The Business of Patient Experience

White Paper

Competition in Healthcare

Competition among healthcare providers is prevalent and increasing.

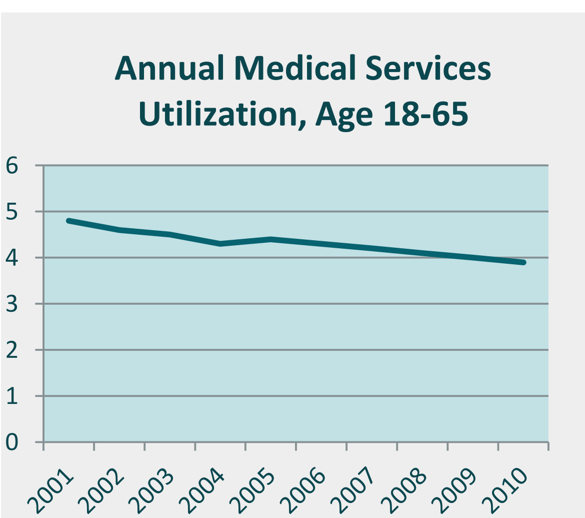
Contents

Executive Summary

In this white paper, we examine the current state of three specific classes of competitors: Urgent Care Centers, Retail Quick Clinics, and Telehealth. These competitive channels are projected to grow at 8 percent, 23 percent and 18 percent, respectively, over the next 5 years.

A Changing Landscape

There are roughly 1.5 billion physician visits each year in the United States. That number has been steadily declining since the Great Recession, but has recently shown signs of stabilizing at 1.46 billion visits per year. Out of those 1.5 billion visits, approximately 1.0 billion are made to a physician's office. The balance of 500 million visits are made to EDs and hospital outpatients. Dividing the one billion office visits by 52 weeks per year, then further dividing by 798,000 active physicians yields an average patient load of 24 office visits per week. We will compare this figure later in the paper to volume of visits through other, non-traditional channels.



According to data from the US Census Bureau, the number of annual medical services (visits to medical doctors, nurses, and other medical providers) has been steadily declining since 2001, dropping from 4.8 in 2001 to 3.9 in 2010. Similar declines are seen among all subgroups: with at least one visit, those with fair or poor health (although those with good or excellent/very good health also reported declines), and the uninsured.

In that same ten-year period, the United States population grew from 285 million to 309 million (8.4 percent), and the number of active physicians increased from 787,000 in 2001 to 798,000 in 2010 (1.4 percent). Since the growth of the general population exceeds the growth in the physician population, there are fewer physicians per thousand residents (2.76 compared to 2.58).

A report from the Centers for Disease Control and Prevention (CDC) shows that the number of patients in a hospital outpatient department seen by a physician assistant or advance practice nurse has increased by 50 percent in the decade from 2000 to 2010. It is especially common in settings with fewer physicians, like small, rural or teaching hospitals. At the same time, the percentage of visits attended only by physicians in hospital outpatient departments declined from 77 percent (in 2000-2001) to 72 percent (in 2008-2009).

Changing State of Healthcare		
	Current State	Future State
Provider Options	Few	Many
Service Levels	Single Tier	Multi-Tier
Healthcare Delivery	Fragmented	Continuum
Location	Office/Hospital	@ Patient (home, telephone, web)
Reimbursement	Service-Based	Value-Based
Key Performance Metric	Cure	Prevention
Key Financial Metric	Revenue / Volume	Profit / Cost Containment

The shift is due to many factors, among them:

- Patients paying more expenses out-of-pocket and being more cautious about physician visits and other health-related costs;
- The increasing recognition of PAs and NPs as alternative providers;
- Increasing emphasis on convenience in general; and
- Growing number of alternative providers and the associated advertising and promotion for these options.

Regardless of one's interpretation of the numbers, the environment is changing – dramatically and quickly. We have summarized some of the changes in the table above.

Unlike any time in the recent past, competition among healthcare providers is prevalent and increasing. Patient awareness of options is increasing as demonstrated by the growth in alternative delivery channels.

Competitive Review

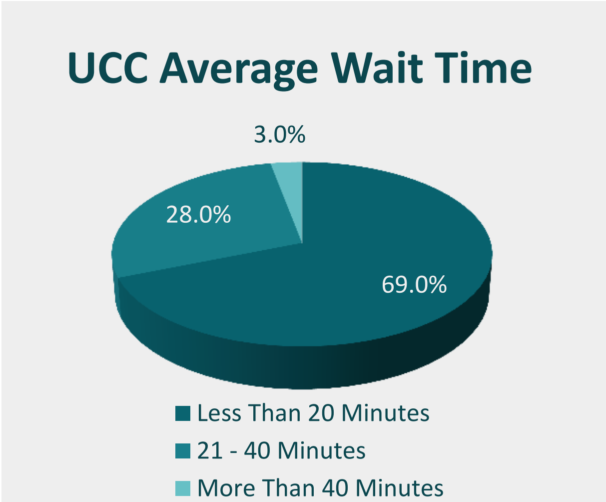
Urgent Care Centers

Description and Range of Services

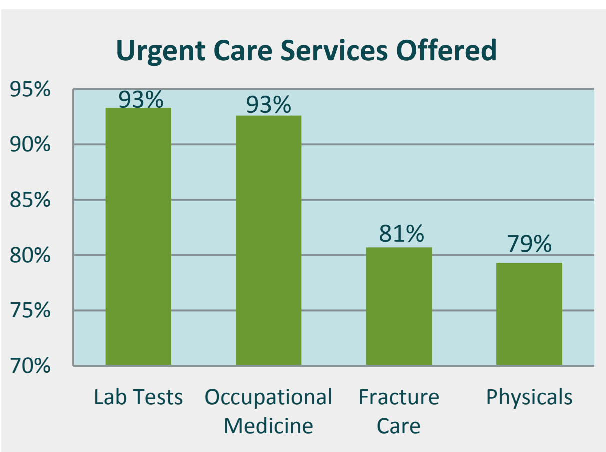
Urgent care centers (UCCs) provide walk-in care for illnesses and injuries that need immediate attention but are not considered an emergency. UCCs are typically open during regular business hours, as well as evenings and weekends, though not 24 hours a day. Eighty-five percent of UCCs are open seven days a week, with 95 percent closing after 7 p.m. In comparison, only 29 percent of primary care doctors have after-hours coverage.

The wait time to see a provider is typically half an hour or less, compared to a multi-hour wait time in many emergency departments. And patients can often see a doctor, as opposed to a nurse practitioner if they go to a retail clinic. Moreover, UCCs offer imaging and other services not found in retail outlets.

UCCs commonly treat conditions seen in primary care practices and retail clinics, including ear infections, strep throat and the flu, as well some minor injuries, such as lacerations and simple fractures.



In contrast to emergency departments, UCCs are not equipped to deal with trauma, provide resuscitation or admit patients to a hospital. UCCs are typically staffed by physicians, generally with backgrounds in primary care or emergency medicine, and some also have nurse practitioners or physician assistants working under physician supervision.



A 2009 BMC Health Services Research study found 92.6 percent of UCCs provide some kind of occupational medicine services, 93.3 percent process some lab tests onsite, 80.7 percent offer fracture care, including splinting and casting, and 79.3 percent provide sports and school physicals.

Ninety-five percent of UCC physicians do not have and do not require hospital-admitting privileges, according to the National Association for Ambulatory Care.

Unlike hospital emergency departments, UCCs typically are not subject to the Emergency Medical Treatment and Labor Act (EMTALA), a federal law that requires hospitals to screen patients and provide emergency services regardless of an individual's ability to pay. In rare cases, a UCC operating under a hospital's license is subject to EMTALA.

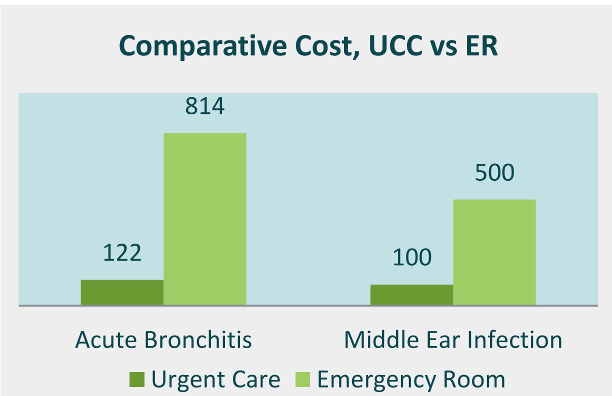
Growth

Consumer demand for convenient access to care is heavily driving the demand for UCCs. Hospital UCCs are seen as a way to gain patients, while health plans see potential cost-savings by steering patients away from costly emergency department visits.

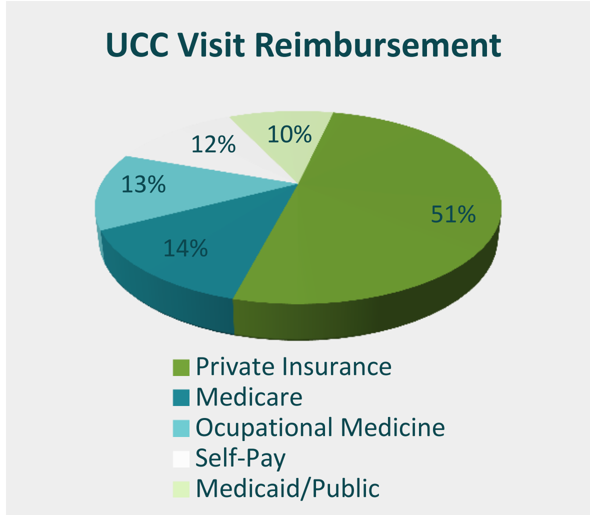
There are approximately 9,300 UCCs in the U.S., according to the Urgent Care Association of America (UCAOA). Those 9,300 units generate an estimated $14.5 billion in annual revenue, which equates to an average of $1.56 million per UCC. The industry has been growing at an 8 percent rate from 2010 through 2015. In addition, industry analysts project that it will continue growing at near that rate through 2020.

In what seems like a contrast to those large numbers, urgent care is a low-margin, high-volume business. A certain population density must be present for the UCC to capture sufficient volume to generate solid financial returns. This helps to explain why seventy-five percent of UCCs are located in suburban areas, and only 15 percent in urban areas and 10 percent in rural areas.

While convenience is one factor, so is cost. The national average charge for a visit to the UCC runs about $155 per patient visit. The average charge to treat acute bronchitis at an urgent care center in 2012 was $122, compared with $814 at an emergency room (ER), according to data from CareFirst Blue Cross Blue Shield. The price of treating a middle-ear infection was $100 versus nearly $500 in an ER.



UCCs primarily serve privately insured and Medicare patients although some have contracted with private insurers that cover urgent care visits with patient copayments ranging from $30 to $60. UCCs tend not to participate in Medicaid, reportedly because of low payment rates. UCCs do serve some uninsured patients but typically require upfront payment.



In 2012, UCCs had an average of 357 patient visits per week, which translates to more than 160 million total visits annually for all UCCs combined. Multiplying the average per patient visit charge ($155) times the average number of visits per week($375) is $55,335 weekly revenue or $2.8MM annually. This figure is substantially higher than that derived from the industry size and number of locations. Xperience believes that the true industry figure is closer to $1.56MM than $2.8MM as the larger figure is based on average figures that may be somewhat inflated.

It is not clear whether the growth of UCCs has generally saved money by diverting patients away from ERs or increased costs by drawing patients from primary care practices.

Investment

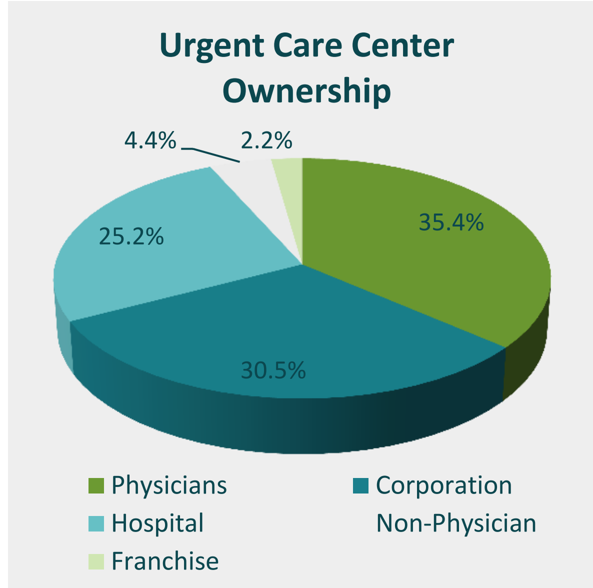
The investment needed to open a stand-alone UCC with on-site x-ray machines and other equipment is $750,000 to $1 million, according to Marketdata Enterprises. Investors include physicians, payers, health systems, private equity investors and many others.

A 2012 national survey from the UCAOA, revealed that 35 percent of UCCs were owned by physicians or physician groups; 30 percent by corporations; and 25 percent by hospitals. Non-physician individuals or franchisors owned another 7 percent.

	Multi-State Operators	# of Clinics
	Concentra	307
	US Healthworks	145
	MedExpress	114
	NextCare	86
	AFC Doctors Express	69
	FastMed	54
	Doctors Care	52
	Patient First	46
	CareSpot	45
	American Family Care	37
	Health System Operators	**# of Clinics**
	Aurora Urgent Care	37
	Intermountain InstaCare	24
	Carolinas HealthCare Urgent Care	22
	Florida Hospital CentraCare	20
	St. John Providence Urgent Care	18
	Norton Immediate Care	13
	Health Partners Urgent Care	12
	Advocate Health Immediate Care	11
	Marshfield Clinic Urgent Care	11
	Primary Health Urgent Care	10

Payers and health systems have made substantial investments in UCCs recently. In 2012, San Francisco-based Dignity Health bought the urgent care chain US HealthWorks, and in the same year, LLR Partners and insurer WellPoint invested in urgent care clinic chain Physicians Immediate Care.

The following table lists the top 10 multistate urgent care operators and health system



operators as of 2012, according to Merchant Medicine.

Larger scale investment in the industry has come from private equity firms. Private equity money reached $4 billion in health and medical services, including urgent care, in 2012, compared with $3.5 billion in 2011. In 2010, General Atlantic, a private equity firm, and Sequoia Capital, a giant in venture capital, acquired a stake in MedExpress Urgent Care, which operated 47 clinics in four states. Today, MedExpress has 130 clinics in 10 states. Brockway Moran & Partners invested in MD Now Medical Centers in April 2012, and Ridgemont Equity Partners acquired a majority stake in Hometown Urgent Care, which operates 25 clinics, in June 2012.

Strategic Considerations

Physicians training in primary care specialties such as family medicine, internal medicine, emergency medicine and pediatrics are pursuing additional education in urgent care medicine, and seasoned physicians are becoming board certified in urgent care medicine. As the specialty grows, the development of training programs geared specifically towards urgent care medicine will take place.

Although some providers believe urgent care centers disrupt coordination and continuity of care, others believe these concerns may be overstated, given urgent care's focus on episodic and simple conditions rather than chronic and complex cases.

Hospitals view UCCs as a way to retain current patients and gain new ones by providing additional, more convenient access. Urgent care is viewed as a funnel into an integrated health system, a way to get a referral to an affiliated provider.

Emergency room visits now number approximately 110 million annually. A 2009 RAND Corp. study reported 14 percent to 27 percent of ER visits could be handled by UCCs or retail clinics, saving up to $4.4 billion a year in health costs.

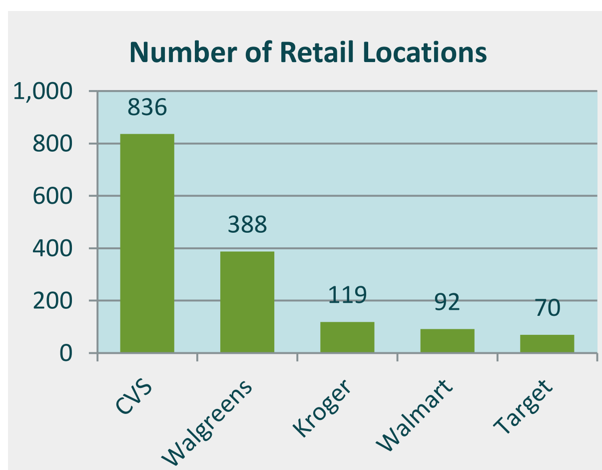
Quick Clinics

Description and Range of Services

Quick clinics are staffed by nurse practitioners and physician assistants who utilize specific protocols to provide treatment for common family illnesses, skin conditions and injuries, administer vaccinations, conduct physicals and wellness screenings, and offer monitoring for chronic conditions seven days a week without an appointment, including evenings and holidays.

Currently there are approximately 1,600 walk-in medical clinics across the country in drug and big-box stores like CVS and Walgreens, and supermarkets like Kroger and Target. Industry experts expect a 20-plus percentage jump in locations over the next year, and the number of clinics is projected to double in the next three years due in part to the increased demands of newly insured patients under the Affordable Care Act, according to a 2013 report from Accenture, a global management-consulting firm.

A study by Mehrotra and Colleagues published in 2009 in the Annals of Internal Medicine looked at 700 episodes of each of three common conditions — inflammation of the middle ear, urinary tract infections and pharyngitis, an infection that causes most sore throats. Using 12 quality-of-care measures, it found that treatment was "similar for retail clinics, physician offices and urgent care centers, and lower for emergency rooms." The costs of care for each episode averaged $110 at retail clinics, $166 at doctors' offices, $156 at urgent care centers and $570 in emergency departments.



In theory, patients with ordinary Medicare and Medicaid coverage can turn up at any clinic and ask to be treated, with the bill sent to the government. In practice, many doctors turn them away because the government's reimbursement rates are too low. In addition, Medicare does not cover the full cost of all treatments, so most patients purchase private insurance to cover the gaps.

Following are brief profiles of four of the largest quick clinic operators: CVS, Walgreens, Kroger (The Little Clinic), and Target.

CVS/minuteclinic, the retail medical clinic division of CVS Health, is the leading retail medical clinic provider in the United States. CVS/minuteclinic launched the first retail medical clinics in the United States in 2000 and now has more than 900 locations in 31 states and the District of Columbia. The company has seen 24 million patient visits, with a 95 percent customer satisfaction rating. CVS/minuteclinic is the only retail health care provider to receive three consecutive accreditations from The Joint Commission, the national evaluation and certifying agency for nearly 15,000 health care organizations and programs in the United States.

Walgreens' Healthcare Clinics are located in more than 400 Walgreens stores. Board-certified family nurse practitioners who are specially trained to diagnose and treat a wide variety of illnesses and chronic conditions, order diagnostic tests and provide preventive care staff Walgreen's Healthcare Clinics.

Kroger's **The Little Clinic** began in 2003 in Louisville, Kentucky. In 2009, the company earned accreditation from The Joint Commission. The Gold Seal of Approval recognizes The Little Clinic's commitment to meet The Joint Commission state-of-the-art, rigorous national standards for patient safety and quality improvement. In 2010, the company was purchased by The Kroger Co. The Little Clinic operates 154 clinics in select Kroger, Fry's, JayC and King Soopers stores in Ohio, Kentucky, Tennessee, Arizona, Georgia, Indiana, Virginia, Mississippi and Colorado.

Target ended 2013 with 69 in-store clinics, up 23 percent from 53 in 2012, according to Merchant Medicine research. Target remains far more interested in the retail-clinic market than Wal-Mart Stores Inc., which decreased its number of clinics by 23 percent in 2013.

Walmart has 92 locations with in-store clinics. The massive retailer's initial attempt to establish retail clinics a decade ago failed. The third-party providers who leased store space were unable to generate a profit. Walmart tried again about five years ago via partnerships with hospitals but could not achieve a critical mass of locations. The third iteration, Walmart Care Clinics, are store-owned and appear to be designed primarily as a healthcare service vehicle for Walmart employees. The clinics can serve employees at a lower cost than traditional healthcare delivery, and business from store customers adds to the Clinic's bottom line.

Telehealth

Description and Range of Services

Telehealth is the use of electronic information and telecommunications technologies to support long-distance clinical health care, patient and professional health-related education, public health and health administration. Technologies include videoconferencing, the internet, and store-and-forward imaging.

Telehealth is not a specific service, but a collection of methods to enhance care and education delivery. The range of health care services that are currently being delivered using telehealth technologies include: dentistry, counseling, physical and occupational therapy, home health, chronic disease monitoring and management, disaster management, and consumer and professional education.

Telehealth is being embraced across the healthcare industry, from home health agencies to hospitals and corporations looking to keep healthcare costs for workers low. In 2013, the number of patients worldwide utilizing telehealth monitoring services was less than 350,000, but a recent report from IHS Technology shows that number exploding in the next four years. According to their projections, telehealth users globally will number close to seven million by 2018, and the revenue for telehealth services will greatly increase, from $440.6 million in 2013 to $4.5 billion in 2018. A recent report by Research and Markets estimated that the global telemedicine market will have a compound annual growth rate of 18.5 percent through 2018. Another report, projects that three-fourths of the 100 million eVisits expected to occur in 2014 will occur in North America.

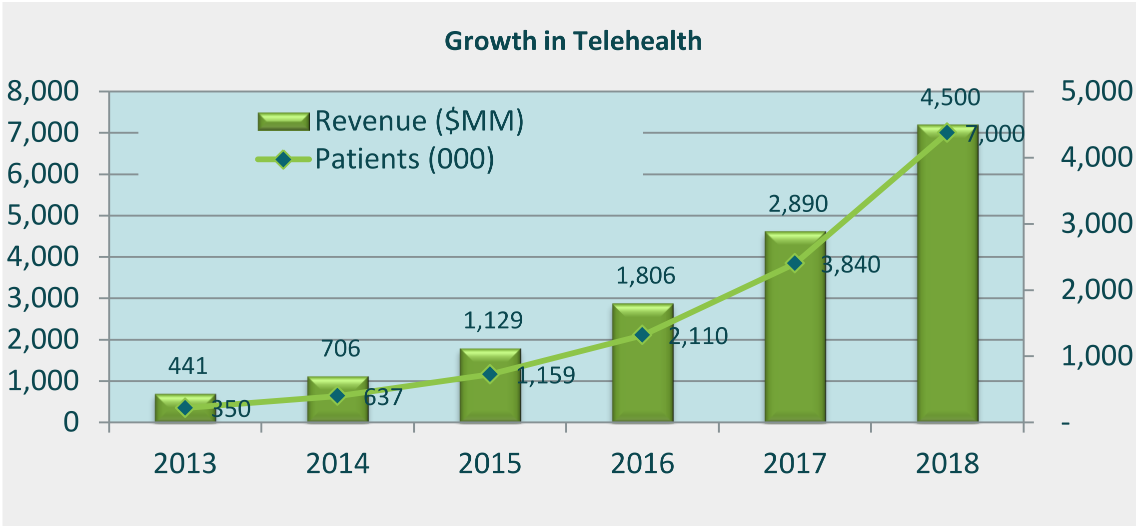
Growth

"Amid rising expenses, an aging population and the increasing prevalence of chronic diseases, the healthcare industry must change the way it operates," Roeen Roashan, a medical devices and digital health analyst at IHS, said. "Telehealth represents an attractive solution to these challenges, increasing the quality of care while reducing overall healthcare expenditures."

In a recent commentary, Stanford medical student Akhilesh Pathipati wrote that telemedicine is "natural" for the next generation of physicians. "Students currently in the medical education pipeline started using smartphones and Skype in high school," Pathipati said. "The same can be said for many patients. Telemedicine can translate that familiarity with communications technology into a meaningful doctor-patient relationship."

With the increase in need for in-home caregivers and the continued increase in chronic diseases, such as diabetes and heart disease, the need for better access to care is evident. Telehealth monitoring can provide clear benefits for elderly and those who need improved chronic disease management. Some of these benefits include:

- Improved health outcomes, through timelier access to specialists who can intervene before emergency issues arise;



- Reduced unnecessary admissions (or readmissions) to hospitals, using remote monitoring and consultations with clinicians; and
- Options to remain in the comforting environment of home, closer to the support network of family and friends.

In addition, the growth of telehealth is being spurred on by the introduction of mobile health hubs and projected growth in wearable technology.

Centers for Medicare & Medicaid Services (CMS) implemented changes to Medicare's 2014 physician fee schedule to incrementally expand coverage for telehealth services. Prior to this change, reimbursement had been a primary barrier to the widespread use of telehealth.

Washington is also beginning to take notice. According to the American Telemedicine Association, as of September 2014, around 56 telehealth-related bills were pending in Congress. There are also a number of ongoing roundtable series and hearings promoting innovation in healthcare. Legislation recently introduced to Congress seeks to establish a federal definition of telehealth and clear up the confusion from myriad state policies. The bill, according to Reps. Doris Matsui (D-Calif.) and Bill Johnson (R-Ohio), is based on legislation passed previously in California. Telehealth is gaining attention in Washington due to studies cited above that are projecting large growth in the coming years.

In addition to these large, widely recognized healthcare models, there are many smaller concepts that may enhance current delivery mechanisms or even create new delivery channels. For example,

- Pager is a service in New York City that offers in-person home visits by a physician for $199
- TeleDoc and MDLive offer immediate access to a physician via video chat
- ZocDoc provides physician reviews and then allows patients to review schedules and book an appointment from an app or website

Growth

Telehealth has seen significant growth within the home care industry in the last few years (11.4 percent growth between 2007-2012). Larger, more financially profitable home health agencies are more likely to utilize telehealth than smaller agencies. Twenty-five percent of these agencies indicate that telehealth has lowered healthcare costs, 72.9 percent have seen an increase in overall quality, 37.1 percent have seen an increase in referrals, 69.8 percent say that telehealth has helped lower unplanned hospital visits, and 64.4 percent have seen an increase in patient satisfaction.

According to a recent study, 19.4 percent of agencies that do not have an e-health program in place plan to start one within the next year.

Conclusions

Competition among healthcare providers is prevalent and increasing. Patient awareness of options is increasing as demonstrated by the growth in alternative delivery channels:

- There are approximately 9,300 UCCs in the US with revenue of $14.5 billion and an annual growth rate of 8 percent.
- With over 1,500 current locations, the number of retail clinics is expected to double in the next three years.
- Telehealth annual revenue is expected to grow from a current $1.1 billion to $4.5 billion in the next three years.
- Other alternative delivery mechanisms continue to challenge traditional brick-and-mortar physician offices

The shift in healthcare providers is due to many factors, including:

- Patients paying more out-of-pocket and being more cautious about physician visits and other health-related costs.
- The increasing recognition of PAs and NPs as alternative providers.
- The increasing emphasis on convenience, in general.
- The growth number of alternative providers and the associated advertising and promotion for these options.
- Competitive models often have dramatically lower cost structures – such as UCC visits compared to ED visits
- Efficiency gains are also dramatic. Whereas the average physician in the United States sees 24 patients per week, the average UCC physician sees 65 patients per week and the average quick clinic sees 91 patients per week

Regardless of one's interpretation of the numbers, the environment is changing—dramatically and quickly.

About Xperience

Xperience, a healthcare focused consulting company, provides patient experience methodology, which not only defines the most important performance attributes for patient satisfaction, but also provides an Experience Improvement Map (EIM) enabling healthcare providers to create the Best Healthcare Experience® (BHE). Integral to BHE is the Sustainable Experience Path (SEP), which provides clear direction on how to create patient advocacy in a competitive environment.

At Xperience, we understand the critical boundaries between patient satisfaction, quality healthcare and business performance. While it is a daunting task to maximize all three dimensions, it is the challenge facing today's healthcare provider. Xperience provides insight and direction needed to improve patient experience, quality of healthcare and operational effectiveness.

Xperience is a Priority Metrics Group business that draws on PMG's 20-plus years of experience in developing, facilitating, and implementing strategy for leading organizations around the world. PMG believes that good decisions are based on solid data, and once provided, the path forward is clear and unequivocal.

For more information about Xperience's unique and innovative approach to designing patient experience surveys, contact us at (888) 573-2604, or online, www.xperience-analytics.com.

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