Hospitals Must Act to Avoid Being Cut Out of the Ambulatory Care Marketplace

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When Amazon, Berkshire Hathaway, and JPMorgan Chase & Co. announced plans to form a jointly owned healthcare company, predictions started flowing about how these three mega-corporations might disrupt the industry and possibly displace key stakeholders, including hospitals. So far, the details of the partnership have been sparse. According to a press release, the goal is broad: improve employee satisfaction with health care while reducing costs, with an initial focus on deploying new technology.

Rather than try to predict how this still-unfolding partnership will play out, it may be more useful to consider what is driving these corporations and other disrupters to enter the healthcare marketplace. When smart companies and start-ups think about new products and services, they often seek out inefficient markets and then devise ways to correct or bypass those inefficiencies.

In addition to being inefficient, the healthcare market is large and growing; it constituted 17.8 percent of the gross domestic product in 2015 and is projected to reach almost 20 percent by 2025. Entrepreneurs are recognizing the opportunity for capitalizing on dissatisfaction among patients and employers. Many healthcare entrepreneurs are backed by private equity, venture capital, and pension fund companies. Investments in digital health reached $11.5 billion in 2017, breaking the $8 billion record set in 2016.

Given the momentum driving change makers, system leaders should not sit idle. They need to consider how their organization's role in the healthcare market will be impacted by emerging technologies and innovations. For the foreseeable future, health systems likely will continue to be needed to provide acute inpatient care, particularly for complex patients. But the same cannot be said for ambulatory services—especially primary, urgent, and basic secondary care.
With the introduction of retail clinics and telehealth offerings, marketplace disruptors already are changing how many consumers seek lower-acuity ambulatory services. However, there's a bigger risk to consider. The next big healthcare innovation could render

many hospitals obsolete or unnecessary in portions of tomorrow's ambulatory market. Health system leaders need to be proactive and develop a well-structured ambulatory strategy that sets forth a fresh role for their organizations in the ambulatory market of the future.

A PRECARIOUS POSITION

Technology focused on convenience has eliminated or vastly reduced the presence of intermediaries in other service industries, such as travel agents and certain retail segments. This trend prompts the question of whether hospitals and health systems are at risk of being viewed as intermediaries in the ambulatory marketplace.

The ultimate ambulatory service sought by the consumer is care from a clinician. In its current role as an intermediary, the hospital provides an office for the consumer to meet the clinician, along with various other amenities, such as scheduling and billing. While hospitals provide numerous benefits to patients seeking outpatient care, improved technology and convenience provided by disrupters may render hospitals' primary role to that of a go-between, making them vulnerable to entrepreneurs with new ideas.

It is likely that market disruptors will continue to develop better or new technologies and services that allow consumers to meet or talk with clinicians, as well as get certain tests, via telehealth tools. Additionally, patients may be able to visit clinicians in physical locations that are more convenient than a hospital outpatient clinic or one of the community-based and hospital-owned ambulatory locations. For example, Apple has begun to employ its own physicians and care navigators to provide work-site care to employees, upping the ante in the employee wellness game.

A COMPETITIVE RESPONSE

When intermediaries fail to maintain a significant market presence after a disruptive technology is introduced, it is because the go-between's value has been diminished. For health systems, the best defense is to develop a compelling value proposition and, thus, become indispensable to ambulatory care customers and health plans. Such action requires attention to convenience, access, patient experience, and price.
Health systems need to develop a robust strategy that fully acknowledges the different ways patients want to interact with providers, including telehealth technologies and conveniently located face-to-face locations. When applicable, leaders should consider partnering with healthcare innovators and disruptors to enhance their organizations' value equation and gain a competitive advantage.
Another key factor is price. One thing is certain in a commodity-oriented marketplace, which ambulatory care may become: Prices will continue to fall, particularly for common services and tests. The competitive response will vary and may include redesigning hospital-based outpatient services or moving these services to lower-cost settings such as off-campus or into retail settings.

Only time will tell whether the Amazon-Berkshire-JPMorgan Chase deal will end up radically changing healthcare delivery. Nonetheless, disruption clearly is rumbling in the ambulatory market. And given the rapid escalation of disruptive technology and its potential impact on their role as intermediaries, hospitals would be ill-advised to wait to begin strategically responding to this profoundly transformative trend.

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