PRE-PRIMARY CARE: THE FACE OF THE NEW COMPETITION

Hospitals and health systems face challenges as they guide a cumbersome, fixed-asset model in an increasingly dynamic and agile healthcare delivery environment. It seems that every day, innovative and well-financed competitors enter the field and prey on the health system's inability to conform among a mind-numbing sea of pressures arising from expense management, government inconsistency, changing consumer demand and an increasingly frustrated employer purchasing base.

The article to follow recently appeared in *Modern Healthcare,* and offers insight on two rising and deep-pocketed disruptors intent to overturn the traditional primary care and disease management business model.

These combined companies seek to establish a new, "pre-primary care" perimeter, and manage chronic care to disintermediate health systems by leveraging their consumer centric and less expensive care alternative.

The alignment of retail clinic and health plan creates steerage to a defined point-of-entry guided by a specifically constructed health benefit plan design. Employers are in the crosshairs and as the first wave of this attack, it is important for healthcare executives to consider the impact of these initiatives, and establish a bulwark against this new competitive threat and possible loss of commercial market share.

CVS-Aetna And Optum-Davita Deals Take Aim At Costly Hospital Care

Modern Healthcare

"The billion-dollar deals between CVS Health and Aetna, and between UnitedHealth and dialysis giant DaVita's physician group take aim at healthcare spending by attempting to shift patient care away from costly inpatient facilities. While that may benefit patients, hospitals are left in the crosshairs.

Through their $69 billion deal, in which health insurer Aetna will become a stand-alone unit inside of drugstore chain and pharmacy benefit manager CVS, the companies plan to build a new kind of care model that's lower cost and more convenient for the consumer by shifting the site of care to retail stores and clinics.

Hospitals are in the crosshairs as insurance companies build out more convenient care paths. They are following a blueprint laid out by UnitedHealth, which has been gobbling up urgent-care centers and outpatient surgery clinics for the past few years. This time around, the nation's largest insurer is buying DaVita Medical Group for $4.9 billion in a move that analysts predict will better position it to lower costs by keeping patients out of the hospital.

AHA's FYI:
In 2014, DaVita bought Paladina Health, an employer-centric, onsite clinic subsidiary whose website touts the Company's desire to "Reinvent Primary Care."

As healthcare spending grows and customers demand more convenient care, insurers are teaming up with nontraditional partners to find new ways to rein in costs. By putting pharmacy management and medical benefits under one roof—something that UnitedHealth has already done successfully—insurers and their partners may be better equipped to keep patients healthy and out of the hospital. Hospitals that get most of their revenue from expensive inpatient operations will have to evolve to stay afloat.

"What they're talking about is having less medical spending, and particularly what they're talking about is having less spending at the hospital," said Craig Garthwaite, a health economist at Northwestern University, referring to the CVS-Aetna deal. The goal is the same for UnitedHealth, he said. "If I were a hospital that has a pretty big footprint (in inpatient care), I would be a little worried about that."

AHA's FYI: Conventional wisdom suggests that CVS' retail clinics will serve as a pre-primary care, narrow network within Aetna's plan design, and to steer utilization to a more consumer-friendly, lower cost option, co-pays and deductibles will be waived.

CVS and Aetna are hoping that patients seek care from CVS' more than 1,100 walk-in clinics instead of heading to the costlier emergency department. They also plan to convert CVS' 9,700 retail store locations to community-based healthcare hubs where patients, especially those with chronic diseases, can access some form of treatment as a complement to their normal primary-care physician visits.

"We're in the community, we're seeing those patients, we're becoming part of their daily lives and routines. We can get them on that care plan, help them achieve their best health and, at the same time, reduce the cost of care that we're incurring today," CVS CEO Larry Merlo said in a conference call with investors to discuss the deal.

Employers are also optimistic that the CVS-Aetna combination will shake out in their favor. "There's potentially a lot of upside in this for both patients and for employer plans," said Steve Wojcik, vice president of public policy at the National Business Group on Health. "Some of the stand-alone retail clinics have not been very much integrated into overall healthcare delivery, and this could spur that and lead to lower health plan costs."

The American Medical Association hasn't come out against the CVS-Aetna deal, though in a statement President Dr. David Barbe did say the AMA is reviewing "all issues triggered by this proposed merger." The American Hospital Association declined to comment.

The threat to providers is there. The CVS-Aetna combination "takes away from the centrality of hospitals providing the most care," said David Jarrard, CEO of healthcare consulting firm Jarrard Phillips Cate & Hancock. Of course, the type of care they're focused on is low-acuity care and maintenance care for chronic conditions. A patient with cancer would still rely on the hospital.

UnitedHealth has a similar end-game in mind with its proposed $4.9 billion takeover of dialysis giant DaVita's physician group. DaVita Medical Group, which will become part of the UnitedHealth's healthcare services subsidiary Optum, serves about 1.7 million patients annually through 300 medical clinics. It also operates 35 urgent-care centers and six outpatient surgery centers.

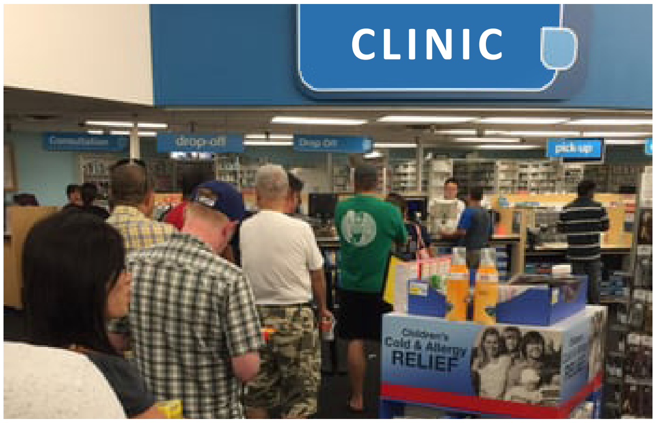
The deal will advance UnitedHealth's strategy of shifting patient care to lower-cost outpatient facilities and away from hospitals. Earlier this year, UnitedHealth's Optum bought Surgical Care Affiliates, a chain of outpatient surgery centers, for $2.3 billion. Optum also bought MedExpress, an operator of urgent-care centers, in 2015 for the same reason. Hospitals have already started responding to the patient demand for lower-cost care and convenience. While inpatient admissions have dropped, hospitals have been investing more in outpatient care and opening urgent-care centers and retail clinics or partnering with established ones to capture patients and pull them into their systems. The cost of care at a retail clinic is much lower than in a doctor's office, and evidence has shown that the care quality is equal to care delivered in an ED.

Sacramento, Calif.-based Sutter Health, Downers Grove, Ill.-based Advocate Health Care, and Dallas-based Tenet Healthcare Corp. are just a few health systems that have invested heavily in outpatient clinics. Questions remain about the bargaining power a combined CVS-Aetna, together with roughly $240 billion in annual revenue, would have over other industry stakeholders. Industry analysts anticipate fewer antitrust hurdles than were present when Aetna tried to buy Humana. However, both companies operate Medicare Part D prescription drug plans and may have to divest customers to seal the deal.

AHA's FYI:
CVS has over 9,700 retail stores and with Aetna, employs over 207,000. CVS also manages Target's pharmacies and onsite clinics. Together, CVS and Target see 6.2 million customers a day.

The takeover also could spark further consolidation among insurers and pharmacy services providers, which could be detrimental to competition in the healthcare industry as a whole.

If CVS and Aetna close the deal, "that's going to make it harder for a new entrant to come into insurance market, and the only way customers benefit from lower premiums is if we end up with competition among the insurers," Garthwaite said. "We might be worried that CVS and UnitedHealth are successful in their efforts to lower spending, but the result of that is greater profits for the insurer, and not lower premiums."



AHA's Closing View:

Health Systems face new competition steeped in their ability to understand and influence consumer purchasing decisions. The partnering of retail clinics and health plan design represent a national marketing threat previously unseen within the industry. But, health systems can lever their competitive advantages to offset the potential impact of these acquisitions and resulting strategies.

By constructing a commercial market strategy from the "demand side," health systems can align their primary and chronic care management competencies to address the population health interests of employers. Local executives understand the importance of a strong, community-based health system and are partnering with hospitals that understand their needs, and can proactivly identify and mitigate employee health risks. Such partnerships are well formed and successfully operated by leading health systems like Carolinas HealthCare System in Charlotte, North Carolina, Baptist Health, Jacksonville, Florida and Unity Point Health, Des Moines, Iowa.

Disruptive competition, scale and reach need not be feared. All healthcare is local and health system brands are well-established and trusted. Perhaps missing is the strategy, analytical tools and executive buy-in necessary to engage employers to positively impact and retain the commercial market.

Food for thought and all my best,

Robert Chamberlain,
Chairman and Chief Executive Officer