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RURAL AND TERTIARY MARKETS: THE NEXT URGENT CARE FRONTIER

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Urgent message: Given the oversaturation and resulting fierce competition among urgent care chains in the affluent suburbs of major cities, the underserved rural healthcare market offers tremendous growth opportunity for the forward-thinking urgent care operator.

Urgent care began as a suburban phenomenon—and continues to be, as evidenced by the Urgent Care Association's *2018 Benchmarking Report* that asserts 78% of its recorded urgent care centers are in suburban areas, while those in rural areas represent only 4.1%.[1] While UCA's report speculates that "reimbursement does not support the costs to staff and operate urgent care in the most sparsely populated rural areas," understanding the history and evolution of urgent care perhaps provides greater context.

The first urgent care operators were largely entrepreneurial ER doctors, who opened the original practices in the affluent suburbs of sunbelt cities where they chose to work and live. Likewise, the new "urgent care" concept held great appeal for the affluent suburban consumer with disposable income, as they were more than willing to pay a copay differential for immediate, walk-in care as opposed to the long appointment waits generally associated with their primary care provider or the cost and hassle of ED visits.

Moreover, at the time, urgent care in general wasn't recognized by Medicaid (or Medicaid reimbursement was insufficient to cover urgent care's operating costs), so urgent care relied heavily on commercially insured patient populations for its financial model to work.

This confluence of opportune factors—high demand for fast injury/illness episodic care without needing an appointment, locations in affluent areas, the time and savings realized from avoiding the ED—converged to contribute to urgent care's meteoric rise. This fast growth attracted the attention of the private equity sector, which began scaling urgent care while it simultaneously played a key role in its growth, development, and widespread acceptance.

While scaling its urgent care chains and platforms, private equity closely mimicked the model of the big-box retailers by clustering together in "retail zones" where urgent care centers would see

ample disposable income amid a dense consumer population. Actively seeking out prime demographics this way inevitably led to fierce head-to-head competition in the most desirable markets.

The Consequences of Urgent Care Oversaturation

Today we see a large concentration of urgent care centers in markets such as Phoenix, Dallas/Fort Worth, Houston, Austin, Miami, Baltimore-Washington DC, Northern New Jersey, etc. In short, urgent care has become ubiquitous in just about every major U.S. market. This oversaturation has caused some chains to struggle to achieve profitability (or reach breakeven), to the point where private equity firms have begun selling off their urgent care platforms to combat these common pain points:

- Increased difficulty in finding and securing prime real estate in highly competitive trade zones
- Longer ramp-up periods for new centers to reach breakeven, requiring substantially greater amounts of working capital to launch a new urgent care or add new locations
- Higher overall operating costs—including rent, advertising, and labor—in saturated, highly coveted markets
- Insurance companies beginning to refuse "urgent care" contracts and/or "location adds" to existing contracts for urgent care centers in markets they deem to be saturated

The Healthcare Plight of Rural America

Meanwhile, the rural communities in which 57 million Americans currently live, are experiencing the opposite set of circumstances; they're underserved and struggling amid sparse and dwindling healthcare resources. A rural community, when defined by researchers for statistical purposes, is any community that is not part of a metropolitan area. "Rural" basically includes any population, territory, or housing that lies outside of an urban area.

According to research by National Public Radio (NPR) conducted with the Harvard T.H. Chan School of Public Health and the Robert Wood Johnson Foundation, 26% of Americans living in communities have not been able access healthcare when they needed it in recent years.[2]

Often situated in remote geographic locations, rural communities have sparse access to healthcare providers who are either few and far between, or long distances away. Further, these communities feature a number of key social determinants that make them far more likely to have residents in poor or declining health due to a litany of factors: large percentages of elderly residents, low insurance levels, few primary care providers, and economic challenges brought on by limited financial resources. Further, residents in rural areas tend to have higher rates of complex health issues, including mental health struggles, depression, obesity and diabetes, drug and alcohol abuse, and COPD.

Add to these challenges the poor public transportation in many rural communities, and traveling to the nearest provider becomes a cost and time expense that comes with considerable tradeoffs (eg, *Do I take the day off from work to commute to the nearest healthcare provider for my health issue?*). And for rural residents earning low wages and few paid days off from their jobs, just getting to the doctor's office represents an enormous burden.

Rural Hospitals Closing at an Alarming Rate

The earlier-cited NPR poll also surprisingly asserted that out of the 26% of rural Americans with limited access to healthcare, many have at least one form of health insurance.[1] So, what's the primary cause for the rural healthcare access problem? Look no further than the ongoing closure of rural hospitals. According to the Cecil G. Sheps Center for Health Services Research, 107 rural hospitals have closed since 2010. Even more worrisome, 673 additional rural hospitals, according

to data provided by iVantage Health Analytics, are currently "at risk" of closure.[3] Rural hospitals face a number of challenges, including:

- Staffing shortages: Although 20% of the nation's population, or 57 million Americans, live in a rural area, just 10% of the nation's physicians' practice there, according to reporting from the CMS 2016 Rural Health Summit.[4]
- Being in a state that elected not to implement a Medicaid expansion program, leaving a larger percentage of the patient population with inadequate insurance coverage, fewer private payer options, and higher uncompensated care costs.
- Challenging patient demographics: Rural hospitals treat a disproportionally large number of patients over 65, service veterans, and people managing lifestyle diseases such as obesity and diabetes. Treating some of the nation's sickest patient populations naturally results in greater healthcare costs.
- Higher unemployment rates among the patient population in contrast with urban areas: The U.S. Department of Agriculture reported that through 2016, rural areas reached 5.4% unemployment compared with an average rate of 4.8% in urban areas.[5] Greater unemployment means fewer employer-sponsored health plans, and more uninsured patients who often can't afford healthcare.

The confluence of these and other challenges has resulted in a large number of rural hospitals that struggle financially to stay afloat. Healthcare analytics firm Chartis Group and iVantage Health Analytics researchers, for example, reported in 2017 that 41% of 2,100 rural hospitals studied had negative operating margins.[6] Some rural hospitals see so few patients due to geography and other factors that the staffing and infrastructure costs necessary to stay open create a financial burden that becomes unsustainable.

In short, the rural healthcare landscape is dotted with economically fragile hospitals, with many more teetering on the brink. And without remedy or intervention, closure is the unfortunate next step. This growing scarcity of rural healthcare access points has led to rural patients going without care completely, having to travel relatively vast distances to receive care, or experience lengthy waits to even get a doctor's appointment with healthcare providers closer to home.

Rural Markets: The Last "Urgent Care" Frontier—and a Massive Opportunity

Put simply, rural communities are struggling due to a lack of resources—a shortage of providers, dwindling access points, and inadequate insurance coverage among residents. This dire lack of healthcare resources to provide adequate care for an extremely vulnerable patient population affords the forward-thinking urgent care operator a massive opportunity to become the provider of choice in these rural markets. In fact, the potential to build significant market share and patient loyalty in rural and underserved communities far exceeds what's capable in today's oversaturated, highly competitive suburban markets where patients view urgent care as more or less a commodity; they see them all as "the same" or similar, with little to no brand differentiation. For urgent care operators, the rural market may indeed represent the "last frontier" where there is fertile territory to put down stakes and build out platforms amid fewer competitors.

Considering the footprint of a big box chain like Walmart (approximately 5,000 stores with a third of those located in tertiary, "rural-like" markets), it stands to reason that there's probably the potential for another 1,500 urgent care centers in rural/secondary markets. The typical rural town's population and patient volumes, though, will generally only support one urgent care. So, once an urgent care operator puts down stakes in a rural town, the opportunity for another center is likely lost forever. At the most, there is probably just a 2- to 3-year expansion window until the rural markets are completely filled in.

Advantages for the Rural Urgent Care Operator

For the urgent care operator, establishing a center in an underserved rural community has several built-in advantages over its suburban counterpart, and offers a considerable return on

investment. These include:

- Pent-up demand leading to fast ramp-up to profitability. Residents of rural towns are often faced with hour-long drives to the nearest hospital, clinic, or healthcare provider. For the rural patient living and working in a remote region, going to the doctor's office amounts to a daytrip out of town, which means extra expense and a full day away from work or school. This becomes an even greater burden for people with physical limitations or acute conditions who must make special arrangements as far as medical transportation to accommodate, say, wheelchairs, IV poles, and oxygen tanks. Imagine how eager and welcoming the community would be to the newly opened urgent care right there in town. Utilization will be high, allowing a newly opened center to reach breakeven in 3-4 months, as opposed to the 18- to 24-month window necessary for an urgent care in a saturated, urban/suburban market. Less working capital, therefore, is needed to sustain the operation at startup, relieving some of the initial financial burden for the urgent care operator.
- Much cheaper rent in rural markets. Consider the rental rates in front of a Walmart in, say, South Boston, VA (a town of approximately 8,000 residents) at about $13.50/sq. ft compared with those found in the upscale Virginia Beach Town Center in Virginia Beach (a populous resort city of 430,000+ residents) where rental rates are over $50/sq. ft. Additionally, ambulatory facilities in rural towns typically have smaller footprints than their suburban counterparts, making the operating expenses much more manageable overall.
- Cheaper advertising costs. Following the previous example, consider the advertising costs for a single urgent care in suburban Washington, DC. Radio and television advertising costs would be prohibitive for a small urgent care attempting to reach a media market of 6 million people. In a small-town rural market, however, advertising is significantly less expensive. Billboards, radio, and newspaper advertising are all much cheaper and more cost-effective, accessible marketing modalities for the urgent care operator.
- More loyal and less expensive labor. Fewer local employers means less competition for workers and hence more loyal employees. Additionally, the decreased competition for labor in small towns and rural communities means labor will be less expensive overall.
- A grateful community. The statistics and studies clearly demonstrate that residents of rural markets have acutely felt the absence of desperately needed local healthcare access points. The iVantage study referenced earlier found that 22% of rural residents went without care not because they couldn't afford it, but because the nearest provider was too far away.[3] A new urgent care center that removes the need for a road trip to a hospital in a neighboring city is welcomed with open arms by a community that wants to help it succeed.

Challenges for the Rural Urgent Care Operator

Although urgent care does indeed seem to be the perfect fit to provide a fast, convenient ambulatory access point to rural communities with struggling hospital or nonexistent local healthcare access, the rural market is not without some inherent challenges:

- Provider shortage. The aforementioned CMS 2016 Rural Health Summit also reported that the physician shortage in rural areas—an extension and manifestation of the larger nationwide physician shortfall—accounted for 65% of the healthcare professional shortage.[4] When surveyed, providers express hesitance to move to and ply their trade in sparsely populated regions. Medical residents have expressed similar reservations; they don't want to be isolated in a geographically remote area that lacks infrastructure such as health IT access and specialty support. Indeed, the overwhelming majority express a desire to work in communities of at least 10,000 individuals.
- Patient populations that want to utilize the urgent care as medical home or as their primary care. These urgent cares can offer an expanded range of services beyond what's typical of urgent care, such as occupational medicine, wellness exams, and vaccinations. The urgent care operator must caution against taking on time- and resource-intensive services such as managing COPD, diabetes, and/or hypertension if they don't have the infrastructure to

handle that kind of extra capacity, as it would negatively impact the flow and throughput vital to an efficient urgent care operation.

Notable Rural Urgent Care Examples

The UCA *2018 Benchmarking Report* notes just 6.7% of urgent cares are located in rural markets. The report further speculates that, despite the need for urgent care services in these markets, current reimbursement models may not support the costs to operate and staff centers in sparsely populated rural communities, and act as a deterrent for urgent care providers.[1] Still, there are rural urgent care operators who are indeed finding ways to make the model work and provide services to these underserved areas. Following are several noteworthy examples:

Fast Pace Urgent Care – Tennessee, Kentucky, Louisiana, Mississippi

- A total of 95 clinics located throughout Tennessee, Kentucky, Louisiana, and Mississippi, in all rural areas. (Notable: There is not a single center in the more populous Tennessee cities such as Nashville, Memphis, Knoxville, or Chattanooga.)
- Began as one clinic in the small town of Collinwood, TN (population 949) in the fall of 2009 and has since expanded to 95 locations in four states.
- Vision/Mission Statement: "Change the delivery of healthcare in *rural areas* by integrating excellent patient care, education, accessibility, community service, in a way that puts the patient's needs first and improves the health status of our communities."
- In addition to urgent care services, Fast Pace offers occupational medicine, health and wellness screenings, vaccines, and routine physicals. Fast Pace also offers some monitoring and patient education in managing lifestyle conditions like diabetes, asthma, and high blood pressure

RedMed – North Mississippi

- Founded in 2005
- Eight locations in North Mississippi (notable: the largest market RedMed serves is Oxford with a population of 23,000, with the smallest being Pontotoc at 6,000 residents).
- In addition to urgent care services, RedMed offers occupational medicine, flu shots and vaccinations, and school and sport physicals.

Southstar Urgent Care (Hulin Health) – Louisiana

- Founded in 2011 by Hulin Health, a parent company based in Broussard, LA (population 6,000+).
- Company mission is to open clinics "in *rural communities* that don't have access to large, non-emergency room care."
- In addition to urgent care services, SouthStar Urgent Care offers physicals, diagnostics services, and vaccinations.
- Has clinics in New Iberia, Abbeville, Eunice, Marksville (the smallest market at 5,000 residents), Oakdale, Opelousas, and Ville Platte.

MainStreet Family Urgent Care – Rural Alabama

- Founded in 2015; 15 locations in Alabama.
- In addition to urgent care, Mainstreet Family also offers primary care services
- Featured in the local news in Fall of 08' for the clinic's efforts to address the health issues and expand and serve the *rural communities* of Alabama.
- Six clinics located in towns with 7,000 or fewer residents.

Urgent Care and Rural Challenges

Overall, urgent care operators continue to go after suburban and urban markets. Even though rural markets are chronically underserved and desperately need healthcare providers, urgent care has been slow to move into these areas for two primary reasons: reservations about being able to

achieve the necessary patient volumes for profitability, and being able to attract, retain, and compensate high-level clinicians in remote geographic locations that are effectively "off the grid."

Patient Volume Concerns

Urgent care conventional wisdom has long asserted that a center would need an average of 25 visits per day to achieve breakeven, depending on payer mix and negotiated contracts. Rural communities, many of them having far less than 10,000 residents despite typical catchment areas of up to 30 miles, may not provide the necessary patient volume and foot traffic to achieve those numbers, despite their need for more ambulatory healthcare access points.

One possible solution (which is still very much in its formative stages) is federal subsidies to support urgent care centers that serve vulnerable, underserved, and rural communities. The American Hospital Association (AHA), a well-known advocate of rural communities and their healthcare challenges, recently commissioned a task force to investigate the ways that urgent care can help fill the gaps in rural communities where there are struggling hospitals or a dearth of healthcare access points. The AHA released a two-page report proposing several federally backed payment models to ensure that rural urgent cares that struggle with patient volumes have the "financing necessary to ensure they have adequate reimbursement to cover costs and the resources necessary to meet the needs of their community."[7] These initiatives are still in their incipient stages, though, and since they have yet to be hashed out by healthcare leaders and policymakers for widespread implementation, there are few hard data available on them. However, it appears to be a promising avenue that could help support urgent care operations that take the initiative to support undeserved communities outside of urban and suburban markets.

In the absence of promising new federally supported reimbursement models, though, there are still plenty of rural urgent care operators that are thriving regardless. While the 25 visits-per-day dictum remains a good benchmark given that, regardless of location, the majority of the expenses in urgent care are the fairly static staffing costs, the break-even number can be reduced somewhat in rural locations with the aforementioned lesser rent, lesser labor costs, and lesser marketing expenses. Further, if the question remains as to the population base present to drive 25 visits per day, rural urgent cares like the ones highlighted earlier are indeed expanding their business models toward offering more services to meet the profitability threshold. These additional revenue-generating clinical service additions and expansions have included primary care services and occupational medicine, for instance, where feasible.

"Primary care" in this context would have to be something like "primary care lite," of course, insofar as performing services such as wellness exams and vaccinations for generally healthy people, and not full management of complex and acute health issues such as diabetes, COPD, or hypertension. Dedicating the time, resources, and manpower necessary to manage such conditions would likely interfere with flow and throughput necessary for a speedy and efficient urgent care operation.

Rural urgent care operations with lower patient volumes often have reduced weekend hours, as well, but are still open 7days toward meeting the UCA "qualifier" of 7-day access.[1]

Bottom line, the urgent care operators having success in the rural markets have figured out the model and adjusted their business plans to make it work. Never forget how one of the world's largest retailers, Walmart, had humble beginnings in rural Arkansas, defying conventional wisdom along with the naysayers. Launching an urgent care in a rural, underserved area will require a thorough examination of the relevant factors in the target community, and an in-depth evaluation of the operating model of current successful rural urgent care operators—followed by emulation and implementation of what they're doing to succeed in a similar way.

Potential Provider/Clinician Shortages

As mentioned, urgent care operators may struggle to recruit and hire qualified providers and clinicians for rural markets for a variety of reasons:

- The financial inability to offer providers' relocation expenses and other financial incentives to entice them to work in a remote geographic market.
- Medical residents staying "close to home," and starting their careers in urban regions where they either went to school or enjoy abundant healthcare resources (including resources for graduate medical training).
- Given the few clinicians in the rural community, a lack of shift coverage alongside concerns regarding their ability to achieve a work-life balance in resource- and labor-deficient towns.

One viable solution is to develop staffing models that feature nurse practitioners and physician assistants, with a single physician working onsite or remotely (nearby) to manage the operation, perform specific services and procedures outsides of the clinician's scope of practice, and handle complex cases and high-priority tasks. Another option for rural urgent care operators is to target DOs to fill in their provider slots. DOs currently only represent about 10% of urgent care clinicians; however, many DO schools are in states with a large number of rural and underserved communities. And since medical students tend to practice where they went to school, DOs would in theory need fewer incentives to "stay home" and provide a much-needed service to struggling local community.

Lastly, the rural urgent care model should rely heavily on cross-training its support staff. Rather than have the typical number of full-time x-ray techs and medical assistants whose salaries aren't supported by patient volumes, clinicians and providers should be willing and able to perform those tasks. Cross-training and sharing of clinical tasks helps minimize operating costs while maximizing productivity, also saving expenses by relying less on higher-paid clinicians.

Conclusion

Rural America is at risk of losing hundreds more financially struggling hospitals, exacerbating an already dire situation where rural populations are in desperate need of healthcare access points. This represents a golden opportunity for enterprising urgent care operators to shift their focus away from crowded and highly competitive suburban markets, and to underserved communities who will welcome them wholeheartedly. And even though there are valid concerns about sparsely populated rural areas providing the necessary foot traffic to keep the urgent care profitable, there are many urgent cares that have overcome those challenges and proven that the model can indeed work. Hence, the urgent care operator who takes the initiative to explore the opportunity and put down stakes in a struggling rural community will not only find a market with few competitors, but a loyal and grateful community that is invested in the urgent care's success.

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