

BoardBrief

Prepared for Colorado Hospital Association Trustees

The Changing Competitive Landscape **Changes, Challenges and Opportunities Ahead**

The next decade will bring many opportunities for delivery models and partnerships in ways America's health care is just beginning to experience. Hospitals and health systems that are proactive will continually look for new opportunities in care delivery, new venues to reach patients, new ways to utilize technology, and new ways to coordinate care and provide more patient-centered care. Hospital trustees, senior leaders and medical staff leaders can set the tone now for how their organization will fare in this changing competitive landscape.

Hospitals won't be the only organizations looking for ways to optimize the current situation. Hospital leaders should expect entrepreneurs to look for new ways to meet patient needs for lower costs and convenience while still maintaining quality, capitalizing on an unmet need for patients with limited resources who are willing to try something new.

Moving forward, hospital leaders must not think of competition as solely the hospital or clinic down the street. Although this traditional form of competition still exists, changes in consumers and the economy have led to the growth of more non-traditional forms of competition. Patients may simply stop at a "retail" location for a quick exam or vaccine on their way home from work, physicians on the hospital's medical staff may choose to form their own outpatient surgery center, local patients may elect to drive to another town for care as a result of quality and price reporting that suggests superior care and value, and patients may even consider traveling abroad for "package" deals at a price American hospitals simply cannot compete with.

While these new forms of competition have been a lesser factor in the past, emerging models such as retail-based clinics, "medical tourism," and growing physician competition could play a larger role in the future health care environment. Ignoring the growth in these new forms of patient care is unwise, but embracing them and seeking out new opportunities for non-traditional partnerships hold great potential for hospitals and health systems willing to think differently.

Competition with Physicians

In response to growing financial pressures and frustration with the health care system, some physicians are increasingly investing in facilities such as ambulatory surgical centers (ASC) and diagnostic testing facilities. The objective of these enterprises is to enable physician practices to be more profitable, increase their productivity and generate greater satisfaction for their patients. In addition, by focusing on a smaller number of services and procedures, physicians' liability is limited and medical liability insurance becomes more affordable.

Physician-owned hospitals and physician self-referral to those hospitals has been a growing concern, but this form of competition is limited by the Patient Protection and Affordable Care Act (ACA). The ACA amended the "Stark" law by rescinding the ability of physicians to self-refer to hospitals in which they have an ownership interest unless the hospital was already operating with both physician ownership and a Medicare provider number by December 31, 2010. Existing hospitals that met this requirement were "grandfathered," and physicians may continue to self-refer to them; however, they must comply with conditions specified in the Act. In addition, ambulatory surgical centers are prohibited from converting to a physician-owned hospital.³

Despite the new limits on physician-owned hospitals and physicians' self-referral, physician competition may continue to impact community hospitals by drawing away services whose revenues generally subsidize lower-reimbursed services. Coupled with the financial burden associated with

Win-Win Hospital/Physician Relationships Start with Trust

As competition with physicians emerges in new ways, hospitals and their medical staff both have an opportunity to form win-win partnerships that can benefit hospitals, physicians, and ultimately the quality and efficiency of patient care. Forming lasting partnerships begins with strong and sustainable trust through a variety of avenues, including:

- Making physicians well aware of the board's support in helping them cope with the challenges they face every day
- Ensuring that physicians are included in meaningful ways as true partners for hospital progress, and making sure they are involved in all critical areas of hospital decision-making
- Holding both management and the board fully accountable for defining physician alignment, and including it in the strategic plan as a strategic imperative
- Ensuring that all commitments are backed up with concrete actions and accountability - walking the walk, not just talking the talk of hospital/physician alignment
- Making sure that physicians know that the hospital is committed to providing a consistent, well-defined and predictable commitment to helping them achieve their goals
- Developing joint statements of mission, values and vision that are mutually shared, but more importantly, truly believed in and practiced by both the hospital and physicians
- Recognizing that while today's health care system naturally creates tension and competitive challenges, it also creates unique opportunities for meaningful collaboration and joint ventures where additional value can be created and better service to patients and communities can be provided

underinsured or uninsured patient care, this may have particular impact in times when elective procedure volumes are already low.

In addition, full-service hospitals may experience a shift in provider availability as some physicians choose to focus their practices in non-traditional settings. This may result in a need for additional medical staff recruitment by hospitals to maintain the same level of service, or may require hospitals to consider service reductions in some areas.

Because outpatient care represents an increasingly large portion of hospitals' overall income, increasing competition from freestanding facilities and physician offices poses a potential threat to community hospitals' long-term sustainability.

Hospital/medical staff relationships are more important than ever before. They are essential as hospitals and other caregivers are encouraged to collaborate across the continuum of care due to changes in payment methodologies and incentives - but hospital/physician relationships also have the potential to result in win-win relationships in this changing landscape.

The hospital/medical staff relationship should be a trusting partnership, where both the medical staff and the hospital's executives and governing board work closely together to provide consistently high quality, safe care for patients. Boards should take the lead in removing any sense of "us" vs. "them" that threatens the hospital's success in achieving its mission and vision.

Retail Competitors

Consumer demand for convenience and clear, well-communicated prices have resulted in a growing market for retail-based clinics. Care is provided on a drop-in basis, with no appointment required. These one-stop clinics, often based in superstores such as Wal-Mart or drug stores like Walgreens or CVS, are generally open during evening and weekend hours. Wait times are typically short, and many clinics provide patients with a pager that allows them to shop while waiting to see a clinician.⁴

Lower prices and the convenience of clinics plays a role in their growing popularity, but another factor is the known price before the visit. Services and their prices are clearly posted, and in most instances prices are also available online. For example, Walgreens lists all procedures and prices for each on its website, www.walgreens.com, under health care clinic "price menu." The price menu is divided into three categories: prevention and wellness, treatment, and monitoring and management. Most clinics also accept insurance, health savings account debit cards, and cash, credit or debit cards.

Other independent clinics offer similar urgent care and basic medical services, such as ZoomCare and Doctors Express. While they are not located in a superstore or drug store, these clinics are often located conveniently in urban and suburban areas, and offer online scheduling and drop-in care. Like retail-based clinics, their prices are posted online and in the facility, and most accept insurance and all forms of payment.

Care at retail clinics is typically provided by a nurse practitioner or physician's assistant. In the past available services have focused on urgent health care needs, such as diagnoses of

common health problems including urinary tract infections, ear aches, strep throat, allergies, sore throats, rashes, and other common illnesses. Preventive care is also available at most clinics, including immunizations, physical exams, and lab tests. The clinicians are expected to follow well-established guidelines for cases they can handle on their own, and difficult cases are referred to nearby physicians or hospitals.

In many instances consumers use retail-based clinics because they can't get a timely appointment with their regular physician. They offer a practical alternative to expensive urgent care and emergency departments. Entrepreneurial companies are entering the market, causing traditional health care systems to play "catch-up" in order to retain their customers and strengthen ties with the communities they serve. Not only do these in-store clinics fill a need for patients, they give the clinics exposure to the thousands of shoppers that may frequent a store.

With the projected growth in demand for primary care services as previously uninsured Americans obtain coverage through the health insurance exchanges beginning in 2014, retail clinics are emerging as a more prominent player in the market. They have the potential to fill primary care needs that couldn't be met by a traditional primary care physician in a timely manner.

Some hospitals recognize the potential of retail-based clinics to improve overall access to care, alleviate emergency department overcrowding, and provide a new source of patients with the potential to increase market share. Some hospitals are affiliating with Walgreens, CVS and Wal-Mart clinics, and others are affiliating with regional pharmacies, supermarkets and other retail stores. With the impending shortage of primary care physicians, retail clinics may be both a marketing tool for local hospitals, and an opportunity to bridge the gap in access to care.

National and International Competition

Although the concept has been prevalent for some time, "medical tourism" has become a more common practice due to the increasing number of uninsured Americans and the lack of access to or long waiting lists for care in other countries.

India, Thailand, Singapore, the Philippines, South Africa, and other countries offer packages that include transportation to their countries to receive medical care at a significantly reduced cost. In many countries, the quality of care is on par with that found in the U.S., but costs are often as little as one-tenth that of the U.S.

Retail Clinics: By the Numbers

- There are more than 1,400 retail-based clinics in the U.S., double the number 6 years ago.
- CVS operates 650 MinuteClinics in 25 states and Washington, D.C. The company's goal is to operate 1,500 MinuteClinics in 35 states by 2017.
- In Massachusetts, CVS opened 37 new MinuteClinics in two years when the state's health care reform resulted in an uninsured rate below 5%. The Massachusetts Medical Society reported that the typical wait to see a family physician was 29 days in 2010, and grew to 45 days in 2012.
- Walgreens is planning to significantly expand its Healthcare Clinics in 2013, with a goal of 372 stores. In 2012 Walgreens pharmacists administered 5.5 million flu shots, and a total of 9 million vaccines.
- Walgreens Healthcare Clinics are affiliated with six health systems, and have joined three accountable care organizations (ACOs).
- Target Corp. plans to open 15 clinics in 2013, which would result in a total of 69 clinics nationwide.

Source: Robeznieks Retail Clinics at Tipping Point. Modern Healthcare. May 4, 2013.

Most foreign hospitals promoting medical tourism are staffed by doctors and surgeons trained in Western medicine, many in the United States or Great Britain. These hospitals use the same (or better) technology as America's hospitals, and quality indicators demonstrate that many of the foreign hospitals provide equal or better quality surgical care than U.S. hospitals. Most foreign hospitals promoting medical tourism are also accredited by the Joint Commission International.⁸

Proponents of medical tourism argue that patients and their families receive a better overall experience through medical tourism. Hospitals market to foreign patients, creating marketing materials in English and employing English-speaking caregivers. Bangkok's Bumrungrad International Hospital is a 22-floor facility with more than 550 beds and 30 specialty centers. The hospital sees more than a million patients each year, and 40 percent are from foreign countries. The facility includes a Starbucks coffee shop in the lobby, and a four-star hotel and shopping mall are located on the campus.²³

American hospitals may discount the impact of medical tourism, but its growing popularity should raise red flags for hospital and health system leaders. According to a study by the Deloitte Center for Health Solutions, approximately 750,000

Americans traveled abroad for medical care in 2007. Current estimates of American patients traveling abroad varies widely, from 550,000 to 1.6 million.

And while medical tourism used to be most well-known in regions such as Thailand, India, Brazil and Singapore, it is now growing in Europe as well. According to an article in *The New York Times*, the total price for a hip replacement in Paris is about \$13,000, approximately one-fifth of the cost of the same procedure in the United States. Government mandates require that patients and doctors agree on a price and sign a contract before surgery.²⁴

Regardless of where patients go, private facilitators acting as “medical travel agents” help facilitate the process, coordinating everything from medical care to flights to tourist activities for family members and patients. Examples include Med Retreat and International Medical Travel Journal. In addition, services like MediBid allow patients to compare prices online for medical care in the U.S. and abroad. According to their website, MediBid.com is sometimes referred to as the “Travelocity” of health care. The website is where “patients place a medical request online, one time. The needs-matching search engine targets doctors and hospitals registered with MediBid, who then bid on the case. The opportunity to shop across state lines and borders for medical care can save patients up to 80 percent, all because a procedure that might be done in a hospital in one state can be done in a doctor’s office in another.”

As consumers are increasingly responsible for a larger portion of their health care costs, medical tourism and its many variations have great growth potential. Many large insurers are considering the potential savings as well, and are at least considering covering medical tourism in their plans. Employers that are struggling to pay for rising health care premiums are looking for creative ways to meet employee health care needs while still containing costs. To make traveling abroad more attractive for employees, some plans covering medical tourism also include a bonus for employees, or an offer to split the cost savings between the employer and worker if they seek elective procedures abroad.¹²

Some hospitals are responding by negotiating matching prices to international hospitals for specific procedures. For example, Hannaford Bros. Co., a U.S. supermarket chain, offered employees the option of getting hip and knee replacements at a hospital in Singapore. At the time, the cost for a hip replacement was approximately \$9,000, rather than \$43,000 in the U.S. After announcing the option for employees to seek

care in Singapore, the supermarket chain received several telephone calls from U.S. hospitals offering to match the Singapore pricing. As a result, the organization negotiated a deal for hip, knee and spine surgeries with a hospital in Boston, allowing employees to travel to Boston for care instead, but paying the same price negotiated with the Singapore hospital. In addition, employees that chose to travel to the Boston hospital for the selected surgeries have no out-of-pocket costs, and receive a travel allowance for themselves and a companion.¹³

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Although the concept of medical tourism is expected to grow on an individual and corporate level abroad as well as within the U.S., many expect it to remain a “niche” industry. Still, medical tourism will have ramifications for American hospitals.

Medical tourism will compete with hospitals for certain medical services, but will also provide a point of comparison for cost and quality information, allowing patients to make decisions based on individual priorities. As a result, some industry experts believe that the medical tourism industry has the potential to improve the quality of health care provided in the U.S. by encouraging American providers to be more transparent with their outcomes.¹⁴

The care offered at “tourist” hospitals meets the growing desires of Western patients, which the average patient is often unable to receive at an affordable price in their home country. There is little or no wait time, the price is clearly advertised, and oftentimes patients enjoy better amenities than what is available in traditional American hospitals, including private rooms, Internet access, restaurant-quality food, a room with a view, a place for family to stay and tourist packages.

Medical tourism offers perks for foreign physicians, too. Physicians are able to focus on providing care using the latest technology, but without the distraction of burdensome paperwork, overwhelming regulation or medical liability fears.

The long-term likelihood of patients seeking care far outside their local communities is a potential competitive challenge that should be considered by hospital leaders. Of course, cost is not the only determinant of where an individual prefers to receive medical care. Convenience and immediate access to follow-up care remain important to consumers. If complications occur after surgery, or if post-surgical care is required, patients may not want to board an airplane, communicate through online correspondence, or see a physician who is not familiar with their case.

Although medical tourism may not emerge rapidly as the new way of receiving health care, its growth, in combination of the growth of retail-based clinics and other non-traditional forms of care signal a change in America's health care. The competitive landscape is changing, and the impact of reform

along with the entrepreneurial activity emanating out of the financial crisis create an environment that suggest a dramatic shift in participants, products and ways of doing business in the health care field.

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