

Spotlight on Healthcare – A Special Industry Report (Fourth of a Series)

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“Everyone is fighting for the primary care patient right now.” So said the CEO of a large independent physician practice in New Jersey. This battleground is taking place not just in doctors’ offices, but increasingly in malls, drug store chains, corporate headquarters, urgent care clinics, and retail care centers.

Peter Magas, a managing director at Beecken Petty O’Keefe & Co., a healthcare-focused private equity firm based in Chicago, has a front row seat on this trend.

“We were on vacation,” he told us, “and my four-year old split her lip as we were racing to pack and catch our flight. I searched for a highly-rated urgent care clinic and stopped on the way to the airport. They had her lip glued and out the door in twenty minutes. That would not have happened ten years ago.”

How do you pick winners? “There are no major barriers to entry in urgent care,” Peter said, “and visits can fluctuate meaningfully during flu season. Site selection, local marketing, payer relationships and the right clinical staffing model are essential for a site to be profitable. In big cities, in addition to large health systems and good access to primary care providers, you could stand on a corner and see five clinics. So, while there are success stories in the sector, it’s very competitive and some platforms have struggled.”

The war for patient traffic also has real consequences for providers, according to Rod Rivera and David Baker from Capstone Headwaters. In an upcoming interview with *The Lead Left*, the healthcare bankers say headlines capture only part of the story.

“Most of the articles repeated stuff everyone already knows about retail and healthcare,” said Mr. Baker. “But one aspect at the end of one piece caught my eye. Walmart has contracts with fifteen different health systems for procedures such as cath-lab and orthopedics. They contract with each center at a fixed price, and then tracking post-procedure quality. This set-up drives value for Walmart.”

“It’s not just about volume driving prices down,” Rod Rivera said. “This is a cradle to grave business. You go from surgery to physical therapy to drive better outcomes. All the traditional IT from service providers starts to converge around managing the population and comprehensive care around costs. As a result, you get better costs and pricing for the system and, most importantly, better outcomes. You need to be strategic as a provider, not just tactical.

“Take respiratory medicine,” he continued. “Many managed care organizations pay a premium over competitive bidding rates to include the service component. Respiratory therapy provides value to the system by ensuring higher compliance and reducing expensive trips to the ER or hospital readmissions.”

Peter Magas agreed. “For many providers, quality is elusive. We’ve seen this in behavioral health and specifically in addiction treatment. There isn’t sector consensus on how to measure outcomes and post-discharge data is voluntary. Payers have the most patient data, but often can’t aggregate and analyze it to rate providers or

determine which treatment protocols are most effective.”