Emerging Business Models: Carolinas Healthcare Virtual Visits

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Urgent care differentiates itself from other health care options as a play on *convenience* and *cost savings.* Unlike primary care offices that can take days or weeks to get an appointment, or emergency rooms which can incur hours-long waits and high co-pays to see a physician; urgent care centers offer on-demand, walk-in services typically from high visibility retail settings with extended opening hours, short wait times, and an emphasis on delivering an outstanding patient experience.

But what happens when urgent care is no longer the most convenient, fastest or cost-effective option for a community's episodic medical needs?

Carolinas HealthCare System (CHC), which operates 29 urgent care centers across Greater Charlotte, 180 primary care offices in an 11-county region, as well as 41 owned and affiliated hospitals in two states, recently began promoting "virtual visits" in which patients who have already established a relationship with a CHC primary care physician (PCP), a Wi-Fi connection and a webcam, can have a 10-minute "telemedicine consultation" with a CHC urgent care physician, physician assistant or nurse practitioner for $49 so long as the patient is physically located within North Carolina at the time of visit.

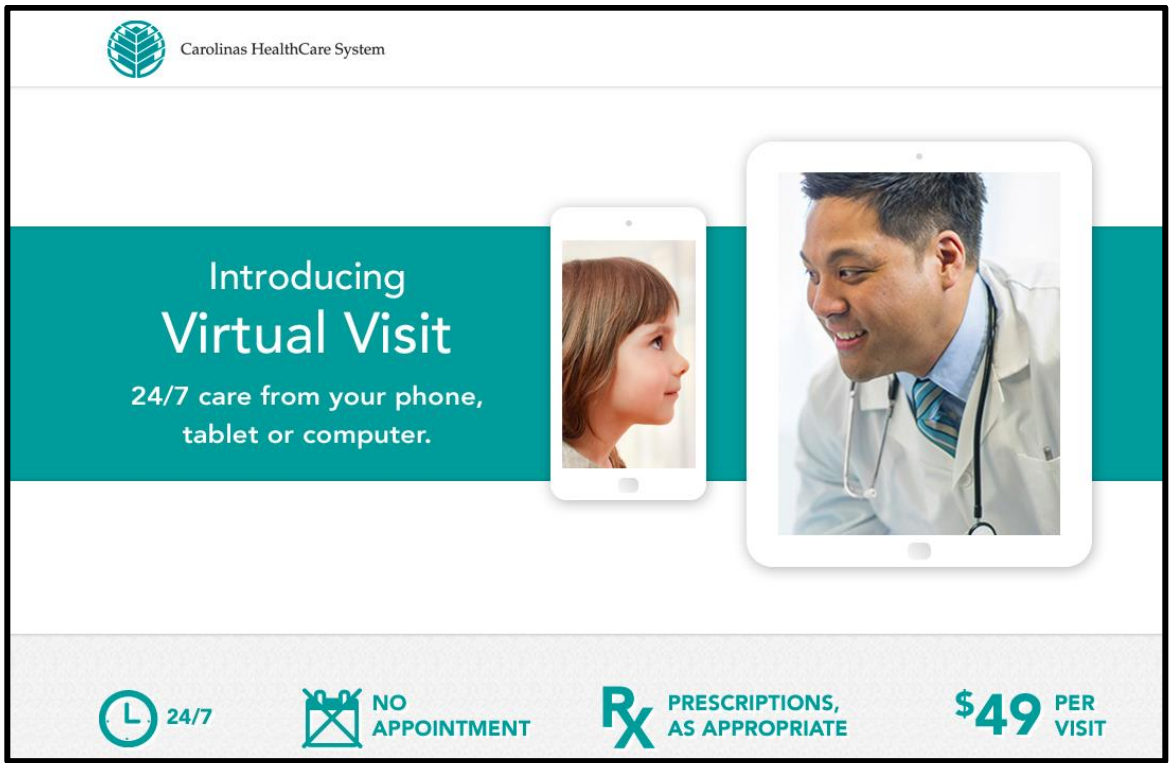

Figure 1.0: Carolinas HealthCare System Virtual Visit Advertisement

CHC's regional footprint, brand halo, marketing budget and dense PCP network provide the seemingly ideal environment to spur consumer adoption of this "telemedicine from home" technology. Patients register on the CHC website or download a special app from the Apple Store or Google Play and choose from among available providers based on their posted profiles. Providers located in CHC's urgent care centers treat "virtual visits" in between walk-in patients at the center enabling telemedicine to fill excess or underutilized capacity. By seeing more patients and generating more revenue per hour, telemedicine

improves the staff productivity and overall profitability of the urgent care center—without investing additional capital in real estate. After a patient encounter, a prescription can be sent electronically to the patient's preferred pharmacy and the "virtual visit" chart is integrated with the PCP medical home record. And if it turns out a patient's condition is beyond what the urgent care provider can evaluate and treat via telemedicine or requires subsequent care, the patient will be referred to the appropriate system-affiliated facility or specialist for follow-up.

For urgent care competitors and the industry at large, consumer direct telemedicine can be considered a threat from the standpoint that patients avoid driving to, waiting at, and paying for the retail overhead of a walk-in facility. Just as Amazon.com has completely transformed the traditional bookstore business, "telemedicine from home" very well could start cannibalizing patients from conventional urgent care centers.

For low acuity conditions, telemedicine competes not only against urgent care centers but also against the retail host model clinics found in CVS, Walgreens, and Target, as well as against walk-in family practice and related operating models. To defend its market share against these new delivery channels, urgent care should be shifting upwards in acuity, focusing more on procedures and diagnostic capabilities that cannot be treated via webcam or by a mid-level provider. Not only does a higher acuity focus better differentiate an urgent care center from retail competitors, at least under fee-for-service, treating higher acuity cases raises net revenue per visit thus increasing a center's overall profitability.

But more importantly, as the "mid-acuity plank" in an integrated health system, an urgent care center with more advanced capabilities can more effectively function as true "ED diversion." We're already seeing urgent care in Accountable Care Organizations (ACOs) and closed systems like Kaiser Permanente integrating ER-type capabilities including cardiac and respiratory monitoring, administration of IV drugs, and staffing with Emergency Medicine physicians and nurses. Higher acuity in the urgent care can save money as acutely rising patients don't need to be transferred to the ER for a work-up and patients who require a hospital transfer can be linked directly to a hospitalist group for admission, thus bypassing the ER.

For many urgent care centers, however, "case rate"—reimbursing all visits at the same price regardless of acuity or services performed—has resulted in a downshifting of capabilities. Evidence includes increased staffing by physician extenders, providers foregoing lab and imaging studies, and a greater marketing focus on "cold and flu" versus "sprains, strains and procedures." Simply put—if urgent care is going to focus on low-acuity, it's going to be more vulnerable to patient attrition to retail clinics and telemedicine.

To defend its business, urgent care really should be shifting upward in acuity, with centers focusing more on treating conditions and performing procedures and tests that cannot be accomplished via webcam. Higher acuity services should improve the economics of urgent care, provided the center can get paid for them. And offering higher acuity services better positions the urgent care to receive referrals from retail clinics and telemedicine providers.

While "virtual visits" theoretically increase CHC's total system revenue by attracting in-state patients who live outside its urgent care service area, by attracting patients loyal to competing health systems, by increasing frequency of use, and by generating "in system" downstream referrals…the more likely scenario is that CHC's internal advertising and integration will result in some "trading" of $125-225 walk-in visits for $49 "virtual visits" by the same providers for an overall degradation of revenue.

Probably the biggest challenge for "virtual visits" is not "brick and mortar" competitors like urgent care and retail clinics but rather, "consumer adoption"—it's not currently acclimated behavior for most Americans to interact with a physician using their PC, smartphone or tablet.

Lack of consumer experience means technology "innovators" or "first movers" like CHC will have to use advertising (such as that in Figure 1) and grassroots marketing to educate consumers about the availability and benefits of the service, to spark trial among opinion leaders and influencers, and to demonstrate good clinical and patient experience outcomes. Such includes attaining buy-in from the systems' affiliated PCPs. If CHC fails to attain critical mass with "virtual visits," it will eventually abandon this service as a "tried and failed."

Conclusion

Is "telemedicine from home" a threat to urgent care as we know it or should "virtual vists" be viewed as an opportunity for urgent care centers to increase their productivity and revenue without investing capital in additional real estate? The answer most likely depends on the rate and speed upon which consumers embrace the service as well as the demonstrated success of early innovators like CHC.

As an analogy, consider the bookselling industry. Twenty years ago the leading chains like Barnes & Noble, Borders, Books-A-Million, Crown, and Little Professor built "megastores" offering patrons rack upon rack of books to peruse, overstuffed chairs and coffee bars to foster relaxation, and the advice of highly literate sales associates within earshot. Booksellers' response at the time was that Amazon.com couldn't offer the same in-store experience and thus consumers would never shift their book buying habits to the Internet. Turns out Amazon.com's convenience and cost savings trumped the value proposition of location-based retailers and all but one of the national bookstore chains subsequently declared bankruptcy.

Granted, books are a discretionary purchase but still, the threat that a less expensive, more convenient option could cannibalize an urgent care center's existing patients means urgent care operators should view the deployment of telemedicine as an opportunity to re-evaluate their business model including the acuity of their capabilities relative to emergency rooms, retail clinics, and what can be diagnosed and treated via webcam.