

BUSINESS TRENDS

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healthcare financial management association www.hfma.org

convenient medical clinics reshaping the healthcare landscape

AT A GLANCE

- > Many physicians are developing their own convenient medical clinic locations, but hospitals are lagging in seizing this business opportunity.
- > Obstacles to CMC development include finding a viable partner, staffing the clinics, and overcoming legal issues.
- > Hospitals need to decide whether they want to compete, partner, or do nothing.

Make way for one of the fastest growing trends in our country's healthcare industry.

Convenient medical clinics are bringing basic, nonemergency, and low-cost medical services to consumers in a convenient one-stop venue. Developed and operated by venture firms, physician groups, health systems, and hospitals, CMCs provide predefined health care in a retail or employer setting, without an appointment, for an average of \$50 to \$60 per service.

The appeal of the CMC concept is obvious. For developers, the ability to use existing retail locations and nurse practitioners to provide the health services (although some states allow physician assistants while others require physicians to meet legal requirements) means that operational overhead stays relatively low and profitability can be substantial.

For the consumer, a CMC offers convenient one-stop shopping. An individual can drop by the local drugstore on the way home from work and get his or her sore throat diagnosed, pick up a prescription, and do some shopping, all within a short period of time. No missed work, no long wait in a physician's office, no inconvenience to the employee or employer. The benefits of this no-frills offering of health services is driving an increasing number of employers, insurance companies, and state governments (such as Minnesota) to cover CMC visits, and in some cases to even contract with a CMC company to develop a location on site for employees and their families.

The CMC Model

In January 2007, Pennsylvania Gov. Edward Rendell announced a proposal to improve the state's healthcare system. In an effort to reduce costs and increase access, he proposed to offer subsidized health insurance to the uninsured, curb healthcare costs by allowing nurse practitioners to play a greater role in patient care, and update regulations to require state-of-the-art electronic patient records. His new plan promotes "nonemergency settings for nonemergency care" by providing incentives to providers offering services on evenings and weekends to reduce the exorbitant costs of emergency department visits.

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This popular model has served as a catalyst to widespread development. In the fall of 2005, there were less than 50 CMC locations nationwide; now there are more than 400 locations in more than 70 U.S. markets. With established venture firms such as MinuteClinic, RediClinic, and Take Care Health System announcing plans to establish hundreds of locations throughout the country, this rapid growth is projected to reach more than 2,000 CMCs by 2008.

Fad or Here to Stay?

Not everyone is sold on the idea. Many healthcare providers remember the doc-in-the-box fad of the 1980s, which proved to be an unsuccessful long-term business model. And certain groups such as the American Medical Association have expressed their concern over the quality of CMC services and the potential lack of a "medical home" for patients. In some cases, CMCs either operated by or affiliated with established health systems have caused tension within the medical community, causing some physicians to perceive the locations as not only lacking quality and continuity of care, but also competing directly with their own business.

Despite this opposition, many physicians not only are buying into the concept, but also are taking it one step further by developing their own CMC locations. Individual physicians and groups, such as the Physicians Organization of Western Michigan, perceive these clinics as a way to provide an affordable and convenient alternative for common medical needs and also increase referrals to their private practices.

What About Hospitals and Health Systems?

Slowly, a growing number of health systems and hospitals are responding to the CMC concept, realizing

that it is not a fad but part of a changing landscape related to healthcare providers and consumer-directed care. Yet the ambitious growth goals of the venture firms and the introduction of physicians into the CMC market are making it increasingly difficult for health systems and hospitals to successfully develop and implement their own brand of CMCs. For example, although the first CMC was opened in 2000 by a venture firm, most health systems and hospital-operated CMCs have opened only since late 2005 and currently account for less than 10 percent of CMC locations across the country.

The unique challenge remains for hospitals to develop a CMC concept that not only provides a high level of care, but also meets the standards of local primary care and pediatric physicians.

Challenges to Development

Throwing their hat into the CMC ring won't be easy for health systems and hospitals. They face a variety of challenges.

Competition for partners. Typically, CMC venture firms are founded by entrepreneurs with retail industry and IT experience and often have at least one individual within the management ranks with a connection to a large retail chain, which makes it easier to develop exclusive partnerships for CMC locations. Because the venture firm is an independent entity, its main goal is to develop as many CMC locations as possible.

This aggressive nature of the venture firms can make it difficult for hospitals and physician groups to develop their own CMCs due to the lack of available retail partners, which again, ideally, are the drug or grocery store with an on-site pharmacy. Although some have had success with local and regional retailers, and others have joined with big box retailers such as Wal-Mart and Meijer for specific geographical areas, there soon will be a lack of viable options for potential CMC retail partners.

Staffing. Another obstacle to CMC development is staffing. Many states have regulations for how nurse practitioners and physician assistants can be utilized within a CMC setting. Given that most states allow only NPs, and not PAs, to work without on-site supervision from a physician, NPs are in high demand. And as the demand grows, so will the salary and benefit

STANDARDS ISSUED FOR CONVENIENT MEDICAL CLINICS

The Convenient Care Association has issued 10 mandatory standards for member clinics. To read the standards, visit www.convenientcareassociation.org/QSS.htm.

requirements, which in turn will negatively affect profitability and potential future growth trends. Several states now are in the process of reviewing or changing restrictions on PAs to allow them to also work within a CMC environment with off-site physician supervision, which should alleviate some of these concerns.

Legal. The health system or hospital entering the CMC market faces few legal challenges that cannot be overcome. According to attorney Scott Edelstein of Squire Sanders and Dempsey LLP, Washington, D.C., hospitals need to consider whether the CMC can qualify for provider-based status, incorporate as a separate entity or remain part of the hospital's provider number, and reject charity care patients (especially important for not-for-profit hospitals). They also need to consider whether the usual and customary rate for Medicare reimbursement analysis will be affected due to the lower rates for CMC services.

"There are several potential liabilities that any CMC has to take into consideration before opening its doors," states Edelstein. "Data privacy and security, adequate physician supervision of allied health professionals, the scope of licensure for NPs and/or PAs, access to patient medical records and history, along with determining the appropriate protocols for referring patients who need services beyond what can be provided by the CMC are very important." Gathering this information early in the process will make the development and implementation of the CMC much smoother for the health system or hospital.

Compete, Partner, or Do Nothing?

Due to the rapid growth of CMC locations and companies, health systems and hospitals should act quickly to determine whether they want to compete, partner with venture firms or physicians, or do nothing. Because each choice has its own potential rewards and liabilities, the decision should be based on the organization's goals.

Compete. For a hospital or health system aspiring to compete and open its own CMC, capital investment can range from \$10,000 to \$50,000 per CMC location, with operation expenses ranging from \$250,000 to \$350,000 a year depending on the market. CMC services should be priced to be market-competitive and to reflect the higher level of quality that a health system or hospital brand brings to the CMC.

Partner. In other instances, instead of competing with each other, some hospitals and physicians are looking for ways to work together in developing their own CMC brand. According to Edelstein, this route brings its own legal challenges. "Any joint venture between physicians and a health system or hospital needs to be carefully structured to comply with Stark, the Anti-Kickback Statute, and state law. However, the benefits of physicians aligning with health systems and hospitals in the development of CMCs may help to alleviate physicians' fears of patient care issues and economic concerns. A properly structured joint venture that aligns economic incentives may help to contain any physician resistance," he says.

Another viable alternative is for health systems and hospitals to partner with venture firms through an affiliation agreement. "The more established CMC venture firms bring their knowledge and experience in operating CMCs to the table," says Edelstein.

"Through an affiliation agreement, the venture firm bears the brunt of the liability if it owns and operates the CMC. The hospital or health system pays a set fee to the firm, essentially paying for their name to be on the signage and marketing materials. This also proves beneficial for the venture firms, as a hospital name typically has more value in the local community."

Do nothing. And then there is the option of doing nothing. To date most health systems and hospitals have chosen to wait and see whether CMCs are here to stay. However, with organizations such as the AMA developing CMC guidelines, and payers and state governments starting to support the concept, how long should they wait? Currently, it appears that the CMC trend is not just a fad, but a long-term change in the way people access health services.

In the face of these changes, hospitals and health systems will need to determine their role in the movement and whether they want to get on board and adapt to this newest addition in consumer-based health care. ●

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