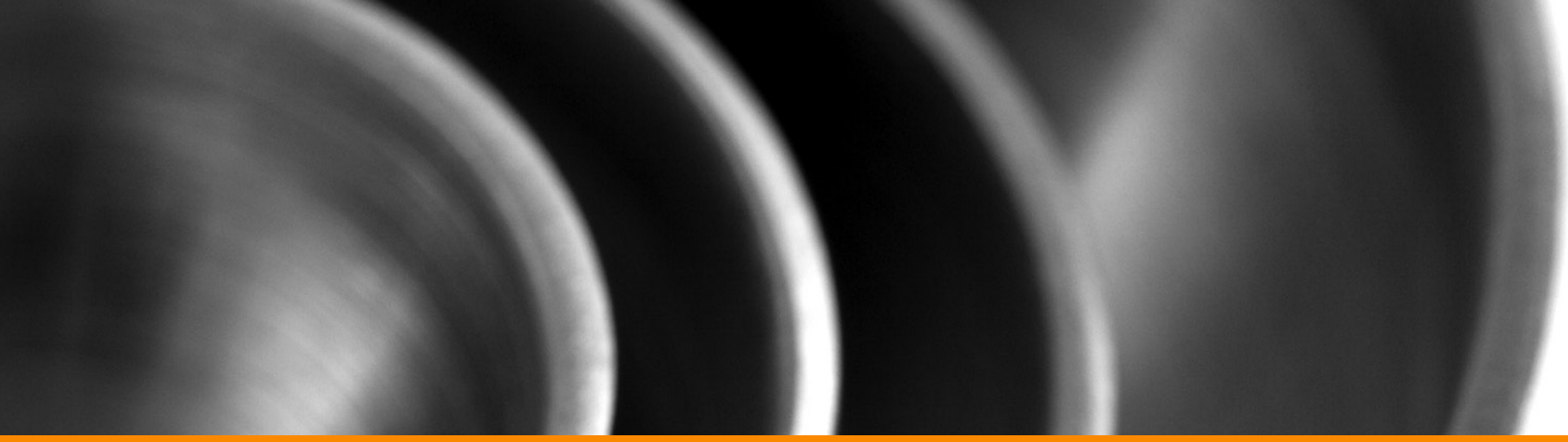


AMBULATORY HUBS

An Sg2 Summary Report

Mounting financial pressures exacerbated by the COVID-19 pandemic have led to a renewed interest in ambulatory hubs. But with different models addressing specific goals, how do health systems find the right model?

Sg2
health care intelligence

AMBULATORY HUBS

An Sg2 Summary Report

This Sg2 Summary Report is excerpted from *Ambulatory Hubs: From Access Points to Margin Drivers.*

The health care industry's long-running outpatient migration fueled a fast and often frantic build-out of low-capacity fixed assets across markets nationwide, with a price tag to boot. Now trends spurred by COVID-19 have converged with preexisting conditions to warrant reconsideration of how health systems position themselves in this arena. One old concept, in particular, deserves a fresh look: ambulatory hubs.

TRENDS SHAPING AMBULATORY STRATEGY

Pre–COVID-19

- Site-neutral payment
- Cost and pricing pressures
- Inpatient capacity constraints
- Consumers' access expectations
- Moves by new market entrants

Post–COVID-19

- Upended utilization patterns
- Decreased operating margins
- Accelerated virtual health growth
- Lasting consumer infection-risk concerns
- Physician practice consolidation

The track record for co-locating ambulatory services has been mixed. Systems that historically pursued this approach too often found themselves with expensive real estate lacking the volume or margin to justify it. They settled for centers designed to function almost exclusively as consumer-centric channels for downstream revenue rather than as financial contributors in their own right.

Given today's radically altered landscape, robust hubs moving forward will be integral to systems' overarching ambulatory growth strategy. Though this will hold true in the majority of markets, the specific models deployed must be responsive to local market dynamics. Keys to success include a clear-cut strategic identity and a service balance capable of maximizing margins without eroding them elsewhere. Commitment to true integration, not just co-location, will enable a seamless consumer experience.

E&M = evaluation and management. **Sources:** US Census Bureau. 2016 Annual Capital Expenditures Survey. Accessed February 2020; Sg2 National Health Care Consumerism and Insurance Coverage Survey, 2019; Impact of Change®, 2020; HCUP National Inpatient Sample (NIS). Healthcare Cost and Utilization Project (HCUP) 2016. Agency for Healthcare Research and Quality, Rockville, MD; Proprietary Sg2 All-Payer Claims Data Set, 2018; The following 2018 CMS Limited Data Sets (LDS): Carrier, Denominator, Home Health Agency, Hospice, Outpatient, Skilled Nursing Facility; Claritas Pop-Facts®, 2020; Sg2 Analysis, 2020.

$9.7B

Total spending on OP/ambulatory care centers in 2017

71%

Consumers who prefer a 1-stop shop for low-acuity care

14%

Total spending on OP/ambulatory care centers in 2017

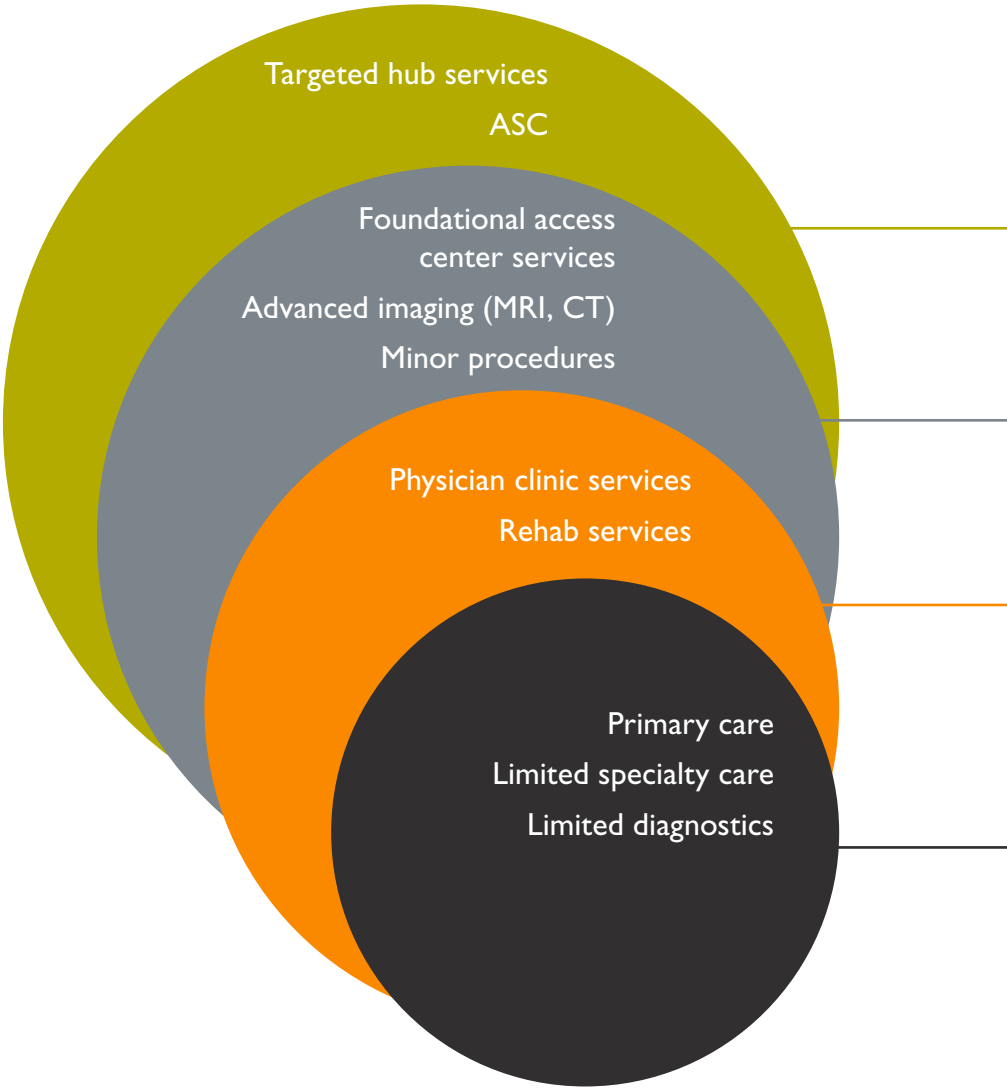
39%

Projected decline in brick-and-mortar E&M visits by 2029

This report details 3 models and the balancing act between service volume and margin potential required by each. It also gives examples of health systems that have capitalized on the variety of hub archetypes.

VARIED GOALS, VARIED MODELS

Hub models build out from a universal core typical of a standard physician clinic. As service breadth expands, advantages and financial risk change. Typical volume capture and margin also vary by model. A firm handle on these distinctions is essential to ensuring a planned hub is well-positioned to deliver on the strategic goals justifying the investment while avoiding the risk of over- or underbuilding.

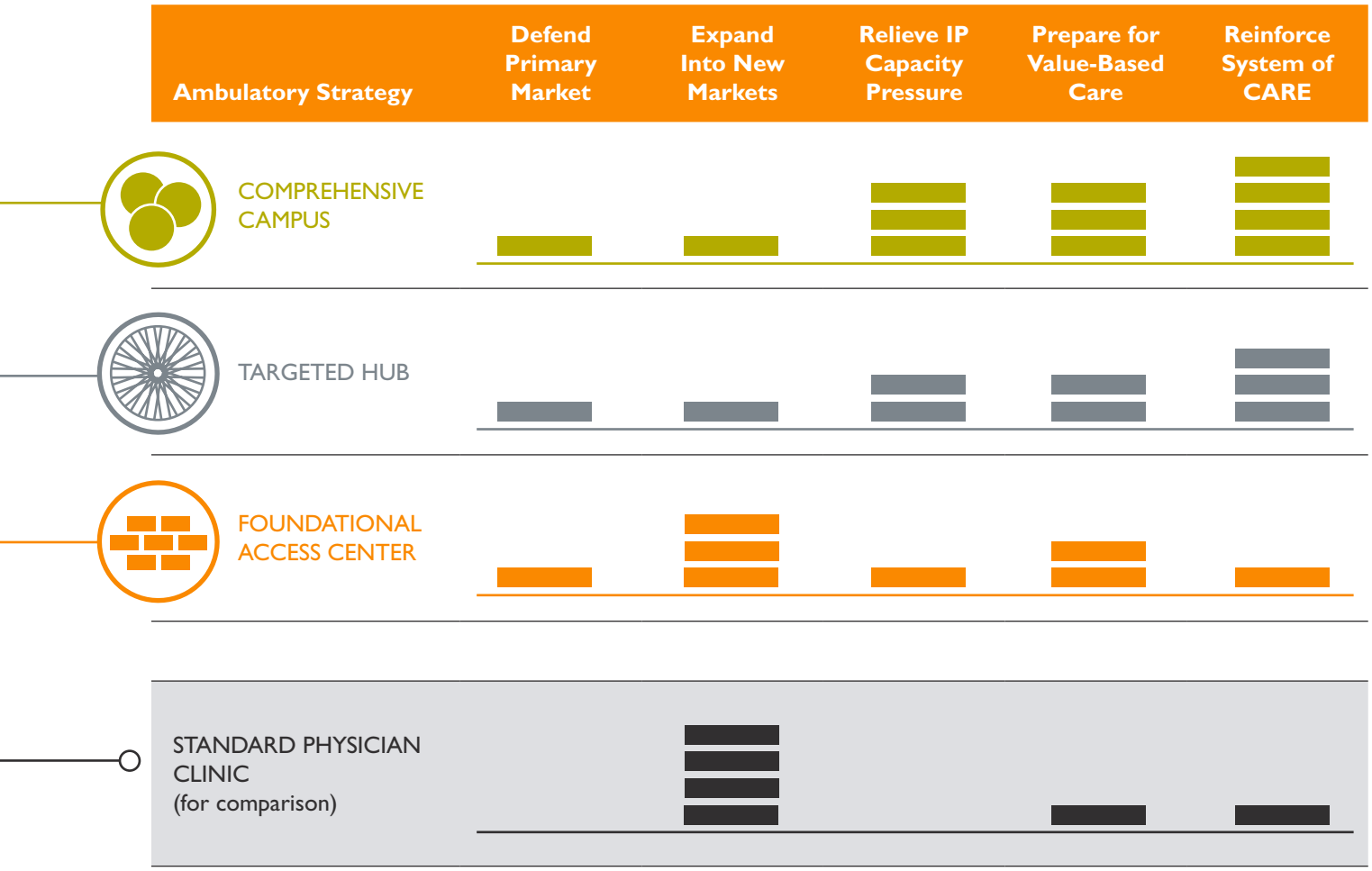


CONSIDER REAL ESTATE REPURPOSING

The financial hit many systems have sustained due to COVID-19 limits a new-build approach for many. Yet the pandemic has laid bare strengths, gaps and redundancies in many organizations' Systems of CARE, forcing them to rethink service distribution and right-size IP facilities. It is spurring trends likely to free up space in existing sites: accelerated growth of virtual visits, permanent work from home arrangements for staff, elimination of waiting rooms. Lasting demand destruction post–COVID-19 also will present opportunities for physician practice consolidation.

Hub planning must include a broad assessment of current real estate and be factored into enterprise considerations for divesting underperforming assets. In contrast to suboptimized sites common today, high-functioning hubs enable clinical scale at reduced overhead given the operational efficiency of shared staff and technology.

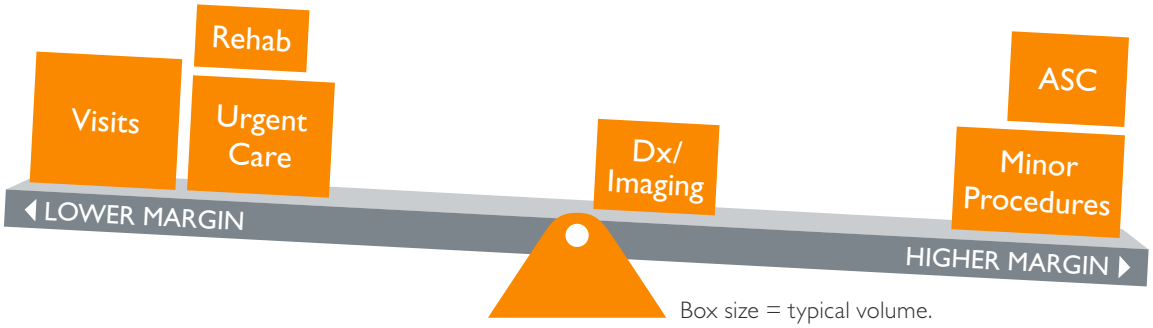
ASC = ambulatory surgery center.



The 3 hub models on the following pages each achieve a different combination of strategic goals.

COMPREHENSIVE CAMPUS

Positioned as a community-based alternative to hospital campuses for low-acuity and intermediate care as well as outpatient surgery, this model enables considerable clinical scale. Co-locating a nearly full continuum of services for multiple conditions or service lines conveys high potential for superior cost control, quality and consumer appeal. Though not without financial risk given the start-up investment, much can be mitigated via increased case volumes at reduced variable costs and success as a built-in referral channel for ambulatory procedures.



Box size = typical volume.

Considerations

Market

- Measure payer appetite to move outpatient procedures to lower-cost settings.
- Factor in the impact of high commercial payer mix (average 62%) in ASCs.
- Capture and manage demand and growth for top ambulatory surgeries (GI, ortho, general surgery, pain management and ophthalmology).
- Seize opportunity for surgeon acquisition, partnerships or consolidation community-wide.

Consumer Centricity

- Build/locate in retail-centric areas.
- Dedicate first floors to improve access to high-volume services (eg, primary care, urgent care, imaging, lab).
- Balance 1-stop-shop convenience against drive times.

Financial Risk—High

- Recognize the high penalty of overbuilding given sizable capital investment; larger facilities can span over 250,000 square feet.
- Be wary of ASC saturation in slow-growth markets.
- Position for success under value-based contracts through stringent cost management, quality focus to reduce readmissions and integrated care.
- Determine volumes and variable cost reduction necessary to mitigate revenue impact of shifting procedures from HOPD to ASC.

Community Position

- Engage community leadership through planning participation (including community roundtables) to achieve ongoing recruitment, financial accountability and workforce governance.
- Collaborate with city planners on the potential for the hub to anchor to larger development projects.

Dx = diagnosis; GI = gastrointestinal; HOPD = hospital outpatient department.

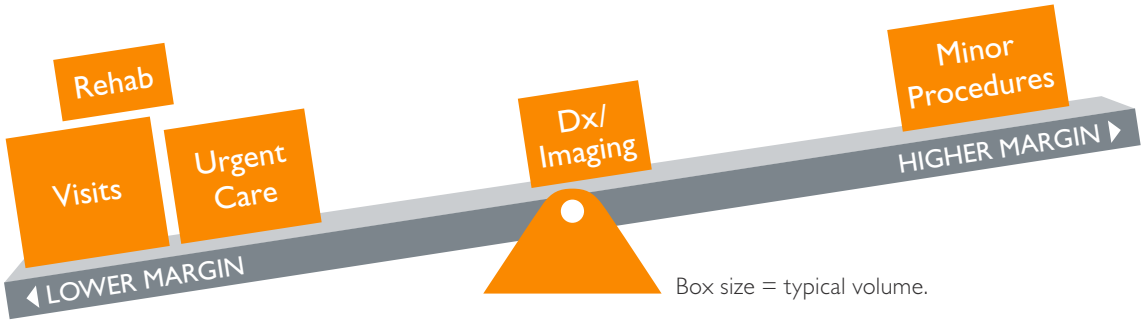
CASE EXAMPLE

Mass General Brigham's 35,000-square-foot hub in Foxborough, MA, is a prime example of this model's ability to reinforce the System of CARE and expand into new markets. The Boston-based hospital and physician network chose to co-locate primary care offices, urgent care, 29 medical and surgical specialties, an ASC, and rehab within a shopping mall. PCP needs and their ability to drive volumes determined which specialties were included. Leaders attribute success to a strong governance structure established early on, 6-month trial periods to gauge volume potential of specific specialties, centralized scheduling and nimbleness of facility design. Primary care continues to outgrow its space since the hub's 2008 opening; the latest upsizing required 60,000 square feet in November 2019.

PCP = primary care physician. **Source:** Sg2 Interview With Mass General Brigham, August 2019.

TARGETED HUB

More localized and affordable than comprehensive campuses, this model includes select specialties and omits ambulatory surgery. The smaller footprint addresses community needs for local specialty services and enhances consumer experience with on-site diagnostics. Dominated by low-margin services, targeted hubs must strategically narrow focus to high-volume services to ensure financial success and deliver on broader organizational goals.



Considerations

Market

- Target service deserts within PSA/SSA.
- Develop in step with the pace of market growth, planning short-, mid- and long-term offerings.
- Size up the competition; weigh advantages/ disadvantages of being first to market.

Consumer Centricity

- Offer services that address the most compelling needs of the patient population.
- Design multipurpose clinical space to enable services to rotate in sync with consumer needs.
- Elevate keepage rates through enhanced patient experiences and seamless transitions.

Financial Risk—Moderate

- Calculate utilization levels and service mix required to offset reduced payments for minor procedures moving out of the HOPD.
- Work to monitor and continuously strengthen the referral chain.
- Price ancillary services (eg, labs, imaging) competitively to maximize volume capture.
- Assess the hub's role in moving to risk-based contracts.

Community Position

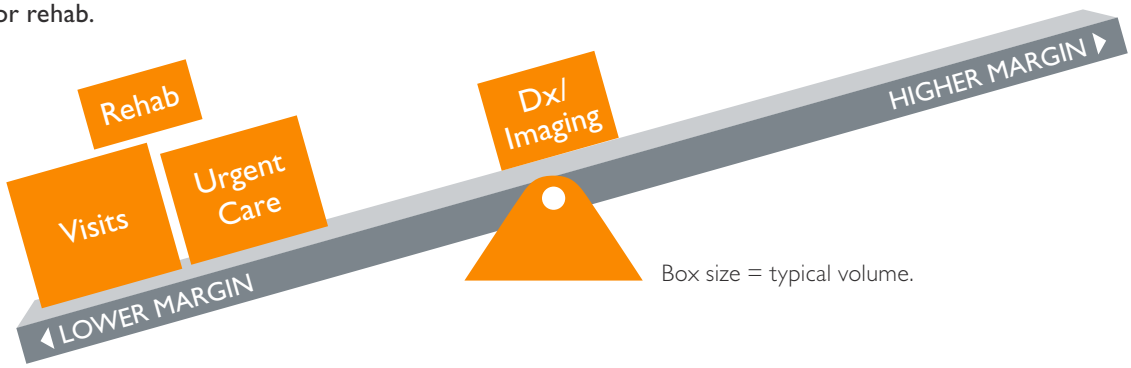
- Promote as a community asset for both providers and consumers.
- Link co-located, independent physicians to the network through innovative alignment models.

PSA = primary service area; SSA = secondary service area.

A Midwestern health system brought together a diverse set of independent specialists as partners in a successful targeted hub. Their investments not only bought them partial ownership in the facility but also helped the health system achieve strong alignment as it acted as an integrator, providing a centralized EMR and common scheduling platform.

FOUNDATIONAL ACCESS CENTER

These centers are fueled by low-acuity E&M visits via 2 modalities: in-person and virtual, with a heavy focus on connecting patients to PCPs close to home. With far lower initial investment, this model enables health systems to address community needs for access to low-acuity care, particularly among the underserved. Success requires physician alignment to ensure network integrity, given all procedures are performed elsewhere. Favorable "reverse leakage" often results when patients undergo surgery at a main campus but stay close to home for rehab.



Considerations

Market

- Co-locate urgent and primary care to capture after-hours service volume and enhance referrals.
- Evaluate unmet demand of advanced diagnostics and rehab services within a 5- to 10-mile radius.
- Reevaluate pricing strategy as payers lead the movement of patients to lower-cost sites.

Consumer Centricity

- Ensure UCCs are easy to find and access.
- Design exam rooms to easily flex to become virtual health stations as utilization patterns evolve.
- Provide on-site lab services; outsource when margins are not adequate, but ensure providers and consumers can access lab results electronically.
- Eliminate waiting rooms via process redesign.
- Move toward an integrated primary care model that includes behavioral health and cardiology.

Financial Risk—Low

- Expect financial leaders (eg, system CFOs) to place additional scrutiny on these facilities, especially in penetrated markets.
- Consider partnerships for lab and imaging services alongside companies with track records of financial stewardship and operational efficiency.
- Devise strong virtual visit capabilities to maximize capacity of existing providers to keep up with volume growth, rather than continually adding physicians.

Community Position

- Identify community PCPs seeking financial security, work-life balance and the opportunity to grow volume at a prominent consumer-focused facility.
- Incent independent providers by offering help with billing, EMR access and scheduling portals.

UCC = urgent care center.

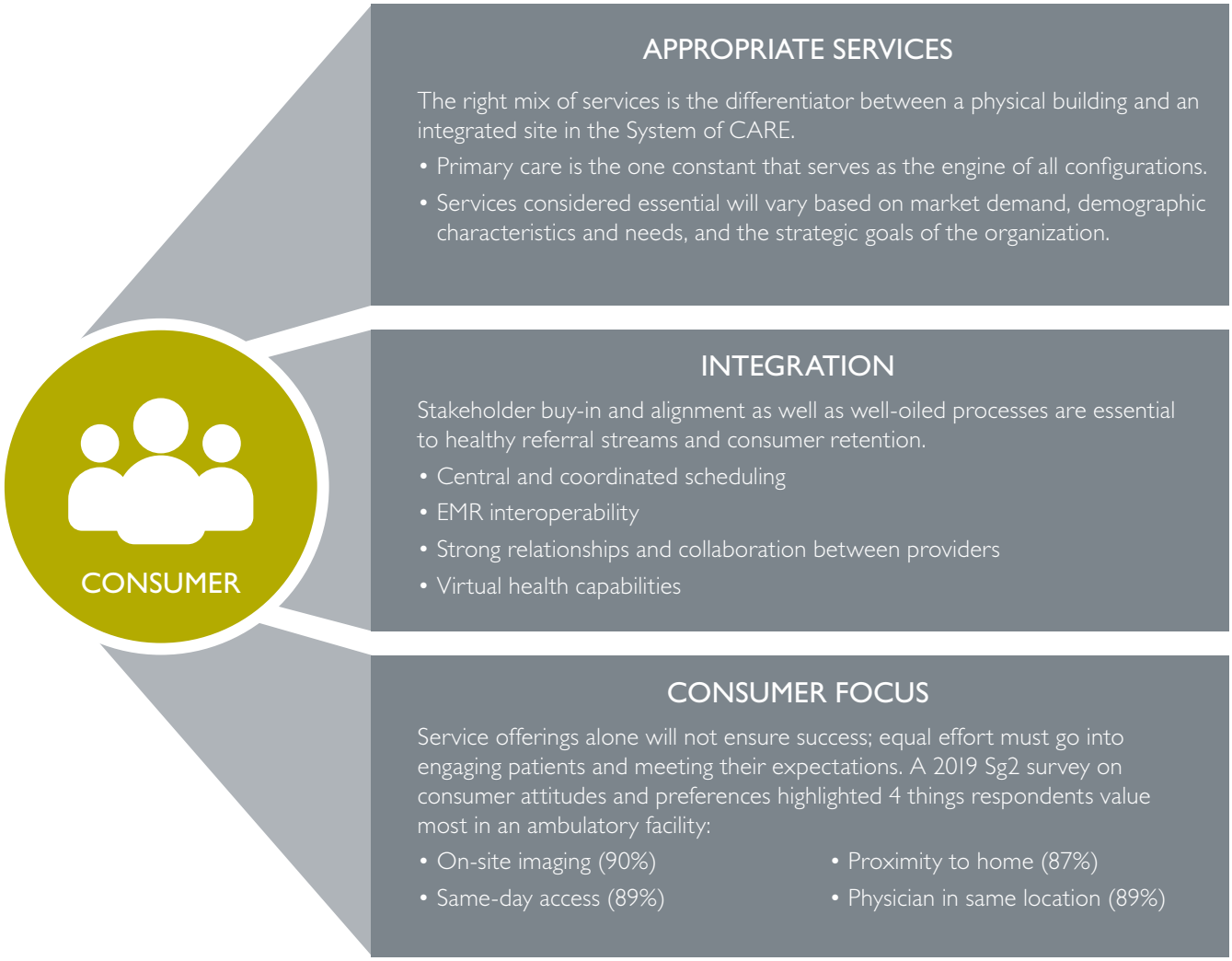
CASE EXAMPLE

Colorado-based Centura Health deployed these hubs to further extend its ambulatory footprint and enhance community presence, effectively defending primary markets and entering into new markets. Its 11 neighborhood health centers aim to limit patient drive times to within 10 minutes. Specialties are chosen based on market needs and demographics and often change over time, in part based on volumes. Nimble facility design enables evolving specialty composition. These hubs also typically house hybrid emergency/urgent care centers or provide after-hours access with on-site imaging and on-site or nearby primary care. For locations that have the hybrid ED/UCC, patients are screened by an emergency physician and then designated as either urgent or emergent. Care is administered in the same facility and nearly 70% of discharges are billed as urgent.

Sources: Sg2 Interviews With Centura Health, August and September 2019.

CO-LOCATION ≠ INTEGRATION

Strategic success and strong consumer loyalty require diligent planning well beyond physical assets and provider mix. As ambulatory services become commodities in many markets, processes must be instituted to seamlessly integrate services, ensuring both superior consumer convenience and healthy downstream revenue. Effectively executed, focus in these areas becomes a competitive differentiator as health systems increasingly go head-to-head with new market entrants offering point solutions.



Source: Sg2 National Health Care Consumerism and Insurance Coverage Survey, 2019.

CASE EXAMPLE

Virtua Health, a New Jersey–based system, reins in its sprawling ambulatory footprint via a large-scale contact center—a concept that should also be applied to hub models despite the co-location. A team of 90 handles scheduling across the system, facilitates precertification, provides financial advice and offers clinical navigation. In response to patient feedback, the system expanded its initial phone-based navigator program to include in-person RN and NP navigators embedded in both the ED and primary care physician offices. All treat-and-release ED patients are assigned a navigator. The program paid for itself in 3 months by the number of new PCP patients. In PCP offices, navigators facilitate referrals, follow-up appointments and instructions. If no navigator is available for face-to-face, one will call from the clinical contact center within 24 hours of a visit. Other metrics to track ROI include patient experience and retention, no-show rates, new patient appointments, and reduced use of the ED as primary care.

NP = nurse practitioner; ROI = return on investment. **Source:** Sg2 Interview With Virtua Health, January 2020.

VIEW HUB FINANCIAL POTENTIAL WITH AN EYE TOWARD RISK OF MARGIN EROSION ELSEWHERE

Finding the right mix of ambulatory hub services needs to be deliberate and data-driven, balancing the financial implications and/or advantages of each service leaving the hospital campus. Historically, ambulatory services have comprised what a recent Vizient Inc report characterized as the vast "breakeven majority" of patient volumes. Accelerating pressures to shift financially favorable procedures to lower-cost sites complicate the financial calculus. Any risk of cannibalizing volumes that garner higher payments in other sites must be offset. At the same time, stellar operations must be in place to maximize the margin possible from high-volume, low-payment services.

Consolidate, Build Volume and Maximize Hub Scale

Take an inventory of your services and consolidate where necessary. The goal is to divest from underutilized ambulatory space and aggregate volume to achieve the quality and financial benefits associated with reaching minimum volume thresholds.

Estimate Cannibalization Impact and Backfill Opportunities

A successful ambulatory hub—particularly one with an ASC—may decant lower-acuity volume away from your hospital ORs. A thorough analysis of market opportunity is necessary to identify the available high-acuity cases that can backfill the decanted volume.

Maximize Hub Margin Through Stellar Operations

The revenue generated on hospital campuses is unlikely to be replicated in an ambulatory hub. Accordingly, the pressure to perform more procedures in the ambulatory space behooves health systems to be lean, be efficient, and minimize cost per case to offset reduced reimbursement. Because revenue per case may not be comparable, the focus in the ambulatory setting should instead prioritize volume and efficient use of space.

CONSIDERATIONS

TIMING

- Prepare for competition to force the hand of some organizations.
- Know that elevated acquisition costs may jeopardize margins, making partnerships a more viable alternative.
- Determine the ability of the ASC to safely perform higher-acuity procedures.
  - Some service lines such as cardiovascular need to perform certain procedures near a hospital due to potential risks.
- Factor in equipment and start-up costs for procedures such as cardiac catheterization.

MAXIMIZING MARGINS

- Establish and maintain needed volumes to keep marginal costs low.
- Improve throughput.
- Consider bolt-on service opportunities when evaluating ASC value.
- Reduce overhead, including staffing.
- Invest in new minimally invasive technologies and anesthesia types.
- Lower variable costs; decrease variation in things like implants.

Source: Vizient Inc. *A New Look at an Old Business Model: Viewing Disruption Through a Different Lens.* January 2020.

SUMMARY ACTION CHECKLIST

❑ Begin by understanding your strategic aspirations in the market.

- What opportunities exist to become a first mover in expanding markets?
- Are there new or existing ambulatory disrupters or competitors that need to be defended against?
- How can the System of CARE be strengthened by expanding and integrating ambulatory services?
- Can value-based aspirations be accelerated by expanding access to low-cost and preventive services?

❑ Reevaluate existing ambulatory assets in light of COVID-19.

- Has the COVID-19 pandemic reduced or shifted demand for face-to-face services in the market?
- Are there opportunities to consolidate existing ambulatory assets into new or existing ambulatory facilities?
- Which specialty consults can be virtually linked during primary care visits to scale existing providers in remote locations?

❑ Determine the appropriate ambulatory hub model.

- What foundational elements (primary care, urgent care, diagnostics) are needed in the community?
- Can specialist deployment be staged incrementally as demand grows and new capital becomes available?
- How rapidly are OP surgeries migrating to ASCs, and will payer and consumer pressures accelerate the shift?
- Can financial exposure to low-margin services be minimized by strategically deploying partnerships?

❑ Ensure the ambulatory hub seamlessly links services around consumer needs.

- How can an integrated and safe 1-stop consumer experience stand out in a crowded ambulatory market?
- Are there opportunities to socialize providers to better integrate primary care and specialty services?
- Which hub metrics will help hard-wire consumer satisfaction, strengthen downstream referral patterns and maximize service utilization?

PUTTING IT ALL TOGETHER

The experts at Sg2, a Vizient company, can help you drive market growth by working with you to assess, craft and execute successful ambulatory strategies, including the role ambulatory hubs can play.

Contact us today at ambulatory@vizientinc.com to learn more.

Anticipate the Impact of Change

Sg2, a Vizient company, is the health care industry's premier authority on health care trends, insights and market analytics.

Our analytics and expertise help hospitals and health systems achieve sustainable growth and ensure ongoing market relevance through the development of an effective System of CARE.

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