

Win the Race to Expand Ambulatory Services: BDC Advisors' Agile Outpatient Growth Model

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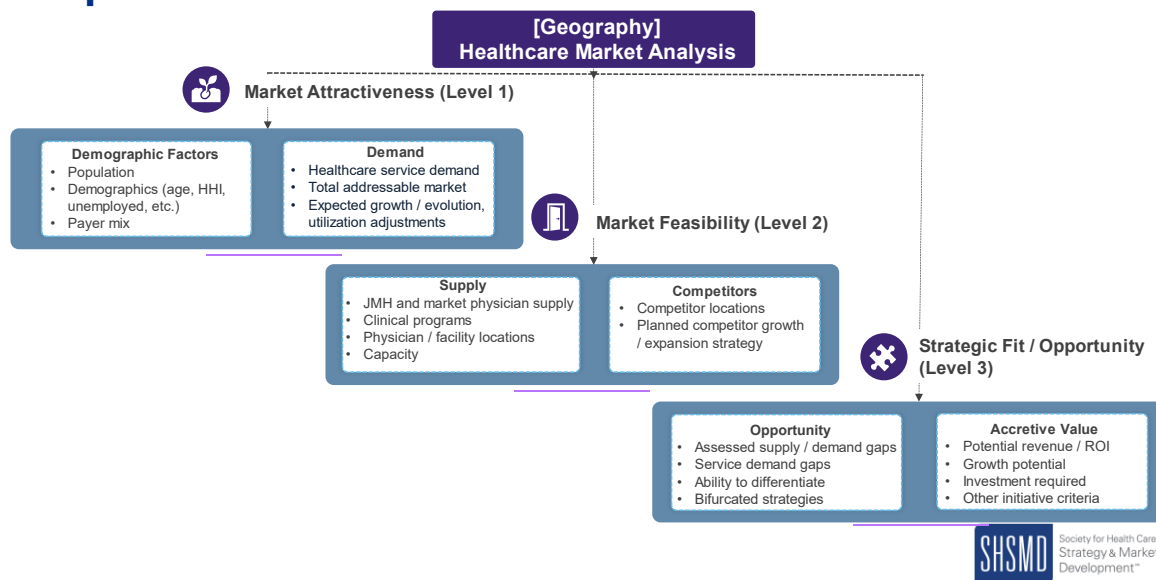
Rationales

In order to deliver comprehensive and high-quality care, health systems need to serve consumers with the right services, in the right setting, in the right way, at the right time. The shift away from inpatient services, aging payer mixes, and minimum sufficient scale requires health systems to adapt. Healthcare continues to transition from inpatient services to **outpatient services and consumer-focused modalities**. A majority of health systems, however, maintain more inpatient revenues than outpatient, with some systems prioritizing as much as 67% in inpatient revenues. Many health systems experience an **aging payer mix** in their primary and secondary markets, which compels geographic expansion and growth to diversify and improve payer mix. Typically, a health system earns less with Medicare and Medicaid patients than commercial patients. If a health system relies on a stagnant geographic footprint with increasing government payer mix, trouble lies ahead with deteriorating financial performance. Growth in contiguous markets also helps a health system increase the number of served lives to achieve **minimum sufficient scale**, which spreads fixed costs over a broader base of revenues.

It's time to advance a full spectrum of integrated ambulatory services — from primary and specialty care, to imaging, lab and diagnostic services, ambulatory surgery, and more with an appropriate mix of physicians and advanced practice clinicians. BDC Advisors' Geographic Expansion and Outpatient Growth Model addresses these strategic challenges to generate revenues and profits intentionally and with agility.

Model Overview

Outpatient Market Growth Model



Model Description

Our Geographic Expansion and Outpatient Growth Model involves three sequential components. Level 1, **Market Attractiveness**, evaluates the attractiveness of a market by profiling demographic factors and demand. Demographic factors include population cohorts, demographics (e.g., age, HHI, unemployed, other factors), and payer mix. Demand elements analyze the demand for individual healthcare services, the total addressable market, expected market growth and evolution, and the projected utilization of services. Markets are then prioritized based on population size and growth, profitability, and competition. Level 2, **Market Feasibility**, examines supply and capacity (e.g., health system and physician supply, the existence of clinical programs, physician coverage, facility locations). It also profiles competitors (e.g., competitor locations, planned competitor growth, expansion strategies, and implications for a competing health system). Level 3, **Strategic Fit / Opportunity**, looks at assessed supply, demand, service gaps, and a health system's ability to differentiate services. Individual service lines are prioritized based on market supply gaps, available prospects by clinical propensity, contribution margin, and expected 5-year compound annual growth rates (CAGR). Accretive value is based on potential revenue, growth potential, investment required, and returns on investment.

Implementation Details

For each growth initiative (e.g., physician recruitment, service line growth by specialty, outpatient infusion, wound care clinic, mid-life women's center, ancillaries—ambulatory surgery center, imaging, lab, pharmacy, others), BDC Advisors produces the following details by phase: initiative charter and description, national trends, regulations, objectives, locations, operational considerations, clinical services, staffing, performance measures: benchmarks / current performance / targets / timeframes, and specific implementation plans.

Key Applications:

Distinguished Service Lines, Facility Optimization, Capital and Resource Allocations

The Geographic Expansion and Outpatient Growth Model can be applied in several ways, none of which are mutually exclusive. For one BDC Advisors client, we identified ways to grow and further distinguish **service lines** in adjacent markets, including Cardiovascular, Orthopedics, Women's and Children's, Neurosciences, Cancer, and General Surgery. Another beneficial application of the model is the **optimization of facilities** by directing how to best use available capacity, optimize use of space, and where to acquire new space. Finally, by applying the model across multiple markets—where a health system maintains a substantial share and underpenetrated adjacent markets—an enterprise has the ability to prioritize and allocate limited **capital and resources**.

Client Results Example

The model generates significant revenues and profits. For a \$2.6B regional health system, BDC Advisors identified individual growth opportunities in two markets and then grouped them to maximize revenues and profitability by combining services along a Pareto frontier. BDC specified capital requirements, projected 5-year EBIDA, and calculated internal rates of return (IRRs) and net present

values (NPV) by individual initiative and groupings of initiatives. \$97M in invested capital increased EBIDA by \$23M annually and produced 22% in IRR and \$308M in cumulative NPV.

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If you would like to discuss our Geographic Expansion and Outpatient Growth Model, including how it can be applied to generate opportunities for your enterprise, please contact **Bob Dickinson, Managing Director, BDC Advisors** at (415) 971-7327 or bob.dickinson@bdcadvisors.com.