



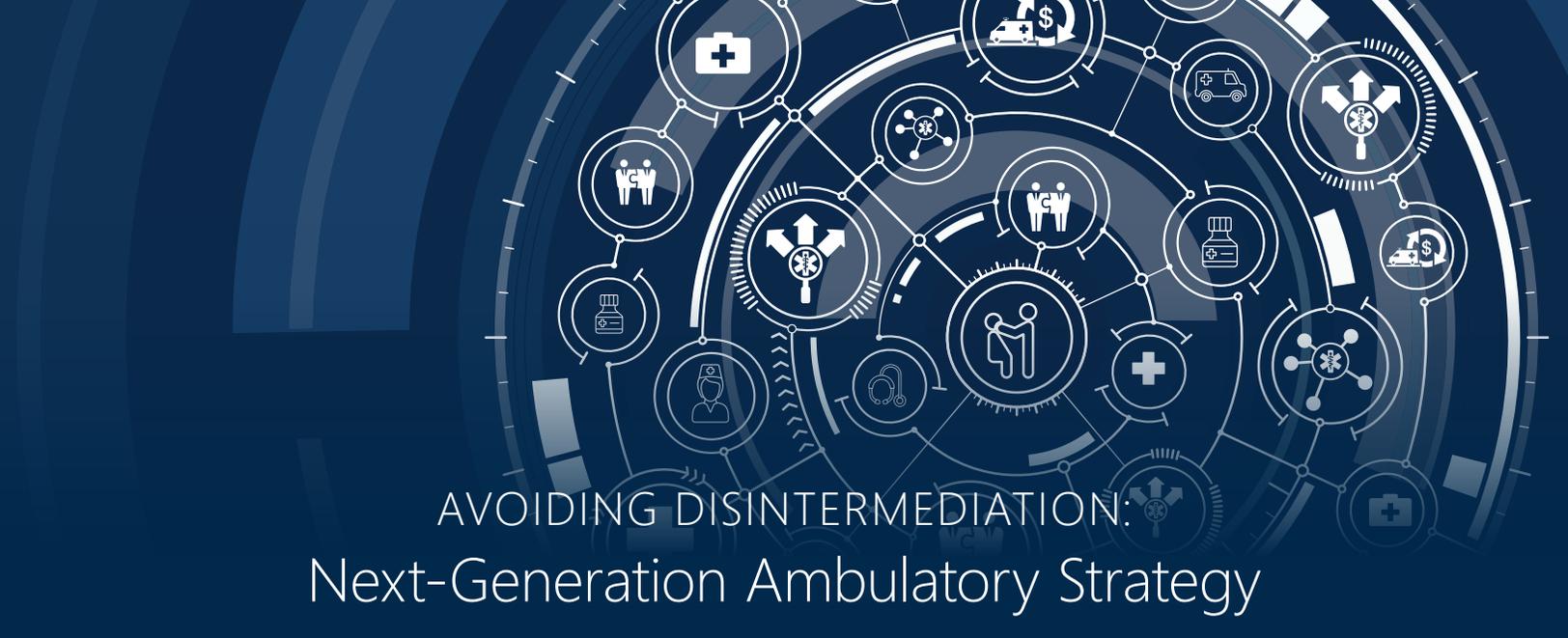
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WHITE PAPER

Avoiding Disintermediation: Next-Generation Ambulatory Strategy

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AVOIDING DISINTERMEDIATION: Next-Generation Ambulatory Strategy

For many years, healthcare's center of gravity has shifted away from hospitals toward an ambulatory environment. More recently, the nature of ambulatory care itself is evolving – and likely will remain in flux for the foreseeable future. The emergence of technology-enabled healthcare and non-traditional market entrants, coupled with evolving consumer expectations and reimbursement changes, is fundamentally altering how care is delivered and financed, and how health is managed, both within and outside of the physical sites of care owned by most health systems. Health systems need to adapt to this evolving marketplace or risk disintermediation and loss of consumer and patient relationships.

Ambulatory strategy is, and will remain, synonymous with access strategy. Health systems must move beyond the traditional hospital hub and ambulatory spoke model to effectively keep up with changing consumer needs. Creating a fully integrated, rational and financially viable system of convenient access points, both physical and virtual, through ownership and partnership, can unlock the potential for competitive differentiation and will be required for long-term sustainability.

Healthcare executives should consider the following dimensions to advance their ambulatory care strategy:



Broaden the
Ambulatory Lens



Embrace
Partnerships



Rethink Ambulatory
Care Economics



Optimize the Existing
Ambulatory Care
Network



Broaden the Ambulatory Lens

With the advent of digital health, geographic proximity to physical sites of care will no longer constrain consumers' choices for many healthcare services. Over the past several years, new entrants have introduced alternative care delivery models, most notably retail, but also other community-based services. To more effectively engage consumers, health systems must provide multimodal access to health services and information when, where and how consumers want it – and in many cases, do so at a lower cost. For many organizations, this requires fundamentally reimagining the ambulatory network as an integrated system of services, providers and access points designed around the consumer rather than the provider, as illustrated in Figure 1.

Figure 1. Components of an Integrated System of Ambulatory Care

Ambulatory care encompasses an increasing range of integrated services, providers and access points designed to provide consumers with multiple, convenient options. Examples across relevant dimensions are noted below.



Diverse Modalities

- In-Person
- Synchronous Virtual (e.g., real-time chats, video visits)
- Asynchronous Virtual (e.g., messaging/other indirect interaction)

Access/Convenience

- Care Close to Home/Work/School
- In-Home Care
- On-Demand Care
- Care Anywhere (computer/mHealth)

Expanded Provider Set

- Traditional Provider/Health System
- Retailer
- Payor
- Virtual Company

Multiple Channels

- Direct-to-Consumer
- Provider-Directed
- Payor-Directed

Strategies should broaden options for convenient access to services and information through virtual, retail and community-based points of care. Leading organizations are also using digital platforms to promote consumer and patient experience and convenience by automating self-service capabilities, such as direct scheduling, patient/provider communications and prescription refill processes, remotely collecting and monitoring patient data and providing virtual access to health information. The prevalence of virtual care – care delivery at a distance, enabled by communication technologies – is rapidly increasing and will accelerate as many of the traditional technological, reimbursement and cultural barriers to virtual delivery dissipate. While local market competitor dynamics and consumer preferences will drive the pace at which new ambulatory modalities and points of care are available, in most markets it is not a matter of “whether” alternative options to traditional brick and mortar assets are coming, but “when.”

Non-traditional healthcare services providers are also using digital platforms to reach consumers, with the potential to shift care away from traditional provider sites for some ambulatory services. Examples include:

CVS MinuteClinic is now offering virtual visits through smartphones and other devices in an expansion of a partnership with Teladoc. Users can seek low-acuity care such as diagnosis of colds, flus and dermatologic conditions for \$59, and services may be soon covered by insurance.ⁱ

Anthem launched LiveHealth Online earlier this year through a partnership with Samsung and American Well, a telehealth provider, to provide 24/7 virtual care services for its members.ⁱⁱ

PillPack, a full-service pharmacy recently acquired by Amazon, provides online prescription management and medication delivery by mail. The service advertises a redesigned, convenient pharmacy experience intended to increase compliance through pre-sorted medication and automated refill reminders.ⁱⁱⁱ

Heal provides on-demand physician house calls in California and the D.C. metro area for primary and urgent care. Appointments can be made for any time of day 365 days a year via the web or through the Heal app. The service is covered by some PPO and other employer health plans or for \$99 without insurance.^{iv}



Embrace Partnerships

Ambulatory care partnerships have historically been driven by a need for capital, network reach and economic alignment with physicians. Now more than ever, systems are also seeking partnerships to augment their capabilities, especially within the context of rapidly changing technologies and solutions. Few health systems are positioned to independently fund, develop, staff and integrate the myriad new services and technologies required to keep pace with emerging ambulatory care competencies and modalities.

Potential partners include new and non-traditional healthcare services organizations, such as those within the crowded and ever-changing field of digital health. The sheer number of technology solution options, plus a lack of familiarity with players and services, requires that health systems devote more time to clarifying partnership objectives, identifying potential partners and completing appropriate due diligence. Additionally, health systems should position their organizations as attractive partners to new entrants within their market. Leadership teams may consider collaborating with players against which they are unlikely to win in head-to-head competition; for example, engaging directly with organizations such as Google, Amazon or Optum may advance new services and create demonstrable value for the market.

Partnerships offer health systems an alternative to building capabilities and consumer access points to deliver value, quality and convenience. However, they also require routine and efficient evaluations of numerous partners and affiliates.

- *Over 325,000 mobile health applications were available to consumers in 2017, and the number is expected to grow by 25 percent this year.^v A smaller, yet still sizeable, number are being developed directly for providers in areas as diverse as care management, medication adherence, online scheduling and patient engagement and health record access. Health systems need to implement an iterative testing and selection process to find and integrate optimal solutions with current care delivery models and existing technology platforms.*
 - *Systems seeking to expand clinical and pharmacy services are also faced with an increasing number of options, including partnering with retailers like Walgreens, CVS or Walmart. The scope of collaboration ranges from health system-operated community retail locations to online appointment scheduling and provider messaging (e.g., through Walgreen's Find Care Now platform^{vi}) to quality and care management improvement efforts (e.g., through CVS and Cleveland Clinic's affiliation).^{vii}*
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Rethink Ambulatory Care Economics

Many health systems have historically justified poor ambulatory care financial performance because of the downstream inpatient and ancillary revenue it generates. While it is important to take an enterprise-wide view of economic impact, inclusive of downstream revenue, broad reimbursement pressure and lower-priced competitors require greater ambulatory care margin discipline. Notably, premium hospital-based outpatient payment rates are inherently at risk and not sustainable. Between payor-side efforts to address these traditional rate disparities and alternative market entrants providing price competition in services such as imaging and ambulatory surgery, it is only a matter of time before hospital-based outpatient pricing advantages are diminished. Similarly, ambulatory operating models laden with traditional hospital staffing and overhead costs will not be viable long term.

Health systems should develop a holistic picture of ambulatory care financial performance to identify margin opportunities and inform strategic positioning and future investment. As a first step, organizations must enhance their understanding of the existing cost structure and profitability mix for the full portfolio of ambulatory care services. For many, this requires establishing more consistent ambulatory care accounting methodologies, enterprise-specific data sources and dashboards to quantify current performance within and across care sites and modalities. With increased clarity on current economics, organizations can focus their performance optimization efforts (as described below) to reduce the cost of care in their current ambulatory environment.

In addition, future ambulatory care return on investment (ROI) analyses must evolve to include the economic impact of lower-cost, more accessible and alternative care delivery models with varied reimbursement mechanisms, such as digital health and retail medicine. Additionally, these analyses need to address the long-term (versus transactional) value of customer acquisition and retention.

As a first step, organizations must enhance their understanding of the existing cost structure and profitability mix for the full portfolio of ambulatory care services.



Optimize the Existing Ambulatory Care Network

Many health systems' ambulatory networks include a mix of capabilities, services and sites they have purposefully built and those that they have acquired, through the purchase of independent physician practices or mergers with other health systems. In many instances, even years after coming together, organizations may have done little to make sense of their combined ambulatory capacity, resulting in limited network integration and a lack of common clinical, operating and financial standards. As a result, there is often significant opportunity to optimize performance within the legacy asset base. Ensuring the existing network performance is in order is foundational; expansion into new modalities and partnership models, as noted above, will only add additional complexity.

Health system executives should consider three major domains for immediate attention:

Optimizing network configuration: *Particularly when a network has been formed through consolidation, health systems may need to right-size and/or reconfigure existing ambulatory sites and services. Where sites and services cannot be scaled to success, health systems need to change the mix of services provided to meet market requirements or divest these assets.*

Optimizing network performance: *An ambulatory economics evaluation as described above may flag any number of potential areas for performance improvement; in our experience, there is typically particular opportunity within the ambulatory physician delivery enterprise, especially if the organization has consolidated, but not yet meaningfully integrated myriad independent medical groups. For example, while results will vary according to size and scope of the effort and network at hand, a focused medical group performance optimization effort can result in direct improvements to contribution margin of 30 percent, while improving provider and patient experience.^{viii} Taking a comprehensive view of physician performance may uncover opportunities across many interdependent elements ranging from access and capacity, to clinical management and productivity, to cost structure and revenue cycle performance, to quality and safety. Targeting even one or two dimensions of medical group performance for improvement can build momentum for future gains.*

Optimizing consumer demand and supply: *Health systems can also focus on better utilizing the network they already have by simplifying how to get patients the right care in a timely, cost-effective and convenient manner when there are multiple entry points and options for similar services. For example, an integrated service center approach can connect disparate and expanding points of access and help direct patients to lower-cost, and more appropriate, modalities. This hub serves as a main point of contact for all consumers and physician partners, simplifying communication, navigation and care coordination regardless of where the interaction is initiated. It also ensures that all capacity across the system is well-utilized, by directing patients to providers or locations with more availability, and matching patients to appropriate modalities based on need.*

Taking Your Ambulatory Strategy to the Next Level

The healthcare industry is experiencing an unprecedented pace of change that shows no signs of slowing. Health systems cannot wait for the dust to settle to adapt their strategies for care delivery and health management. This is especially true for ambulatory care, which is increasingly essential for health systems' long-term growth and survival. The entrance of new, disruptive competitors, evolving consumer demands and continued margin pressure should increase the urgency with which health systems incorporate these perspectives into their strategic agenda.

There is no singular ambulatory roadmap or right answer for every organization, but asking the following questions can help health system leaders determine the right time to accelerate action across each of the dimensions above:

BROADEN THE AMBULATORY LENS

- To what extent are consumers and patients in your market seeking alternative healthcare services and information such as retail- and virtual-based solutions? Who is offering these services (e.g., new entrants, traditional competitors, payors)?
- Does your strategy consider non-traditional ambulatory care access points and integration of care and experience across the ambulatory enterprise? What investments have you made, or do you plan to make?

EMBRACE PARTNERSHIPS

- What ambulatory partnerships do you already have in place and are these creating meaningful value? Are partners integrated such that consumers and patients are provided a seamless experience?
- Which established or emerging ambulatory care competencies are you least well-positioned to pursue independently? What role do partnerships play in developing these competencies and what is your process for vetting these opportunities?
- Which new or potential market entrants should be considered as potential partners for your organization?

RETHINK AMBULATORY CARE ECONOMICS

- Which payors or employers in your market are beginning to more aggressively channel patients to non-hospital-based ambulatory sites or virtual modalities?
- What is the full picture of financial performance for your ambulatory network? What margins are generated across each of your ambulatory care facilities and which services drive overall performance?
- How do you evaluate the financial impact of virtual care, both independently from, and integrated with, your broader enterprise financial view?

OPTIMIZE THE EXISTING AMBULATORY CARE NETWORK

- What is the operating performance of the employed medical practices in your ambulatory care portfolio? How would you characterize performance across key dimensions, including cost position, revenue cycle, standardization of support services, access, experience and productivity?
- Do opportunities exist to right-size or reconfigure existing ambulatory facilities?
- What mechanisms are in place to connect consumers and patients appropriately to the expanding points of access and interaction, including expanding virtual services?

Endnotes

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^{viii} Based on Chartis experience

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