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Society for Healthcare Strategy and Market Development® January/February 2001

Ambulatory Care

New Growth Opportunities: Carving Out Niche Markets in Ambulatory Care

Ambulatory care has experienced continuous growth over the past decade. It remains to be seen how much of an impact the outpatient prospective payment system will ultimately have on the rate of growth in outpatient services and revenues. For now, growth is continuing largely unaffected by the prospective payment system or other expenditure control efforts.

Why ambulatory care is growing

Growth in ambulatory care has been fueled by a combination of new technologies, favorable reimbursement and patient preferences. New technologies have made it possible to provide care in outpatient settings that previously could only be safely delivered to hospital inpatients. Reimbursement made it desirable to shift care from inpatient to outpatient settings, to some extent through direct incentives to ambulatory providers but, more typically, by discouraging care in the inpatient hospital. And patients often prefer care that can be delivered outside the institutional atmosphere, allowing them to return home quickly and resume their normal routines. Although the new outpatient payment system could put the brakes on the forces spurring demand, it may only slow the rate of growth and is unlikely to stop it.

Ambulatory care growth has manifested itself in a dizzying array of new initiatives, the most obvious of which are the many large-scale facilities that have been developed or are under construction. These facilities symbolize the boom in ambulatory care delivery. Less visible, but equally significant, are the continuous stream of new technologies being deployed in ambulatory care, the broadening of service delivery based on product development and technological diffusion and the many smaller facilities that have been established to accommodate burgeoning demands. A more significant, albeit more subtle trend is the creation and exploitation of the diverse niches that collectively comprise the broad range of services in ambulatory care delivery.

The IDNs vs. the niche players

For about the past five years, healthcare delivery has been moving in two opposite directions. Many, especially the not-for-profits, have pursued the development of integrated delivery. A massive shift to consolidate the industry horizontally and vertically has taken place. In the integrated delivery model, ambulatory care is a complementary setting to inpatient and home care and, in theory, allows the efficient and ready provision of a seamless array of needed services to consumers.

At the same time, consolidation in healthcare, as in many other industries, opens the way for niche organizations. And a myriad of new firms have emerged in all services. Competitors may be local, operating in only one market or even part of a market, while others are regional, statewide, and, in a few instances, national in focus. Nearly all of the new competitors are for-profit, attracted by the opportunities generated by market growth and the turbulent nature of the market. Most new competitors are well funded, often with money raised in public markets or with support from well-heeled investors. These cutting-edge firms are also nimble and singularly focused on gaining a significant and dominant foothold in the market.

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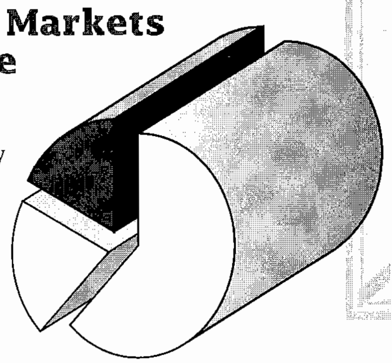

Established providers of ambulatory services, usually not-for-profit hospitals and sometimes large physician groups, lack the funding, flexibility, and focus of these new competitors, and have been losing market share at an alarming rate. Ironically, the rapid growth in ambulatory care demands has obscured this troubling phenomenon. The fast-paced growth has created increasing ambulatory care demands for established providers, too, and engendered a false sense of security on the part of these organizations. Increasingly, established providers are embarking on efforts to shore up and, ultimately, strengthen their market position for all the ambulatory services they provide.

Ambulatory care niches then and now

Investor-owned companies have been exploiting ambulatory care niches for over 30 years, although the growth rate accelerated tremendously in the 1990s. One of the first areas where for-profits made their mark was in dialysis, taking advantage of the then new and favorable Medicare reimbursement for end-stage renal disease patients in the 1970s.

The next area tapped by the for-profits was ambulatory surgery. In the late 1970s and throughout the 1980s, as it became increasingly feasible to provide surgery in nonhospital settings, investor-owned companies developed to take advantage of this new and lucrative opportunity. What may be the largest company operating primarily in the outpatient arena—HealthSouth—had its origins in the 1980s when changes in reimbursement fueled the spectacular growth of outpatient rehabilitation. More recently, investor-owned companies have been actively exploiting opportunities in imaging, cancer, cardiology, women's care and elder care, in addition to many very small niches such as wound care, pain management and alternative medicine.

The only real failure to date of the investor-owned companies has been in organizing private medical practice through physician practice management companies (PPMCs). Unlike other ambulatory care services, PPMCs were a pure consolidation play based on economies of scale and development of increased market power and not really driven by or benefiting from the three main factors driving other ambulatory care growth: technology, reimbursement and patient preferences. The failure of most PPMCs may be only a temporary one and it would not be surprising to see this trend reemerge in a more sustainable market model in the next few years.

What not-for-profits can learn from investor-owned companies

Why are the investor-owned companies so successful in ambulatory care delivery? Compared to nearly all not-for-profits, they have the advantages of a laser-like focus on the business they are pursuing, ample capital, quick decision making and business acumen. Their business skills are derived from those used in other industries and are more advanced than are typically found in healthcare delivery. In particular, investor-owned companies understand and know how to apply sophisticated competitor intelligence-gathering and competitive strategy, continuous product development and enhancement and targeted marketing approaches. They are often leagues ahead of their not-for-profit competitors in these key skill areas.

While the not-for-profits have been out-hustled by the for-profits in ambulatory care and distracted by the promises and potential of integrated delivery, many are now beginning to realize that the niche markets for-profits have aggressively pursued are critical to not-for-profit survival and can be recaptured. In some instances, not-for-profits have begun to emulate the behavior of the for-profits and have spun off niche ambulatory care businesses from their large systems or established new subsidiaries to pursue ambulatory care niches. In other instances, not-for-profits have reorganized into a product line structure and, in so doing, it becomes apparent to clinical product line managers how important these outpatient businesses are to the product line's success. However it is done, and whatever organizational form is used, it is clear that, at least for now, the ambulatory care business is best approached as a collection of niches rather than through one large-scale united entity in an integrated delivery system.

Critical categories of ambulatory care delivery

For nearly all comprehensive or near comprehensive healthcare providers, there are seven critical categories of ambulatory care delivery: surgery, imaging, cancer, cardiology, orthopedics and rehabilitation, women's care and elder care. In some organizations, other categories such as behavioral health or pediatrics are equally important. At a minimum, the pursuit of ambulatory care growth needs to be organized and oriented to these niches, although the real niche opportunities will often lie in subcomponents or sub-subcomponents of these still broad categories. While integration of care delivery and one-stop shopping, the bywords of the past decade of healthcare delivery, still offer benefits, success in the ambulatory care sector depends on the dogged pursuit of the hundreds of niche markets that exist.

Alan Zuckerman will present "Carving Out Niche Markets in Ambulatory Care" at the Ambulatory Care Workshop to be held in Chicago on March 1. (see sidebar).

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