

Micro-Hospitals: Short-Term Fad or Promising Market Growth Strategy?

By Meredith Inniger, **Manager**

Many conversations we have with hospital and health system executives about market growth strategies eventually turns to the topic of micro-hospitals — and for good reason. These facilities typically include a small-scale emergency department (ED), low-acuity surgery, and are often comprised of eight to 10 inpatient beds as well as additional observation beds (notably, these facilities generally do not include obstetrics or pediatrics). The patients' average length of stay of less than two days. Micro-hospitals can extend a health system's footprint in a crowded market while reducing further capital investment on the main campus. More importantly, these facilities offer the type of consumer-centric experience that patients are seeking: convenient location, short wait times, and a pleasant care environment.



In just a few years, the number of micro-hospitals across the United States has grown exponentially from a handful to nearly 70. That number would likely be much higher, but certificate of need (CON), Joint Commission, State Departments of Health, and other regulations in many states limit the number of hospitals in a region. With an eye to the future, some health systems in states with tight regulations are building freestanding EDs with plans to convert these facilities into micro-hospitals if or when regulations loosen (however, not all states allow freestanding EDs).

Despite the promise of micro-hospitals, the concept is not without risks. Health systems that incorporate micro-hospitals into their regional footprint need to do so strategically and with an eye to the future of consumerism and population health, including offering personalized service with limited or no waiting, and lower out-of-pocket costs for patients.

CMS AND OTHERS ARE WATCHING

Health system leaders are not the only ones weighing the value of micro-hospitals. The rising number of these facilities, as well as the growth of free-standing EDs, has caught the attention of policymakers, payers, and the press. Questions have arisen (similar to

those specific to the free-standing EDs) as to whether micro-hospitals are increasing total costs of care by encouraging ED utilization for health problems that could be treated in lower-acuity settings such as urgent care centers and retail store clinics.

Concern is being backed by action. For instance, following guidance from the Centers for Medicare & Medicaid Services, the Joint Commission is no longer conducting accreditation surveys at hospitals with an average daily census of fewer than two inpatients. The absence of accreditation would result in a facility not receiving Medicare reimbursement as an acute care hospital.

GIVE PATIENTS WHAT THEY NEED

Despite potential risks, micro-hospitals still hold potential as a proactive market growth strategy. The key is to position micro-hospitals as a critical part of a health system's value-based population health strategy aimed at providing the right care in the right place at a cost intensity that makes sense. This involves ensuring that micro-hospitals are well integrated into the care continuum. For instance, a medical office building might be located near the micro-hospital so that patients initially accessing the hospital can be easily referred to primary and specialty care physicians. Incorporating telehealth into the equation may contribute additional value by allowing patients to access specialty consults without using the more costly emergency room.

Another consideration would be to position micro-hospitals in communities as an alternative to continued expansion on a main hospital campus. Through this strategy, a health system could implement a micro-hospital in a suburban market to provide patients convenient access to certain services closer to where they live. For this strategy to be effective, it is important that the services offer price advantages, aligning with a system's population health strategy.

The degree to which micro-hospitals are recognized as a mainstream transformational solution or a fad largely depends on an organization's ability to align with the consumer needs in the market, sufficiently position the facility within a low-cost population health strategy, and garner regulatory and payer support. Where these factors are in place, micro-hospitals can redefine the patient-provider relationship through a new, preferred care delivery environment, and therefore provide lasting value (i.e., better access, lower cost, better experience) to patients and the health care industry. ●