



# The *spoke* before the hub

## Turning the healthcare delivery model upside down

For decades, the model for delivering healthcare in the U.S. has been slowly decentralizing, as an increasing number of surgical procedures are performed at ambulatory care facilities. The old notion of the hospital as the one-stop shop for all health needs has evolved to the point that a majority of surgical procedures today are performed at ambulatory care units (ACUs) and other outpatient facilities.

For a number of reasons – cost, patient convenience and the advent of less-invasive surgical techniques, to name a few – the shift in focus from the hospital “hub” to the ACU “spokes” will not only continue, but even accelerate. This creates great opportunities but also significant challenges for health systems that for many years have built or purchased new hospitals to amass size and reputation.

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## A new model

Healthcare has reached a major inflection point in its evolution; one that will inevitably flip or at least alter the prevailing perception of the central role that hospitals play in delivering care. The future is value-based healthcare that includes a multitude of integrated care delivery methods. As ambulatory care plays an increasingly central role in the new model, health systems need to take a fresh look at their facility strategies, from site location to design to operations, as a way to enhance care delivery, attract physicians and manage costs.

Standalone ambulatory facilities need to be components of an integrated delivery system, effectively bringing healthcare closer to the patient and giving them more convenient access to the specific outpatient services they need. Forward-thinking health systems recognize that achieving superior ambulatory performance in a manner that improves health, patient experience and cost is vital to future success.

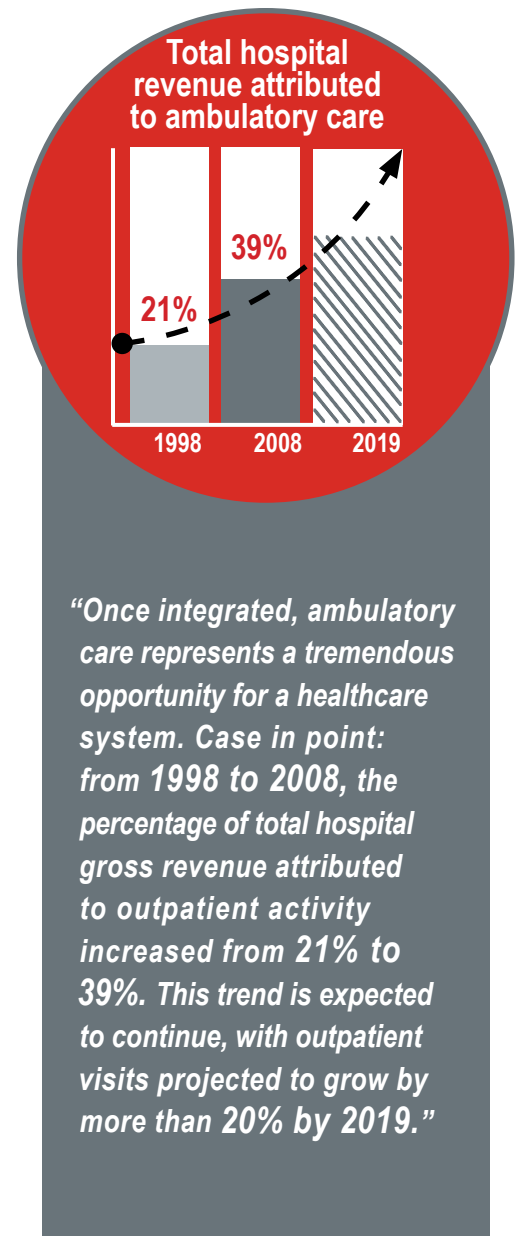
The concept of ambulatory care, in relation to a central hospital, is not new. It is routinely referred to as a “hub and spoke” model whereby the hospital is the hub. The twist is that health systems now need to think of ambulatory locations not as the spoke but as part of a fully integrated, patient-centered healthcare delivery system.

Once integrated, ambulatory care represents a tremendous opportunity for a healthcare system. Case in point: from 1998 to 2008, the percentage of total hospital gross revenue attributed to outpatient activity increased from 21% to 39%. This trend is expected to continue, with outpatient visits projected to grow by more than 20% by 2019.<sup>1</sup>

The number of Medicare-certified ambulatory centers increased an average of 4.6 percent from 2005 to 2009, slowing to 1.9 percent in 2010 due to the financial crisis and a change in Medicare payments.<sup>2</sup>

## Ambulatory Care - Key trends and drivers

Healthcare reform is accelerating the growth of ACUs. New reimbursement models mean that hospital systems will have to focus on not simply treating patients that get sick but rather treating populations so that they don't get sick. In addition, consumer activism is emerging in healthcare. Patients are beginning to seek experiences in healthcare that are similar to that of the



<sup>1</sup> Hiten Patel. “Forecasting the Demand for Hospital Services: Evaluating the Impact of Near Universal Coverage Expansion,” 2010 The Advisory Board Company.

<sup>2</sup> MedPac. “Report to the Congress: Medicare and the Health Care Delivery System,” Chapter 5, June 2012.

hospitality or retail industry. And they want a healthcare system that can address all of their needs in an integrated fashion – not on an episodic or departmental basis, but on a continuum where lifelong health and overall wellness are priorities.

Many forces have converged to make ambulatory care facilities an important component of the healthcare delivery system. Summarized below are the seven factors that have played the most critical role in this transformation:

- 1. Cost:** “Hospitals without beds” are proving to be the more cost effective venue for delivery of healthcare than legacy hospitals for many services. Capital costs for these facilities are generally lower and patient visits are shorter on average. This improves return on investment because it increases throughput in comparatively lower cost facilities.
- 2. Patient expectations:** Patients are customers and they have high expectations when it comes to their healthcare. They want short commutes, easy parking, short waits, short visits and direct access to doctors who have time to answer their questions. Ambulatory facilities are designed to enable this kind of improved experience.
- 3. Competition:** Not all hospitals have the resources to address every type of ailment or need at the acute end of the spectrum. This makes them more vulnerable to competition from nearby healthcare institutions eager to take their patients from them. Ambulatory services, on the other hand, are more affordably resourced, making it easier for hospitals to add new services that patients want without expensive and disruptive capital investments to existing facilities.
- 4. Physician support:** In recent years, many partnerships have been created between hospital systems and physician groups that specialize in procedures commonly performed in ACUs. These partnerships give hospitals a strong source of referrals and a broader platform of locations for patients to access services. Physician groups may be motivated to divest in their ownership interest by regulatory changes, as well as a source of capital and reduced risk.



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- 5. Chronic disease treatment:** It's no secret: The aging population is growing, as is the number of patients with chronic health care needs due to obesity and other conditions. To better service these populations, most experts believe that it is preferable to treat them in the ambulatory setting. After all, patients with complex chronic illnesses are often poorly managed when they are admitted through the emergency department and experience longer lengths of (expensive) stay. The ambulatory facility provides the ideal location to deliver cost-effective chronic disease management because it is able to effectively use community resources, patient self-management, family involvement and integrated health services, all of which are better delivered in an ACU setting.
- 6. Population management:** Healthcare reform has brought the notion of population management to the mainstream through the introduction of Accountable Care Organizations and Medical Homes. Successful population management, however, requires more than these two components. It includes completing preventive tests, changing health behavior, closing care gaps and coordinating care for an entire community. ACUs are better equipped to engage the patient base and deliver this type of preventive care in a cost effective setting.
- 7. Technology:** Developments in technology coupled with an expanding number of prescription medicines have led to treatment regimens that can be delivered in the outpatient setting in a coordinated fashion. For example, a cancer patient may receive care from many specialists, including medical oncologists, radiologists, radiation oncologists, pathologists, surgeons and reconstructive surgeons, all in one free-standing cancer center.

No one would question the importance of our hospitals in keeping us healthy. But as healthcare evolves, it is clear that in the future, patients will see trips to the central hospital as the exception and not the rule.



## Striking the right balance

Integrating these trends and developing a strategy is one thing for provider organizations. Effectively managing these as part of a greater ambulatory strategy is more difficult. However, a far greater challenge faces provider organizations who fail to adapt to this evolving delivery. They risk being burdened with an outmoded model in the face of shifting customer expectations and increased pressure on reimbursement. Put simply, they risk becoming irrelevant.

So, how can medical institutions go about evaluating and designing the right ambulatory care strategy? Doing this effectively requires a clear view of your business and your patient communities. Consider the following steps:

### 1. Understand the full picture of your service line capabilities

What are our service/product offerings? What is the impact of these services/products? Does the community need these offerings? Are there any gaps in care? Are we utilizing technology in an integrated, seamless fashion? How strategically important is each service line? How profitable are they? Who on our leadership team is managing ambulatory care delivery?

### 2. Analyze your current service delivery

How coordinated is the delivery of our current services? Do we have services competing internally? How well are we delivering? How efficient are we? What are the wait times? What are our customer satisfaction ratings? Are our services fragmented? What technology are we investing in?

### 3. Determine your market position

What are the current demographics of our patients? How will these change? What are the target demographics of our patients? Where are our competitors located and what are they offering? Where do we sit in relation to the market?

### 4. Identify physician alignment

Which of our physicians are delivering the best care? How do we define best care? Where do we have gaps in positions? Are we filling the right needs? Where do we struggle to recruit? What is our churn?

### 5. Financial Modeling

Do our payer relationships support ambulatory-based care? How do we evolve to a platform that maximizes patient value over acute volume? Are we prepared for risk based contracting? Do we need other financial partners, i.e. alliances with payers?

## Charting the right course

It is no longer enough to consolidate and grow for the simple sake of amassing size. In order for health systems to meet the challenge of evolving patient needs, they must reconsider every aspect of their service delivery – including the location and operation of their facilities, from the hospital to ACUs. New models will lead to more effective uses of capital and an improved patient experience, including locations that are more easily accessed by patient populations. Hospital systems that are unable to embrace new realities of the “hub and spoke” delivery model will find themselves at a severe competitive disadvantage.

