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New Competition in the Ambulatory Arena Offers New Partnership Opportunities

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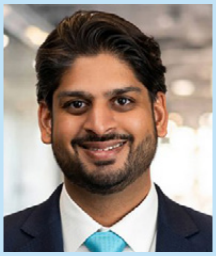

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Health systems nationwide are evaluating growth opportunities, which encompass traditional fully integrated partnerships and alternative partnership strategies. In recent years, we have seen an acceleration in less than fully integrated partnership models. As many organizations continue to face resource constraints coming out of the challenging years of the pandemic, these partnership models can offer opportunities to redeploy capital while partnering with best-in-class operators to drive efficiency and growth, particularly in non-acute business units.

Over the coming months, we will be exploring a variety of non-acute business verticals and discussing how health systems are using alternative partnership strategies to optimize these segments of their portfolios. This article, the first in our series, explores new opportunities in the ambulatory arena.

The factors driving growth in the ambulatory arena keep intensifying:

- *The transition to value-based care continues*. The Centers for Medicare & Medicaid Services (CMS), for example, has set a goal of having 100% of traditional Medicare beneficiaries in accountable care relationships by 2030.
- *The number of procedures approved for ambulatory settings is growing*. Since 2019, CMS has approved 160 procedures to be performed in an ambulatory setting. Commercial payers are requiring medical necessity determinations to perform approved procedures in an inpatient vs. an ambulatory setting.
- *The push for site-neutral payments is strengthening*. In its 2023 report to Congress, the Medicare Payment Advisory Commission (MedPAC) recommended site-neutral payments across hospital outpatient departments, ambulatory surgery centers, and independent physician offices for 57 services, which would affect an estimated 3.2% of hospital Medicare revenue.
- *High-deductible health plans are here to stay*. As of 2023, almost 70% of large firms (those employing 1,000 or more employees) offered a high-deductible health plan option. Across firms of all sizes, approximately one-third of covered employees have an annual deductible of $2,000 or more for single coverage.

Add to these factors consumer preferences for convenience and affordability and the push to move more services and procedures to ambulatory settings seems inevitable. Already, the number of ambulatory surgery centers (ASCs)—more than 6,000, according to MedPAC's March 2024 report to Congress—exceeds the number of community hospitals in the United States. Data from Sg2 predicts that most major adult service lines will have double-digit growth in outpatient settings; for these same service lines in an inpatient setting, single-digit or even negative growth (particularly in cancer, orthopedics and spine, and women's health) is forecast.

Without a strategy to advance and grow ambulatory services, health systems stand to lose significant volumes and revenue, but they face challenges in accelerating ambulatory growth in an environment of constrained capital and talent resources. As ambulatory services grow, however, so does competition in the area of ASC management services, and health systems have an ever-expanding range of potential partners that are offering increasingly flexible alignment structures.

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A changing competitive landscape

Although there are several large national ASC management companies, the competitive landscape is largely fragmented: the four largest of these companies, for example, are involved in only approximately 20% of ASCs nationwide. These companies have traditionally offered relatively inflexible partnership models, but competitive pressures from new market entrants are introducing more flexibility in key partnership terms, including equity levels, consolidation rights, governance, the scope of management services, and management fees.

ASC management companies offer a range of services to hospital and health system partners, including:

- *De novo capabilities*, leveraging their experience with managing physician syndication dynamics and efficient build planning in the development of new ASCs.
- *Operational expertise*, which can include a full or tailored suite of management services, turnkey cost saving opportunities through GPO arrangements, and best-practice payer strategies.
- *Experience designing high-acuity programs* and assisting physicians transitioning to an ambulatory setting with patient selection, patient education, pain management, and discharge protocols.
- *Centralized resources* to support finance and accounting functions, risk management, and managed care relationships and analytics.

The larger and more established the company, the more experience it can bring to many of these services. Newer companies may be more eager to grow their business, however, and may be more willing to differentiate themselves from the competition by offering greater value to a health system partner.

How health systems can leverage new partnership opportunities

A controlled, competitive request-for-proposal (RFP) process that capitalizes on the new competitive dynamics in the ASC management services marketplace is the best method to unlock a health system's full range of opportunities in partnership negotiations.

In developing its RFP, a health system should identify what are its priorities for a partnership relationship. These might include:

- *Speed to market*. This may be an especially important factor if a health system is already facing significant ASC competition in its market. ASC managers are experienced in developing and efficiently operationalizing de novos and acquisitions.
- *Service line expertise*. New ASC management service companies are developing expertise in specific service lines, such as mammography, cardiovascular, or orthopedics and spine.

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- *Harnessing scale*. Larger ASC management service companies can bring expertise in such areas as inter-facility benchmarking, strategic planning, business office management, information systems, and accreditation and scale that enable the health system to harness the scale advantages of their partner immediately and complement an already robust acute footprint.
- *Physician co-investment*. The management service company partner can serve as an intermediary among employed physicians, independent physician groups, and health system leadership if physician co-investment is being offered as an incentive.
- *Ownership considerations*. Does the health system view partnership as a short-term or long-term strategy? Does it eventually want to assume ownership of the ASC portfolio? ASC management companies are offering flexibility in their ownership levels, including allowing the health system partner to own a majority interest.

There is an increasingly broad universe of potential ASC management service partners. An RFP process that provides explicit guidance on the structure and goals of the partnership the health system seeks will help identify those partners who are willing and best able to help the health system accomplish its goals.

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