

Tracy K. Johnson



healthcare financial management association www.hfma.org

ambulatory care stands out under reform

Healthcare reform will likely accelerate growth in ambulatory care services and the need for more integrated care. For hospitals, developing an ambulatory care services strategy will be critical.

As hospitals prepare for healthcare reform, ambulatory care will become even more important to their missions and bottom lines.

Providers that can broaden their strategic focus beyond traditional inpatient services and deliver increasingly complex ambulatory services in a cost-effective, patient-friendly environment will enhance their competitive advantage as the market adapts to the demands of healthcare reform measures. Healthcare organizations with robust, accessible, and well-coordinated ambulatory services will also be able to achieve much stronger margins—and discover multiple opportunities for aligning with physicians.

Ambulatory Care Margins: Critical to a Healthy Bottom Line

Outpatient services have grown faster than inpatient services for many years, and have generated significant profit margins for healthcare

providers. Gross outpatient revenues for community hospitals doubled from 19 percent of all revenues in 1987 to 38 percent in 2007 (see the exhibit on page 58). Ten years ago, outpatient services typically accounted for only one-third of a hospital's bottom line. Now, outpatient services can be expected to provide closer to two-thirds of a hospital's margin (Olsen, K., "Outpatient Outlook," *HealthLeaders*, January 2007). This change has been fueled by the growth of outpatient services, the shift of care to outpatient settings, and reimbursement policies that support outpatient investment.

Meanwhile, inpatient utilization and margins have stagnated. Despite the tendency of inpatient services to attract organizational energy and resources, the rate of inpatient admissions to community hospitals, as shown in the exhibit on page 59, declined by 10 percent between 1987 and 2007, from 130 to 117 admissions per 1,000 population. And during the same period, patient days per 1,000 declined by more than 30 percent and inpatient surgeries declined by nearly 13 percent. Meanwhile, total outpatient visits per 1,000 population doubled, driving a nearly 150 percent increase in outpatient visits. Even with the shift of cases to nonhospital-based settings, outpatient surgeries in community hospitals doubled during this time to more than 17.1 million procedures in 2007. Outpatient surgeries constituted 63 percent of all surgeries performed in community hospitals in 2007, versus only 44 percent 20 years earlier (see the exhibit on page 60).

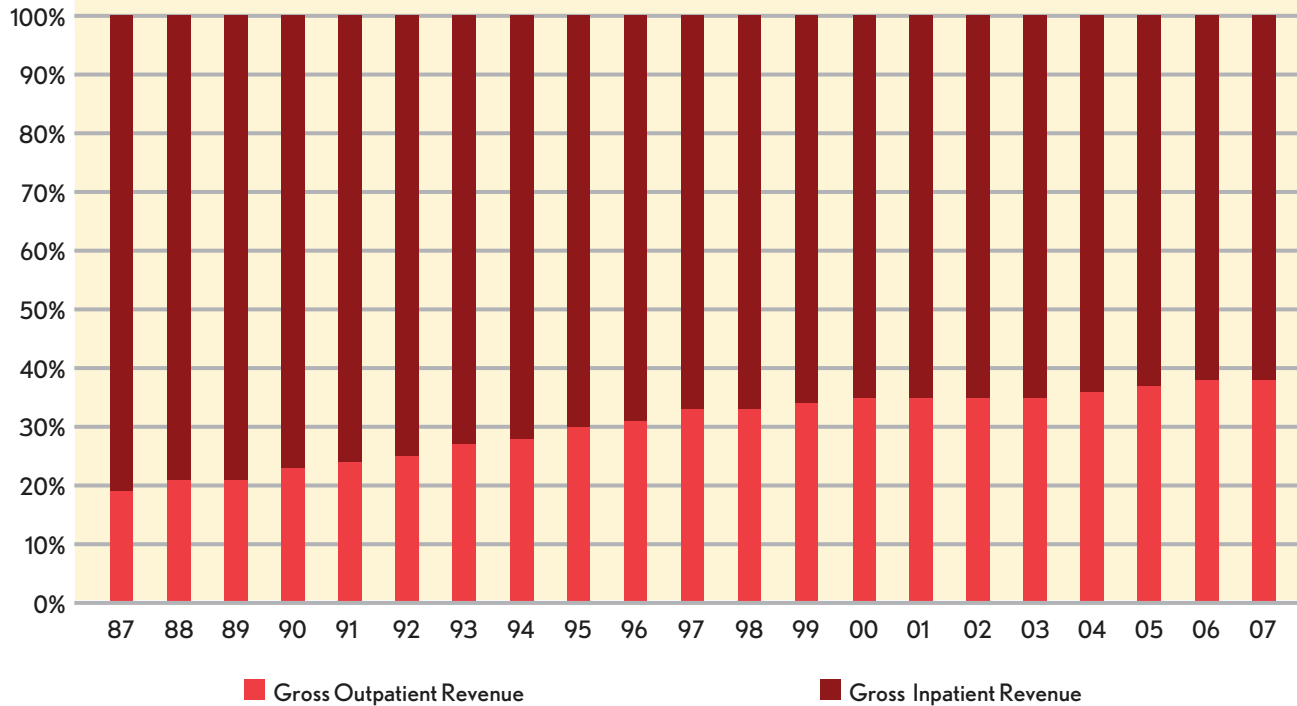
These trends—as well as significant increases in outpatient volumes for imaging, rehabilitation, endoscopy, and other services—have created a

AT A GLANCE

A hospital's ambulatory care services strategy should address five areas:

- > Service line capabilities
- > Service delivery
- > Market share
- > Physician alignment
- > Management capacity and infrastructure

DISTRIBUTION OF OUTPATIENT VERSUS INPATIENT REVENUES, 1987-2007



wave of ambulatory care development by hospitals and nonhospital providers (primarily single-service centers such as ambulatory surgery centers, diagnostic imaging centers, and physical therapy satellites). These initiatives provide relatively low-intensity and low-cost services in a much lower cost environment, which, in turn, enhances overall margins.

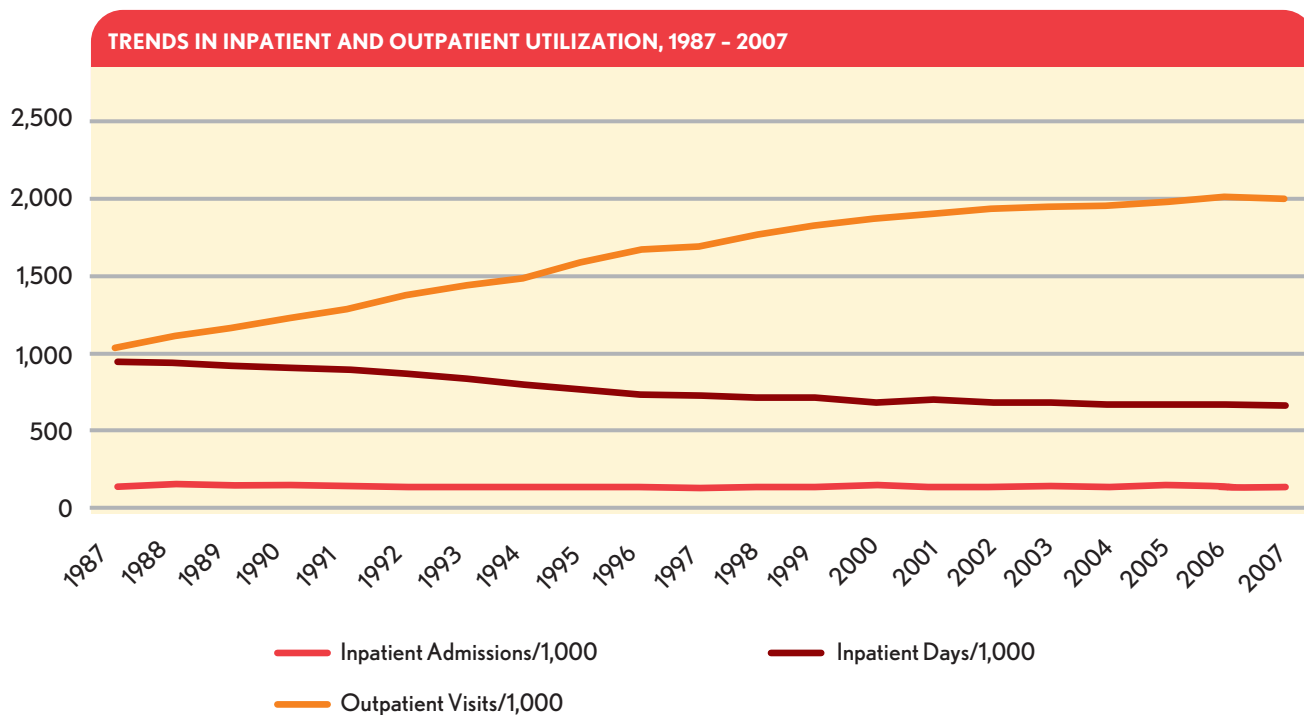
The Effect of Reform on Ambulatory Services

Healthcare reform initiatives and advancements in patient care and treatment will ensure not only that ambulatory services will continue to grow, but also that they will move closer to the center of care delivery within hospital systems, rather than being offered as an adjunct to inpatient services. Outpatient settings will become the hub of a highly sophisticated array of multidisciplinary services delivered in an integrated environment to ensure high-quality care and excellent patient outcomes.

The healthcare legislation passed this past March includes features aimed at reducing the number of uninsured patients, which will increase demand for outpatient services and require hospitals and health systems to become more efficient in order to accommodate the increased volume.

Healthcare reform also will reward providers that can manage and coordinate services more cost-effectively while improving quality of care. The focus on primary and preventive care will push providers to expand services to include a wider range of outpatient services to ensure continuity of care.

As payment reform moves away from fee-for-service reimbursement to outcomes-oriented reimbursement (e.g., bundled payments, pay for performance), legislation focused on preventive



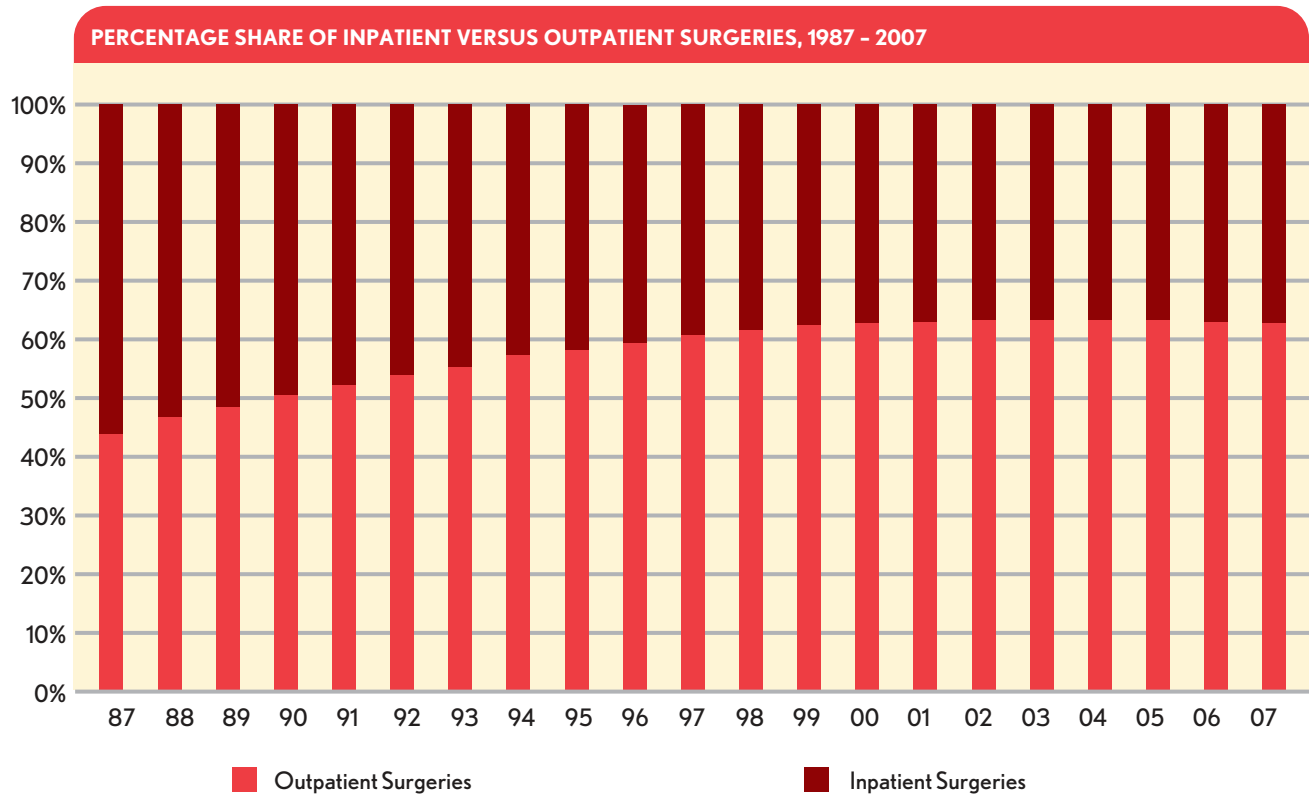
and coordinated care will encourage greater collaboration with physicians, demonstrable quality of care and outcomes, and efficient operations. The potential development of medical home and accountable care organization models, improved management of chronic diseases, and focus on preventive services and healthy behaviors will accelerate the shift of traditional hospital care to more integrated, coordinated, and outpatient-oriented care delivery systems.

Continued Movement of Care to Ambulatory Settings

Healthcare reform legislation is particularly focused on reducing the cost of episodic care for chronic conditions that should be managed proactively to avoid costly acute care interventions. The legislation requires that new plans provide coverage for preventive services without copayments within the first year, and all plans

must comply by 2018. By 2011, Medicare will offer free annual wellness visits and personalized prevention plans. Eligibility for Medicaid will be increased to 133 percent of the poverty level. Hospitals and health systems will have to determine the best way to provide the most cost-effective primary and early-intervention care in ambulatory care settings, as it is anticipated that Medicare reimbursement will decline and the Medicaid population will increase.

The rise in chronic conditions such as diabetes, particularly among the aging baby boomer population, also will direct more traffic to ambulatory care centers. The availability of more life-extending treatments means that many chronic diseases will be managed for longer periods of time—and more often, on an outpatient basis. The growing number of diabetes management programs will help in the monitoring and treatment of patient



glucose and activity levels to mitigate potentially devastating and acute effects of the disease long term. Across the nation, bariatric surgery programs are expanding to include weight management in addition to minimally invasive surgery. Angioplasty, congestive heart failure treatment, advanced pharmaceuticals, and other life extending treatments mean that heart disease is now managed as a chronic disease, with more care provided in an outpatient setting.

Hospitals also are increasing their focus on providing more comprehensive, coordinated, and integrated disease-based treatment programs that improve quality of care and patient outcomes—and such programs will be particularly important under healthcare reform. These efforts will require the incorporation of an increased number of outpatient components within the

service line continuum while continuing to provide a gateway to inpatient services.

For example, a spine care center could provide a full array of nonsurgical treatment modalities for back pain, including physical therapy and pain management, on an outpatient basis in addition to the surgical services it provides. Oncology is another service line that requires the coordination of largely ambulatory services. Increasing subspecialization within oncology and the need to coordinate sophisticated diagnostic and treatment services to ensure timely and accurate diagnosis and positive outcomes are leading to the development of outpatient cancer centers that offer a broad array of multidisciplinary services in one location. These services include imaging, radiation therapy, infusion therapy, and other outpatient procedures. This coordinated

approach to oncology care is much more convenient and less stressful for patients and their families, who often return for multiple treatments over a number of years.

Many clinical developments, such as minimally invasive procedures, tissue-sparing technologies, and genomics, also are changing the landscape for treatment options in many services lines, and will continue to drive higher growth for outpatient services than for inpatient services. In a number of service lines, minimally invasive techniques are replacing complex, inpatient procedures with outpatient treatment. Interventional procedures in gastroenterology and vascular surgery are now used to find and treat tumors, tears, and blockages before they require major surgery. Advances in cancer treatment, including targeted drug treatments based on the patient's genetic profile and tissue-sparing radiation therapy technologies, will mitigate the adverse effects of treatment and decrease the number of hospitalizations. Payers typically support outpatient treatment options that can be provided for less cost than inpatient treatment.

Leveraging Relationships with Physicians and Patients

Ambulatory services are also the arena of much competition and collaboration between hospitals and their medical staffs. As physicians have sought opportunities to secure supplemental income to bolster declining professional fees, many have added ancillary services in their offices. Although recent proposals by the Centers for Medicare & Medicaid Services (CMS) to cut reimbursement for tests performed in physician offices may dampen this trend, hospitals will still be challenged to develop effective outpatient service strategies that can further their physician alignment and clinical integration goals. These strategies can include collaborative arrangements such as joint ventures in an ambulatory surgery

center or center of excellence development that builds on a physician leader in a narrow subspecialty, such as bariatrics, or in a broad service line, such as cancer.

To optimize their attractiveness as potential physician partners, hospitals not only should offer capital resources, but also should be able to offer broader marketing advantages and management capabilities in delivering outpatient services and integrated program approaches that might be difficult for the physician partners to supply on their own.

Meanwhile, as patients become more demanding about customer service and convenience, they will gravitate toward providers that can provide accessible, coordinated care for a wider range of sophisticated outpatient services. Patients are increasingly judging the quality of hospitals on the basis of their outpatient experiences, as evidenced by standard patient satisfaction survey tools and assessments. For all hospitals, many more outpatient encounters than inpatient encounters occur each day, and outpatient services often serve as the gateway to inpatient services, beginning with a diagnostic workup or emergency department visit. Outpatient care also is easier for most patients to evaluate compared with the daunting complexities of inpatient care.

For all of these reasons, it is critical for hospitals to make sure that patients have positive ambulatory care experiences, especially in a competitive marketplace. Poorly coordinated and delivered ambulatory services can erode patient satisfaction scores, quality of care, and the hospital's market position.

Challenges Ahead

Healthcare reform will accelerate growth in ambulatory services and the need for more integrated care. But providing high-quality and accessible ambulatory care programs presents a

number of challenges. The outpatient market is typically more crowded than the inpatient market, with physician and for-profit niche providers competing with hospitals for a piece of the business. And reimbursement policies have historically encouraged the development of lower-cost providers and settings, as demonstrated by the shift of ambulatory surgery into outpatient surgery centers and physician office settings.

There are also reimbursement pressures related to ambulatory care services, particularly as payers—especially CMS—seek to manage the use of outpatient services more effectively and reward organizations that provide high-quality care. In 2008, CMS greatly expanded the list of procedures it would pay for in an ambulatory surgery center, setting the stage for the shift of more procedures out of hospital settings. A greater number of outpatient services are being bundled into a single payment (for example, hospital-based payments for image-guided radiation therapy eliminated separate reimbursement for imaging guidance). Pay-for-performance methodologies require hospitals to meet a variety of quality measures to avoid reduced payments.

Some of the changes and proposals under health-care reform could favor hospital-based services. Medicare rates for ambulatory surgery centers are about 60 percent of hospital outpatient department rates (MedPAC, “Ambulatory Surgery Centers Payment System,” *Paybasics*, 2009), and there are proposals to require these centers to report the same quality metrics that hospitals do. Both of these initiatives may have a chilling effect on profit margins for ambulatory surgery centers that are not owned by hospitals. Because of concerns that the incentive to self-refer has driven up the demand for imaging tests and costs, CMS has proposed changes in physician reimbursement that could cut reimbursement to physicians and nonhospital clinics for imaging tests by an

average of 26 percent. These initiatives could encourage greater collaboration between hospitals and physicians.

Even so, hospitals are usually poorly positioned to manage and deliver ambulatory services in a cost-effective and customer-focused manner. Outpatient services are often shoehorned into retrofitted spaces originally designed for inpatient services, resulting in fragmented services on the main campus that are hard to find and distant from parking areas. Adapting operational and information systems designed for high-intensity inpatient service requirements to the timely, convenient, customer-service environment of the outpatient market has also been a challenge for many hospital providers, and will strain management systems and capabilities even further as ambulatory services become more complex and diverse.

Strategies for Grabbing a Bigger Piece of the Ambulatory Care Pie

As ambulatory care services continue to become a bigger part of healthcare delivery, hospitals and healthcare systems must ensure that their services are positioned to maximize strategic and financial benefits. An ambulatory care services strategy and plan is increasingly critical, and should include consideration of the following.

Service line capabilities. The organization should evaluate the range of inpatient and outpatient services provided in each service line, and identify any gaps in the continuum. This evaluation should consider how changing technology, reimbursement, and legislative/regulatory priorities will affect ambulatory care treatment modalities and the components of care delivery within the service line, including screening, prevention, and care management. Once gaps in the continuum are identified, the organization should assess the strategic importance of the service line

and the market and financial feasibility of developing new programs or partnering with others to address gaps in the continuum of care.

Service delivery. The organization should identify and address barriers to efficient and customer-focused ambulatory care services and operations. Long wait times to schedule an appointment and high occupancy rates may be an indication of constrained capacity. Fragmented and single modality or specialty-based operations could indicate inefficient and poorly coordinated and integrated patient care configuration. Low patient satisfaction scores can help pinpoint specific issues related to convenience, access, and customer-focused attitude of the staff. Moving from department-based operations to integrated and patient-focused models of care may address many of these issues.

Market position. An assessment of market-based opportunities to add or grow services should be performed, including an analysis of the demographic characteristics of the service area population and the demand for inpatient and outpatient services the population generates, and a review of the competitive landscape. Estimating current market share will help identify those outpatient services where the organization has less-than-expected market penetration. This activity will help the organization understand outmigration patterns and pinpoint opportunities to reverse these patterns, increase market share, and grow volume. It may also identify opportunities to develop ambulatory care services in other regions of the service area.

Physician alignment. The organization should review the range of services already provided or those that potentially could be provided by physicians outside the healthcare organization. It then should assess opportunities to align physicians more closely with the organization's goals and

objectives. Alignment strategies may include a wide range of collaborative arrangements that will depend on the characteristics of the physician practices and medical market, physician reimbursement incentives, and medical staff interest. Each of these factors can change over time and should be regularly reevaluated.

Management capacity and infrastructure. The strategic and management focus on ambulatory services should increase within the organization, and the infrastructure to support these services should be developed. The development and delivery of outpatient services in a highly competitive, local, and retail environment requires more attention than is traditionally required for success in a slower moving, acute care marketplace, as well as a different set of administrative and operational skills. Processes, systems, and facilities must be well organized, consumer friendly, and well integrated to enable effective care delivery and increase market attractiveness.

Ambulatory care services are no longer the stepchild of the healthcare industry, although the amount of organizational attention and resources these services receive is not yet proportionate to the key role they play in the financial well-being of healthcare organizations. The providers that are best positioned for the future will be those that have developed a robust outpatient services strategy that takes into consideration emerging challenges and opportunities, including healthcare reform. ●

About the author



Tracy K. Johnson, FACHE, is vice president, Health Strategies & Solutions, Inc., Philadelphia (tjohnson@hss-inc.com).

Reprinted from the May 2010 issue of *hfm*.

Copyright 2010 by Healthcare Financial Management Association, Two Westbrook Corporate Center, Suite 700, Westchester, IL 60154. For more information, call 1-800-252-HFMA or visit www.hfma.org.