 were 50% higher than in 2017 (over $25 billion), according to a Silicon Valley Bank report, with major investments in oncology and neuro drugs, biopharma platforms, cardiovascular and neuro devices, and diagnostic tools and analytics.

Meanwhile, patients are being expected — fingers crossed — to act more like “customers,” creating increased motivation for health plans and providers to address issues of access and affordability.

With this type of transformation looming, healthcare leaders should be plotting strategy to respond to the following key trends.

**SIGNIFICANT GROWTH IN DEMAND FOR AMBULATORY CARE**

While revenue growth in the overall healthcare market has slowed in the past decade, ambulatory clinical demand is continuing to expand at a healthy rate. For one provider, Truven Health Analytics forecast that the combination of population growth, aging, treatment trends, expansion of Medicaid and coverage through healthcare information exchanges
The growth of the older population as a share of the total population will have a powerful impact on ambulatory services. By 2025, the percentage of the population over 65 will rise from 15.1% to 18.8%, according to Truven Health. Adding to this demand is the impact of the roughly 17 million individuals who have received coverage through state and federal health exchanges and Medicaid expansion.

THE RISE OF NATIONAL PHYSICIAN PRACTICES AND CLINICAL OUTSOURCERS

National physician practices (NPPs) — single-specialty, groups of related specialties and multispecialty — have been somewhat off the radar in most strategy discussions. Because hospitals tend to partner with NPPs to fill gaps in their clinical staff, they are not seen as direct competitors. Yet NPPs are the focus of significant venture capital activity, with competition for physicians driving rapid increases in practice valuation. Given their scale and specialty focus, NPPs have advantages in recruiting, particularly for positions such as hospital intensivists and emergency medicine.

The scale of NPPs facilitates management practices that better align clinical staffing, hospital and payer needs and create a more convenient care experience for their patients. A number of NPPs, such as Sound Physicians, have been active participants in Medicare bundled payment initiatives, creating opportunities for potential joint-venture partnerships with provider systems seeking to relocate their resources from inpatient to ambulatory care. (See the sidebar below for examples of high-performing NPPs.)

PRIMARY CARE AND MEDICARE ADVANTAGE INNOVATORS

According to the 2019 Accenture Digital Health Consumer Survey, consumers are changing their expectations about convenience, affordability and quality. As expected, younger consumers are more dissatisfied with the healthcare status quo — but consumers of all generations are more willing to try nontraditional services, with convenience being a top factor in the choice of care. Large employers, the government and insurers are increasingly looking to enhanced forms of primary care as the key to improving access, lowering costs and filling market needs.

The demand for high-quality primary care services, coupled with the alignment with new value-based payment models and venture capital investments, is catalyzing the growth of new types of ambulatory care.

NATIONAL PHYSICIAN PRACTICES AND OUTSOURCERS

OptumCare, a $15 billion division of UnitedHealth Group, will employ more than 43,000 physicians in multi-specialty practices and urgent care centers after completing the acquisition of DaVita Medical Group (which includes high-profile groups such as HealthCare Partners and the Everett Clinic). That total is 20,000 more than Kaiser Permanente.

DaVita Medical Kidney Care, which together with Fresenius Medical Care and its subsidiaries manages 75% of the dialysis market, has introduced many advancements in clinical care models for end-stage renal disease.

Schumacher Clinical Partners, which contracts with over 400 facilities providing emergency medicine, hospitalists and post-acute services delivered by some 7,500 providers in 30 states, is focusing on risk-based contracting arrangements. The goal is to supplement its core fee-for-service contracts with a set of proprietary outcomes data and cost-effectiveness tools that will be offered to health plans and providers.

Sound Physicians, a $1.5 billion national practice with 3,000 hospitalists, intensivists and emergency medicine physicians at 275 hospitals in 38 states, is among the NPPs that are significant participants in the federal Bundled Payments for Care Improvement initiative.

Envision Healthcare, which provides emergency, hospitalist, anesthesia and post-acute services to 1,800 hospital clinical departments, plus 261 surgi-centers and one surgical hospital in 35 states and Washington, D.C., was recently taken private for $9.9 billion by KKR, the global investment firm.

MedNax, Inc. is a $3.5 billion national medical group providing neonatal, anesthesia, maternal-fetal and pediatric services.
providers. Telemedicine companies and urgent care centers can fill some of the needs outside of the ER. But perhaps more transformative in the long term are primary care corporations featuring a care model that can provide real engagement, frequent dialogue and joint patient/physician decision making. (See the sidebar above for examples of leading innovators in this space.)

These new primary care providers tend to feature:

- Supportive infrastructures to provide practice management services while enabling patient engagement
- Robust, interoperable data technology infrastructure capable of interfacing with multiple data sources
- Seamless access and highly convenient care

Some, but not all, embrace value-based, at-risk contracts that align physician and care teams with patient needs and outcomes.

**INCREASED OPPORTUNITIES FOR RISK MANAGERS**

Reflecting in *NEJM Catalyst* on their experience in the primary care market, Venrock partner Bob Kocher, MD, and Christopher Chen, CEO of ChenMed, conclude that “practices that succeed at making the shift from fee-for-service to managing risk are routinely able to increase practice profitability by at least 25%.” Although there is relative safety and predictability in FFS revenue, they argue, value-based revenue is increasing and likely
to be more lucrative because it allows primary care providers to capture revenue that formerly went to downstream providers.

Such an approach requires a shift in mindset from maximizing RVU revenue and downstream referrals to managing total patient health, quality and costs. This trend reinforces the need for providers to grow their own magnet physician groups and makes acquisition of remaining independent practices a priority.

KEYS TO SUCCEEDING IN THE AMBULATORY MARKET

The ambulatory business can be viewed as a portfolio of consumer assets with specific contracting approaches; centralized billing, collections and financial management; and a unique set of performance metrics that align incentives of health systems, owners and physicians. Successful joint ventures require a common vision and common goals, a clear understanding of what each partner brings to the venture and a process for resolving operational disputes.

Organizations should commit to creating standardized, predictable and effective business processes, maintaining the agility to accommodate changing consumer purchase patterns, and prioritizing on-demand access and convenience through investments in innovative technology.

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Footnotes: