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

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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;
- Develop a strategy for connectivity with the emerging health care ecosystem;
- Assess the service offerings and technology platforms of successful urgent care providers;
- 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

<table>
<thead>
<tr>
<th>Patient Demand</th>
<th>Physician Shortage</th>
<th>Investment Dollars</th>
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<tbody>
<tr>
<td>- On-demand access</td>
<td>- Shortage of physicians in primary care specialties</td>
<td>- Retail and technology have “matured” as investment themes</td>
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<td>- Neighborhood convenience</td>
<td>- Many patients lack a PCP relationship</td>
<td>- Aging, obese and increasingly ill population</td>
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<td>- Walk-in, after-hours, short wait times</td>
<td>- Low reimbursement and heavy case loads in PCP offices</td>
<td>- Greater numbers of insured w/out-of-pocket responsibility</td>
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<td>- Retail customer service orientation</td>
<td>- Long waits in the ED or to get a PCP appt.</td>
<td>- Few entry barriers for new centers</td>
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<tr>
<td>- Increasing co-pays, deductibles and co-insurance</td>
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- Retail and technology have "matured" as investment themes
- Aging, obese and increasingly ill population
- Greater numbers of insured w/out-of-pocket responsibility
- Few entry barriers for new centers
“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
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

Charleston, SC Population: 127,000 (664,000 in MSA)
Number of Urgent Care Centers: 44
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 open 24 hours with advanced diagnostics and observation capabilities
  - Occupational medicine center with incremental urgent care
- 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.
Issue #3 Existing Centers Struggling for Profitability

- “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.
- State restrictions on ability to prescribe to a patient via telemedicine, if no previously established relationship (Texas).
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
- Behavior 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 Recruiting and Retaining Doctors

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

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

<table>
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<tr>
<th>Company</th>
<th>2010 Written Premiums</th>
<th>2010 % of Market Share</th>
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<tbody>
<tr>
<td>Kaiser Found Health Plan of CO</td>
<td>2,404,286</td>
<td>24.2%</td>
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<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>1,084,157</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>290,881</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>248,833</td>
<td>2.5%</td>
</tr>
<tr>
<td>HMO CO Inc.</td>
<td>107,100</td>
<td>1.0%</td>
</tr>
<tr>
<td>Rocky Mountain HMO Inc</td>
<td>177,882</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><strong>Total</strong></td>
<td><strong>9,925,122</strong></td>
<td><strong>100.0%</strong></td>
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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.
### Urgent Care Industry Today

- Stand-alone entrepreneurs; some regional platforms
- Fee for Service Evolving to Case Rate
- NO BRAND DIFFERENTIATION
- Walk-in location-based service

### Future of Urgent Care

- Integrated with payers, accountable care organizations, health systems and multi-specialty groups
- Capitation, Outcomes Based Payment
- BRAND LOYALTY BASED ON POSITIVE PATIENT EXPERIENCE
- Multi-channel including at home, at the employer and via telemedicine
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<th>Urgent Care Industry Today</th>
<th>Future of Urgent Care</th>
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<tr>
<td>• Sole physician with support staff</td>
<td>• Teams of physicians, mid-levels, nurses and technicians</td>
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<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>
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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.

- Specialist Providers
- Primary Care Providers

Clinician Face Time

-- Available to Answer Questions
-- Loyal Patient Following

Patient Satisfaction

-- Measurement System
-- Corrective Action Process
Identifying Best in Class Examples

PatientFirst: Primary/urgent care integration.

CareNow: Web Check-in, Mobile App

HealthCARE Express: Community engagement/grassroots marketing.

Physicians Quality Care: Waiting room experience (Play Areas, Movie Theater).
Identifying Best in Class Examples, cont’d.

ZoomCare:
- High visibility retail locations with dense market footprint
- Extended hours as late as 12:00 am
- Virtual visits (Telemedicine from Home) via Skype
- Online scheduling, provider bios and extensive patient portal capabilities
- Posted/transparent pricing
- In-center dispensing/retail sales
- Zoom Health Insurance covering clinic visits plus network access for higher acuity care.
- Integration of medical specialists, primary care, pediatrics, chronic condition management, mental/behavioral health, physical therapy and naturopathy services.
- Nurse practitioner/physician assistant staffing for walk-in urgent care
- Community engagement (“Free Nights”)
- Hospital concierge program
Contact Information

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