# Healthcare's Yellow Brick Road, "Network of the Future"

By Nancy Connolly – Senior Vice President of Hammes Company

As we end a historical year and head into what will certainly be a year of change for our nation, it is important to consider the potential for yet another disruption to the healthcare industry.

Our clients have one goal: to provide the highest quality healthcare to the communities and populations they serve in the most efficient, cost effective, safe and meaningful way. Reflecting on the last six years since the Accountable Care Act was passed, or "Obamacare" many health systems have been part of, or at least considered (heavily), a merger or acquisition or partnership in an effort to meet their goals. Mergers and acquisitions increased 18% from 2014 to 2015 and a total of 70% since 2010[1] (Kaufman Hall Associates). But why?

In an effort to expand physician and care delivery networks, to create scale for investment in meaningful use and have any purchasing power, systems had to grow – the independent hospital has almost disappeared. Add to this dynamic the payment shift (however slow) from volume to value and the only way to compete – or remain viable – for many is to be part of a group, a larger system. Not just horizontal integration, but vertical integration has been a core strategy. Healthcare systems have been busy creating delivery systems to include ambulatory, acute and scalable physician networks to capture the largest populations possible in an effort to remain financial viable and relevant in their markets.

For employers and employees, the cost of healthcare has increased. Either directly, or indirectly with the continuing shift of costs through high deductible plans. Now, more than ever patients are "consumers" of healthcare, evaluating where these out pocket dollars are going and the value they are getting for those dollars. Procedures are done if medically necessary; a visit to the doctor might be substituted with the local minute-clinic; access, convenience and cost becoming the primary drivers for (low acuity) consumers in the healthcare marketplace.

*And where does that leave us now?*

In many ways, our healthcare system has accomplished its goal. Inpatient volumes have continued to decline[2] – be it a result of the changes in the insurance market or the on-going shift of care from the acute to ambulatory setting. The focus of the system to manage wellness vs. managing sickness in addition to a well-informed baby-boomer generation with the capacity to afford medical management, has also made an impact on utilization.

During all of this time, systems continued to grow and invest. As some markets reach relative stability – in that there are no more hospitals to acquire without threat from the FTC – the efficiency of the healthcare system should be evaluated.

For some systems, it starts slowly, the financial leakage. For others, the investment in real estate via physician acquisition or network expansion, creates a larger cost center than initially anticipated. The yellow brick road is paved with too many hospitals, too many outpatient centers and a physician network that is less aligned with population and demand, and more aligned with their historical patient base.

[1] Becker's Hospital Review, January 21, 2016
[2] AHA Annual Survey Data, updated 2016

**What is the Network of the Future?**

Having long worked with clients on the development of their ambulatory networks and with our history as a healthcare real estate development firm, Hammes started thinking in these terms several years ago. As our hospital partners started to struggle financially with the loss of acute volume and empty bed towers, while also balancing the increased investment demands for ambulatory centers and on-going physician investment, we started the discussion on the meaning of the Network of the Future.

In the last four years many healthcare systems have felt the pinch of inpatient volume decline. This becomes more precipitous with multiple hospitals in a tight geographic location. The long held mantra of "all things to all people at all locations" was creating an unsustainable financial bleed. The idea of "rationalizing" or "rightsizing" services within the acute care system however is politically – if not simply logistically – challenging. But, it must be done. In an effort to drive volume, develop better care pathways and maximize reimbursement under a quality/value umbrella, **Systems Master Planning** is the first brick on this path.

- Understand how services are organized within the entire system
- Are services widely distributed? At the right location? Where are the greatest volumes within specialties and what is the lifecycle of each facility and its capacity to accommodate service expansion?
- Evaluate the service line / specialty demand within the system and consider (an old, but still relevant idea) creating "Centers of Excellence"
- Determine how to organize your services in your *best facilities*, those that can accommodate the services, have room for growth and can achieve the quality and experience your patients – and staff – require
- Determine what doesn't belong in the hospital – outpatient services, administrative, other

Systems master planning, should provide you with the blueprint to map out service placement, maximize your existing facilities and understand the capital investment required for growth and expansion in a highest and best use framework.

The **Ambulatory Network** is the second brick…or bricks, because it's likely that there are many locations within your network. Built over time, the network usually consists of physician offices, smaller outpatient locations, imaging and sometimes, one or more large-scale ambulatory care centers. This network has been challenged. It demands capital investment which is in heavy competition with meaningful use requirements, capital for acquisitions, routine maintenance and let's not forget, a shiny new bed tower. However, the ambulatory network has the capacity to drive cost out of the system – creating a lower cost care setting for increasing volumes of patients and providing access to coordinated clinical services – the holy grail of Accountable Care.

Before moving on to how best to evaluate the ambulatory platform however, we must also consider the **System Real Estate Portfolio**. Yes, portfolio. If you didn't have one five years ago, my guess is you have one now. Multiple mergers and acquisitions, physician investments, combined with defensive or offensive land or building purchases have created a swell in many healthcare real estate departments. Some health systems have invested in leadership for their real estate – many facilities directors are also still responsible for managing the real estate. With compliance at the tip of spear and increasing operating costs associated with a growing portfolio, real estate has jumped up the priority list for evaluation.

- Understand the existing ambulatory network
  - Distribution of services / size of services (singular or comprehensive)
  - Compare existing market placement to desired market placement
  - Competitive interests, traditional and non-traditional
- Map out your real estate
  - Within your existing network, what do you own and what do you rent?
  - Understand the location of the physician practices in concert with your existing network
  - Understand the location of the physician practices in concert with the markets you want to be in
  - Carefully evaluate the opportunity to consolidate offices / locations to create a comprehensive ambulatory center that can support greater volume capture, better patient experience with access to services and increase referral efficiency through co-location
- Develop a five-year plan
  - Prioritize the markets for investment
  - Understand if consolidation opportunities exist and begin conversations
  - Carefully evaluate your options – to own, lease or partner with a third party developer
  - Maximize opportunities to consolidate your real estate holdings through creation of more efficient practices
  - Understand the capital costs (and gain) associated with asset disposition, (potential) development of comprehensive ambulatory center and prioritize physician engagement for these centers

**Network of the Future** is a concept that is built on the ability of a system to be able to create a highly functioning healthcare system that maximizes its existing facilities, coordinates clinical services to promote quality and volume and care for patients in the most cost effective, convenient and accessible place for them – and you. This type of planning creates a blueprint for the system, providing a framework to evaluate capital projects in a systematic and consistent manner and creating greater assurance that the request fits within the systems strategic, market and financial priorities.

It's not just the experience in the hospital that patients care about; it's a relationship that the healthcare system has with its community. Those who succeed understand that the ambulatory and physician network is a reflection of your brand, the opportunity to create an experience that the consumer driven healthcare market will return to. Quality, access, convenience are the key drivers for consumers. Quality, access and financial stability are yours. It's not a simple process. It's not a one-year fix. It's a long windy road to create and optimize this network, but it's focused on one goal, to provide the highest quality healthcare to the communities and populations they serve in the most efficient, cost effective, safe and meaningful way.

*To learn more about the Network of the Future, contact Nancy Connolly at nconnolly@hammesco.com.*