AMBULATORY EXPANSION

CRITICAL CONSIDERATIONS

SCHUMACHER
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INTRODUCTION

THE RISING IMPERATIVE FOR EXPANSION OF OUTPATIENT AND AMBULATORY SERVICES

Outpatient services have grown rapidly over the past twenty years in the United States, now accounting for close to 60% of hospital revenue, compared to 15% in the early 1990s. As this trend continues, hospitals seek ways to expand their footprint outside their primary flagship locations, and to penetrate areas where they can effectively manage population health; while bringing more services into suburban areas and closer to patients.

According to a recent article in Healthcare Design, "It is no longer enough to just build space and shift services out of the hospital and hope for success." The article goes on to say "the future of 'American' healthcare as a hospital-centered system for care is rapidly being challenged by a new model focused on prevention, healing, and chronic care delivered in the lowest cost/highest access setting—ambulatory care."

Figure 1: 20 Year Increase in Outpatient Revenue

As the costs of inpatient care continue to rise at unsustainable rates, bringing outpatient services to patients is a long-term strategy that can not only attract more patients with commercial health coverage, but also provides a hedge against continued volume declines in inpatient admissions.

Outpatient development is also a key part of any long-term strategy to position one's self for value-based care. Investing in outpatient capacity—including a broad primary care base—is a prerequisite for population health management and any meaningful risk-sharing. Health systems are increasingly turning to large freestanding ambulatory care centers to house physicians, decant patient volumes from inpatient campuses and provide single-stop access to a wide array of diagnostic and therapeutic services. They are often called the "big box" centers, borrowing from a great deal of favorable coverage given several years ago by BestBuy, Staples and other large specialty stores.

Health system executives face two primary questions when expanding services beyond the hospital walls:

- **Where** should services be located and

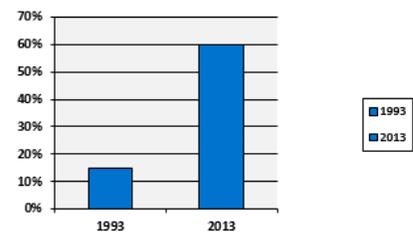- **What** services are optimal to each location?

CRITERIA FOR EVALUATING POTENTIAL OUTPATIENT SERVICE LOCATIONS

- **Population demographics**
  - 5-year growth
  - % 0-18
  - % 65+
  - Household Income
  - Net Worth
- **ACO spend rates / person 65+**
  - Outpatient
  - Physician
- **PCP surplus/deficit (higher supply = higher score)**
- **Specialty surplus/deficit**

Prioritization

Quantitative

Qualitative

Refinement

- **Groupings - contiguous zips**
- **Compared to core hospital market share**
  - IP
  - OP
  - Ambulatory
  - ED
- **Competitor locations**
- **Key specialty groups**
- **Major employers**
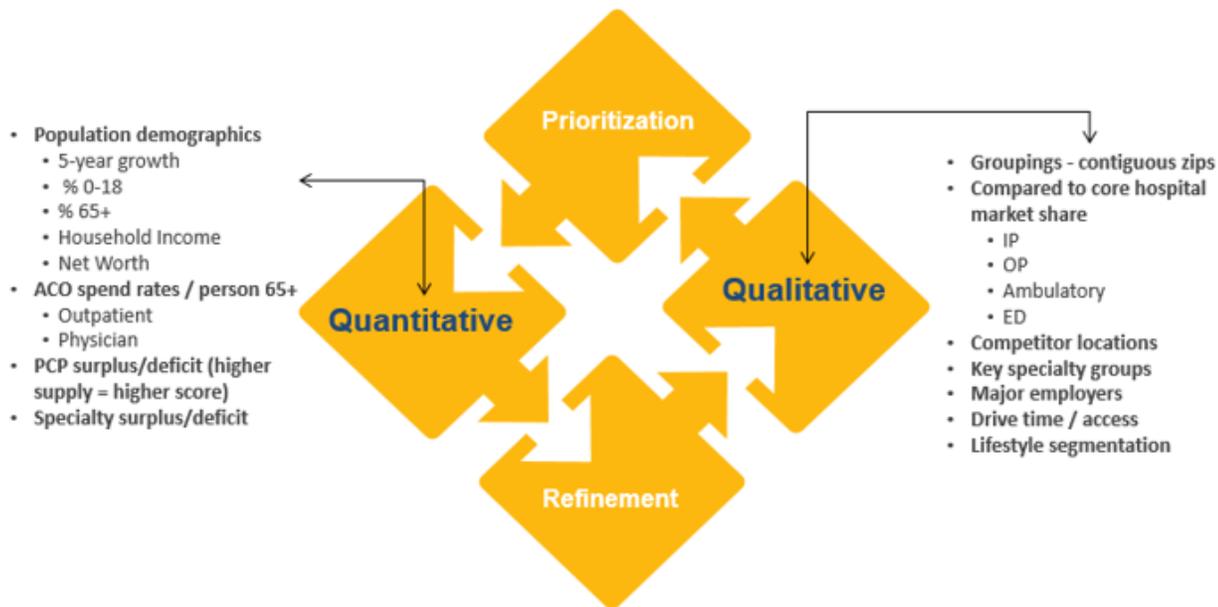- **Drive time / access**
- **Lifestyle segmentation**

Figure 2: Factors and Methodology for Evaluating Ambulatory Services

To successfully answer where services should be located, potential locations can be targeted using three key criteria, with a mix of quantitative and qualitative indicators:

SUPPLY AND DEMAND FACTORS

Say's law states that supply creates its own demand. Nowhere is this truer than in health care. Physicians order products and services and someone else pays. Clients often tell us that their ambulatory strategies turn out to be far more successful than they anticipated. Why is this? Perhaps it's because we are still in a largely fee-for-service environment and the presence of attractive and easy-to-access services is a potent stimulator of demand. Yet underneath this basic premise we can identify factors that differentially stimulate market demand. For example, simply looking at the 65 and older population misses the diversity that exists within the Medicare market. Younger and active seniors have very different demand and spending profiles than older and less mobile Medicare members. Look in a neighborhood gym and you will inevitably see a stack of Medicare Advantage brochures. Insurers understand this fact and health systems need to learn to think as they do. In the future, the most powerful analytics will not come from usual suspects (e.g., population growth, median income, education level, etc.) but instead will come from aggregated social media data and other consumer oriented "behavioral data." This isn't a core skill at most health systems…but it needs to become one.

We also see a change coming in how we spatially view markets. Most health systems see service areas as contiguous zip codes not because it's reality, but because it is relevant for certain activities that are bound by regulation (e.g., physician recruiting, practice support, etc.). From a spatial perspective, outpatient markets are more determined by the service mix and proximity to major roads and highways—particularly the commuter arteries. It often looks more like a starfish than the familiar circles and ovals.

In our work with clients we also consider the proximity of key specialty groups and competing health system facilities. Retaining and increasing referrals to loyal specialists and the main campus for ancillary services and inpatient care should also be considered throughout the process of selecting sites. (Later in this whitepaper, we discuss the pros and cons of locating proximate to a competitor). Patient convenience is a powerful motivator. We have seen private physicians who are big box tenants end up the building's own diagnostic services at the expense of alternatives where they may have a financial interest.

MICRO-TARGETING AND MARKET SEGMENTATION

Not long ago, political parties looked at voters with binoculars. They generally focused at the level of a legislative district. Today, technology has allowed them to trade their binoculars in for microscopes. The focus today is not the zip code—it is census tracts, census blocks and even block groups, which are units of often no more than 500 people each. The data are far better here and much more valuable. This is the type of data that allows for meaningful individually customized communication. It can also be aggregated to identify areas with the highest potential for engagement within these small population units. There is a vast amount than can be learned—and must be learned in order to succeed at population health management.

To better assess the attractiveness of the demographic base, lifestyle segmentation data should also be considered. There are several sophisticated consumer segmentation data firms which can be used to segment the area's population. Segmentation is typically conducted at the block level, typically into one of 50-75 segmentation categories, and then grouped into summary-level groups, which share similar experiences (e.g., being born in the same time period) or traits (e.g., affluence). Once potential zones have been identified for services, the segmentation data can be further qualified to hone the understanding of population needs, lifestyle habits, preferred communication modes and service delivery models.

LOCATION RELATIVE TO COMPETITORS

All else equal, is it better to locate near a major competitor's big-box location or is it better to stay away? Find a Home Depot and you have probably also found a Lowe's. It's the same for car dealerships. Why do they do this? In both of these industries, consumers comparison shop and see a great deal of similarity between competitors' products. Billboard messages, traffic, and ease of parking, could each easily sway the choice of where to ultimately shop. These businesses believe they are creating a buying zone, where each competitor has roughly a 50% chance of winning the customer on any given day.   Health care doesn't play by these rules. Even if services are comparable, they aren't perceived as practically substitutable. One doesn't buy an MRI scan; instead, they follow a physician's order for one… and that order is directed to a particular provider. Therefore, on average, our view is that there are no significant advantages to being proximate to competitors and there may be some disadvantages for a facility that appears less impressive.

SELECTING A MODEL FOR OUTPATIENT SERVICES

So what other familiar models might be relevant for outpatient services? We would suggest looking at two: community banking and fast food restaurants. In many ways, outpatient and ambulatory services combine aspects of three familiar business models (Figure 3). The most successful of these will contain an ideal combination of characteristics from these various models, especially bank branches, where location is close to segments where the ability to pay is prevalent, access is optimally distributed, and data is easily transferred between locations in the community.

Consumer Business Models and Possible Analogues for Healthcare	Characteristics
Home Improvement Stores • Stare-down model. Competitors are often located next to or across from each other (Home Depot/Lowes). • Supporting factors: interchangeable products, price drives sales; vast selection sways buyers. • Freeway access and visibility are key.	• Largest format venue • 150k+ square feet • 40-50+ FTE physicians • Major imaging (MRI, CT) • Urgent care (possibly 24/7) • Ambulatory surgery and procedure rooms • Destination services (e.g., breast health, minimally invasive surgery, plastic surgery, etc.)
Bank Branches • Higher concentrations near large, middle class to affluent population centers. • Service beats price. • High quantity of locations (be near the customer). • Each location is inter-connected to provide a broader array of services (mortgages, brokerage, estate planning, etc.) Health care analogues would be EMR access, rotating specialists, PACS access, tele-radiology, etc.	• Sweet spot is 30k to 100k sq ft. • MOB plus most diagnostics • Urgent care (often on an 'after hours' model) • 10-25 FTE physicians • ASC possible but less typical • Primary care focus • Rotating specialists • Tele-medicine access for selected patient needs

Fast Food Restaurants
• Small size.
• Location beats price and price often beats service or quality.
• No expectation of a broad menu of choices.
• Distributed near major thoroughfares.
• Lowest degree of loyalty.
	• 1k to 10k sq ft.
	• Niche focus:
	  – Therapy services (Physical, speech, occupational)
	  – Wound care
	  – Diabetes clinic
	• 2-3+ physician tenants at larger end of size spectrum

Figure 3: Industry models

Some of the more common models for expansion of outpatient services address core services (such as Urgent Care/ED, General Radiology, Laboratory, and Procedure Rooms); but will additionally include strategic centers for signature services such as a "Family HealthPlex", multi-specialty surgery centers and health parks, senior care health parks, oncology pavilions, and/or occupational or employee health and wellness centers.

This whitepaper has briefly discussed the range of issues our team of experts encounter with our health system clients in terms of the development of an outpatient facility and its programmatic plan. Figure 4 below depicts key goals (top) and key considerations (bottom). The interplay of these determines optimal service mix.
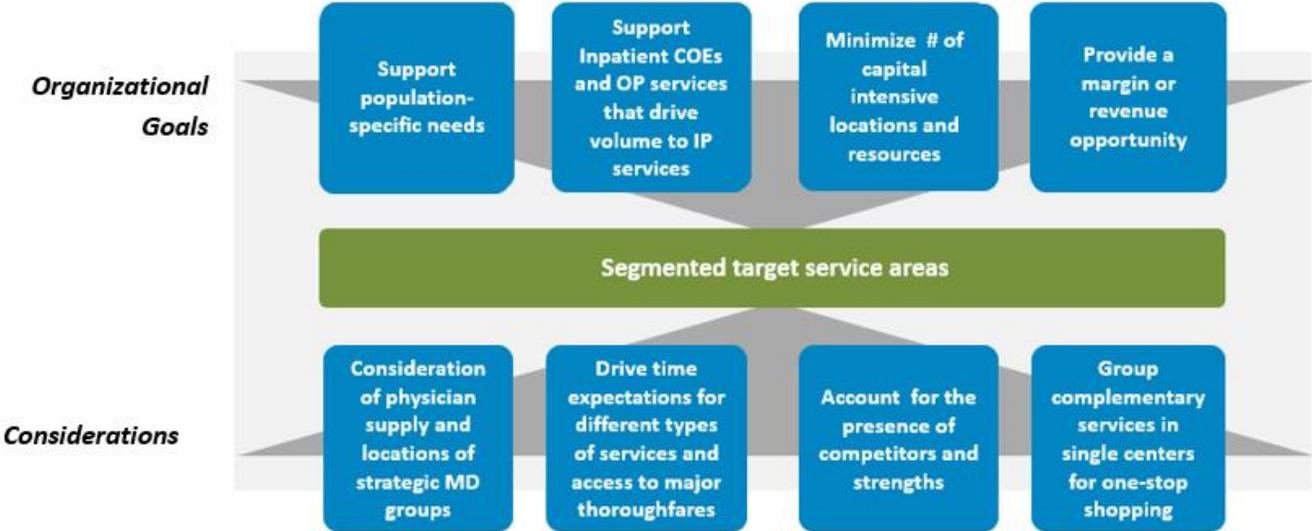

Figure 4: Key Considerations in Determining Service Mix

ABOUT US

Schumacher Clinical Partners (SCP) is a privately held, physician-driven company dedicated to helping hospitals and providers focus on delivering high-quality patient care. As one of the nation's largest and fastest growing health care organizations, SCP partners with more than 7,200 providers to help care for 8 million patients annually with innovative, patient-centered solutions covering the entire continuum of care, including emergency medicine, hospital medicine, wellness programs, and consulting services.

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