Urgent Care at the Crossroads: Critical Issues Affecting the Industry in 2015

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Disclosure Information
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Alan Ayers

• Disclosure of Relevant Financial Relationships
  • Salaried and Product or devise designer with Concentra div. of Humana, Inc.
  • Salaried, product or devise designer and Consultant with the Journal or Urgent Care Medicine
  • Salaried, product or devise designer and consultant with the Urgent Care Association of America

• Disclosure of Off-Label and/or investigative Uses
  – I will not discuss off label use and/or investigational use in my presentation.
Objectives

At the conclusion of this session, participants should be able to:

• Evaluate the impact upon their local operations of eight critical issues affecting the urgent care industry;
• Apply to their centers the six characteristics of successful urgent care operations;
• Develop a strategy for connectivity with the emerging health care ecosystem;
• Differentiate their centers amidst increasing urgent care and non-urgent care competition; and
• Revise the center’s business plan, strategy and culture to enable future growth and profitability.
Consumers generally view all urgent care centers as “equal.” Few centers have established differentiated brands.
Urgent Care Business Drivers

Patient Demand
- On-demand access
- Neighborhood convenience
- Walk-in, after-hours, short wait times
- Increasing co-pays, deductibles and co-insurance

Physician Shortage
- Shortage of physicians in primary care specialties
- Low reimbursement and heavy case loads in PCP offices
- Long waits in the ED or to get a PCP appt.

Investment Dollars
- Retail and technology have “matured” as investment themes
- Aging, obese and increasingly ill population
- Few barriers to entry for new centers

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“Urgent Care” is a Place; Not a Condition

- Urgent care does not meet an ongoing, specific medical need
  - Compare to Oncology, Immunology, Orthopedics, etc.
- No unique or differentiated clinical body of knowledge
  - Borrows from family practice, emergency medicine, and occupational/preventive...among others.
- Not structurally “locked in” by regulation and institutions
- A treatment venue based on consumer convenience
  - Retail in orientation and subject to consumer preferences
  - Model can be at risk if consumer or payer behaviors change
Issue #1 Over-Saturation of Key Markets

• Urgent care is a volume driven business.
  – Revenue = Reimbursement Times # of Visits
• Attaining high volumes requires high population density.
• Populations who use urgent care tend to skew up-market:
  – Premium placed on time
  – Visits covered by private insurance
  – Marketing target has been “soccer mom”
• Like any retail business, urgent care investors are attracted to the fast-growing and affluent suburbs of major urban areas.
  – Dallas, Houston, Phoenix, Baltimore/Washington, etc.
• Urban and rural areas remain “underserved” because they cannot support the business model.
Consumer Urgent Care Demographics

- Married Couple with Children Present
- College Graduate Age 35-54
- Owner-occupied Single Family Housing
- Growing Suburbs of Major Metro Areas
- Employer-Provided Health Insurance
- Household Income $50,000 to $100,000

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Medicaid and Urgent Care

- Coverage of “uninsured” has entailed an expansion of state Medicaid programs.
- Some Managed Medicaid payers have embraced urgent care as a cost-saving mechanism and include Managed Medicaid with their HMO, PPO, POS, etc. contracts.
- “Straight” Medicaid tends to be based on a Primary Care Medical Home Model:
  - Pre-authorization for urgent care visits;
  - 24-hour after-hours coverage;
  - Hospital admitting privileges;
  - Other requirements inconsistent with an episodic, walk-in model.
- Medicaid reimbursement is often too low to cover urgent care operating costs.
- Result is no on-demand option provided Medicaid populations except for the emergency room.
Competition: Any Option Available to a Consumer

Upper Arlington, Ohio
Population: 34,000
Issue #2 Blurred Lines Between Walk-in Providers

• Urgent care is a “lower cost alternative to the emergency room” and “overflow/after-hours for primary care.” So is...
  – Family Medicine Group Practice w/Extended Hours and Walk-in Appts.
  – After-hours Pediatrics w/Moonlighting Docs in a Retail Setting
  – Nurse Practitioner Clinic inside a Food/Drug/Mass Retailer
  – Freestanding Emergency Room Center
  – Hybrid models:
    • Urgent care center staffed only by mid-levels
    • Urgent care center with advanced diagnostics and observation capabilities

• Urgent care’s value proposition gets confused and diminished by so many competing options, some of which are more convenient and cost less than urgent care.
“Volume-driven” means:
- A minimum number of visits are required to cover the center’s variable operating costs
- Each incremental visit contributes to the bottom line

Organic growth occurs through signage, advertising, word-of-mouth, and repeat business from loyal patients

Centers sustain operating losses until break-even volumes are attained

Operating losses are absorbed by the center’s working capital

Exhausting working capital prior to break-even is the top reason why urgent care centers fail
Issues w/Private Equity Investment

• Private equity is historically attracted to fast growth and high margins (computer software, high technology, fashion) and turn-around stories (leveraged buy-outs).
• Timeline to break-even in urgent care, when multiplied by numerous centers in a rapid expansion, can spell accelerating red ink.
• It’s taking longer for de novo centers to achieve break-even volumes from organic growth:
  – Increased number of competitors w/their own loyal patients
  – Difficulty in finding “prime” real estate
  – Increased operating costs, especially for providers
• Overall difficulty in scaling the operating model:
  – Location-based business dependent upon a local doctor in the center
  – Centralized administrative and billing functions are a small percent of total operating costs
  – Time and resources to achieve critical marketing mass
• When private equity cashes out, hospitals will be the most likely buyers.
Issue #4: Hospital Urgent Care as a Loss Leader

• One quarter to one-third of urgent care centers operated by hospitals today provides plenty of room to grow.
• Entrepreneurial urgent care operators must turn a profit at the point of service whereas hospitals can justify urgent care as a means of “capturing” new patients for “downstream” revenues:
  – Imaging, specialist consults, surgeries, physical rehab
  – Seamless integration via shared electronic medical record
  – Referral network of “captive” PCP providers
• Hospital “brand halo” resonates “quality” with consumers.
• Hospitals can endure competitive environments longer than independents:
  – Deep pockets, low cost of funding, tax-exempt status, payer leverage
  – Provider bench/recruiting capability
Issue #5: Telemedicine from Home

• Cheaper and more convenient than urgent care?
• Issue of trading high NRV urgent care visits for low NRV telemedicine consults?
Issue #6: Case Rate

• Fee-for-service “conflict of interest” is increasing reimbursement by providing more reimbursable services, including “defensive medicine.”
• Case rate provides a flat fee per urgent care visit, generally $115-165:
  – E/M code must be billed
  – Includes all services, supplies, medications/vaccinations, lab and x-ray
  – Center makes more money on low-acuity visits and less on more complex visits
• To maximize profits under case rate:
  – Staff with mid-level providers
  – Use diagnostic services sparingly (don’t staff RT during slow periods)
  – Refer complicated/time-consuming cases to the emergency room
• True “ED Diversion” requires a higher acuity of care (stat labs, observation, advanced imaging, IV hydration, etc.).
• Case rate incentivizes a lower acuity of care, leading to little differentiation from retail clinics (despite urgent care’s higher operating costs).
Issue #7: Difficulty in Recruiting and Retaining Doctors

Urgent care benefits from the shortage of primary care providers but it’s also dependent on the primary care workforce to staff centers.
Issue #8: Closed/Skinny Networks and ACOs

Figure 9: Marketshare of Top 10 Companies in Colorado Based on Written Premiums in 2010

Table 18: Market Share of the Top 10 Health Carriers in Colorado

<table>
<thead>
<tr>
<th>Company</th>
<th>2010 Written Premiums</th>
<th>2016 % of Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kaiser Permanente Health Plan of CO</td>
<td>2,404,286</td>
<td>24.2%</td>
</tr>
<tr>
<td>Anthem Blue Cross and Blue Shield*</td>
<td>1,240,068</td>
<td>12.5%</td>
</tr>
<tr>
<td>UnitedHealthcare Inc Co</td>
<td>1,984,157</td>
<td>10.9%</td>
</tr>
<tr>
<td>Pacificare Of CO Inc.</td>
<td>727,762</td>
<td>7.3%</td>
</tr>
<tr>
<td>Humana Inc Co</td>
<td>299,681</td>
<td>3.0%</td>
</tr>
<tr>
<td>Aetna Life Inc Co</td>
<td>274,023</td>
<td>2.8%</td>
</tr>
<tr>
<td>Connecticut Gen Life Ins Co</td>
<td>249,833</td>
<td>2.5%</td>
</tr>
<tr>
<td>HMO CO Inc</td>
<td>107,926</td>
<td>1.9%</td>
</tr>
<tr>
<td>Rocky Mountain HMO Inc</td>
<td>177,682</td>
<td>1.8%</td>
</tr>
<tr>
<td>Rocky Mountain Healthcare Options Inc</td>
<td>130,364</td>
<td>1.3%</td>
</tr>
<tr>
<td>All Other Companies</td>
<td>3,148,830</td>
<td>31.8%</td>
</tr>
<tr>
<td>Total</td>
<td>9,925,122</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
The New Insurance Marketplace

• Fee-for-service urgent care lacks experience with capitated/risk-/value-based reimbursement methods.
• Accountable Care Organizations control costs by limiting access to network providers and directing care within a primary care medical home model.
• High-deductible plans result in high write-offs for urgent care centers lacking front office processes to verify and collect patient financial responsibility at time of service.
<table>
<thead>
<tr>
<th>Urgent Care Industry Today</th>
<th>Future of Urgent Care</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Stand-alone entrepreneurs; some regional platforms</td>
<td>• Integrated with payers, accountable care organizations, health systems and multi-specialty groups</td>
</tr>
<tr>
<td>• Fee for Service Evolving to Case Rate</td>
<td>• Capitation, Outcomes Based Payment</td>
</tr>
<tr>
<td>• NO BRAND DIFFERENTIATION</td>
<td>• BRAND LOYALTY BASED ON POSITIVE PATIENT EXPERIENCE</td>
</tr>
<tr>
<td>• Walk-in location-based service</td>
<td>• Multi-channel including at home, at the employer and via telemedicine</td>
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<th>Urgent Care Industry Today</th>
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</thead>
<tbody>
<tr>
<td>• Sole physician with support staff</td>
<td>• Teams of physicians, mid-levels, nurses and technicians</td>
</tr>
<tr>
<td>• General practitioner</td>
<td>• Generalists and specialists or specialized urgent care facility</td>
</tr>
<tr>
<td>• Episodic one-touch limited focus on cold/flu, allergies, minor infections and minor injuries, referring out for follow-up</td>
<td>• Expanded capabilities to follow a case from intake to resolution; access point to the tertiary health care system</td>
</tr>
<tr>
<td>• Defensive of the business model</td>
<td>• Evolving and changing in response to consumer needs and open to a range of operating models</td>
</tr>
</tbody>
</table>
Consumer Decision-Making Factors

UC Facility Selection Mean Importance Ratings

Selection Criteria

- Trust in their abilities/competent staff
- Doctor’s expertise
- Close to home
- Diagnostic equipment and testing
- Can get prescriptions and medications that...
- Expertise of their non-physician staff
- Knowing that you have a variety of ways to...
- One location where all of your routine and...
- Close to work
- Ease of access from the road
- Ease of access from the parking lot
- Use of local doctors from my community
- Bilingual staff and doctors

Importance Ratings

9.43 9.36 8.64 8.30 8.25 8.17 7.85 7.63 7.56 7.47 6.31 5.99 5.94 5.91 4.97 1.82
In general, consumers correctly classify urgent care’s clinical and operating model

- Urgent care centers are mainly viewed as a more cost effective after-hours option vs. ERs, but not for life threatening conditions
- Urgent care centers are viewed as more capable than retail clinics while physician offices, are perceived as having MDs on staff, and are thought to have the availability of diagnostic equipment
- Retail Clinics are viewed as a convenient option for routine and less urgent care, but are considered light-weight in terms of staff and equipment
- It is well understood that urgent care pricing is more expensive than a PCP but less than the ER

Those who have used urgent care centers know mostly about the one or two they have used.

- Most became aware of the center primarily from driving by the facilities or from recommendations by family, friends, and work associates.
- Online searches were also frequently mentioned.
- Proximity and convenience drive UC choice and preference, with closer to home being preferred over closer to work
- Among loyal patients, their preferred center is typically viewed as at par with, or slightly better than, other urgent care providers and above retail clinics
Growing segment of consumers view regular PCP visits as unnecessary.
- They seek care when it is needed and will go to an urgent care center for that need.
- Small (and perhaps growing) percentage of consumers use urgent care centers for their general healthcare needs.

Opinions and perceptions of quality cover a broad spectrum of characteristics from facility appearance, size, cleanliness, and location to speed of services, wait times, credentials, attitudes, and behavior of physicians.
- Trust is also a function of quality perceptions, including quality of care, a sensitive and respectful patient experience, look and appearance of the building, attentive and empathetic support staff.
- Detractors almost always center on long wait times.
- Being treated as a “person, not a number” is key to building patient loyalty.
- Trust in the doctors’ knowledge and abilities is also key to driving brand strength and loyalty.

Primary issue for the industry is customer awareness of services and capabilities at an urgent care center.
- “we don’t have a clue what any [urgent care centers] do...what is it intended for? Why am I supposed to go to an urgent care center?”
- Urgent care’s marketing focus is to “educate” the consumer.
Characteristics of Successful Urgent Care Operations

**Convenience**
- Near Patient’s Homes
- Traffic Visibility
- Retail Co-Tenancy

**Efficiency**
- Quick In/Out
- Communicate Wait Times
- Error-free Transactions

**Appealing Facilities**
- Clean/Attractive
  - Flows Well
  - Amenities
    - Coffee Bar, Kids Activities, WiFi
Characteristics of Successful Urgent Care Operations, cont’d.

- Clinician Face Time
  - Available to Answer Questions
  - Loyal Patient Following

- Relationships
  - Specialist Providers
  - Primary Care Providers

- Patient Satisfaction
  - Measurement System
  - Corrective Action Process
Contact Information

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