

# Developing a Winning Outpatient Strategy

PUBLISHED  
SEPTEMBER  
2018

## INTRODUCTION

**As medical device companies continue to experience rapid growth outside of the traditional hospital setting, there is a mounting imperative to develop strategies to meet the unique needs of the outpatient channel.**

The shift toward lower-cost care settings presents both a challenge and an opportunity for device manufacturers to measure performance and execute outside of the hospital. The most successful device companies are innovating to meet outpatient-specific needs across ambulatory surgical centers, office-based labs, and physician practices.

This white paper presents strategies for medical device manufacturers to succeed in the evolving outpatient space.



## BACKGROUND

Ambulatory surgical center (ASC) volume increased 22.9% in 2017.<sup>1</sup> The movement toward non-hospital settings has been driven by a variety of factors:

**Shift toward value-based care:** By 2020, 59% of healthcare payments will be value-based, a trend that heavily favors lower cost care settings.<sup>2</sup> As the value-based care model continues to be adopted across settings, it is expected that outpatient growth will take off in tandem.

**CMS acceptance of outpatient procedures:** CMS continues to remove key categories from its inpatient-only list: for example, knee arthroplasty procedures were removed in 2018. Total hip, shoulder, and ankle arthroplasties will be considered for future removal, signaling future outpatient traction.

**Technology advancement:** Surgical robots, assisted platforms, surgical navigation systems and diagnostic imaging systems have begun to bridge settings. With the global surgical robotics market anticipated to reach \$12.6B by 2025, highly innovative surgeons will likely set their sights on outpatient-friendly technology.<sup>3</sup>

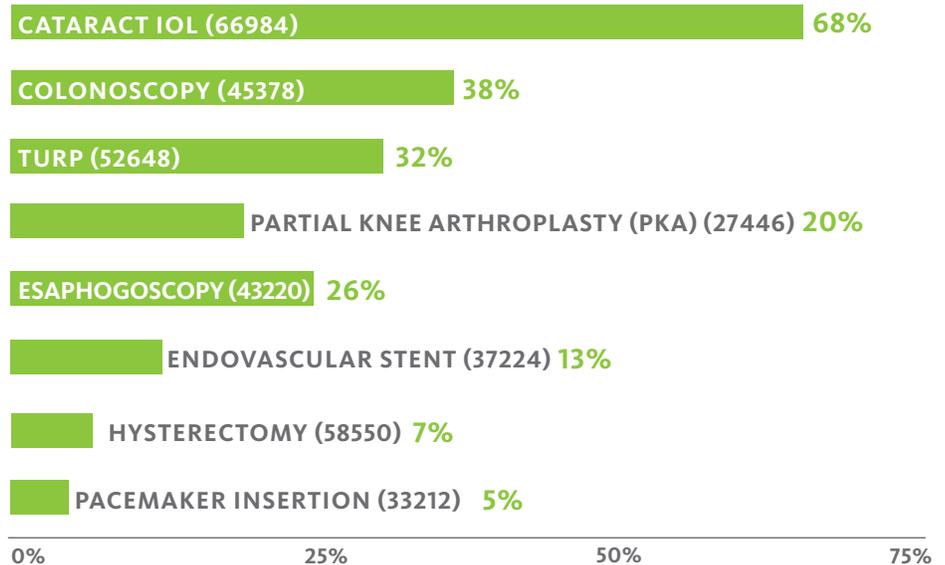
**Cost:** The average net cost of a hospital-based surgical procedure is \$4,337, while that of a free-standing ASC-based procedure is \$2,429.<sup>4</sup> The difference in facility fee drastically decreases the overall cost per episode of care for the patient, and incentivizes physicians to perform outside of the hospital.

**Growth in financing:** Hospital systems, healthcare networks, and private equity firms are consolidating high-performing surgical practices, further driving outpatient market maturation.<sup>5</sup> Due to expected site-neutral payments, surgeons are leaving hospitals to build their own practices and capture a greater share of revenue.

**Motivated physicians & patients:** A 2013 study of discharged percutaneous coronary intervention patients indicated that 80% of patients preferred same-day discharge, citing safety outcomes and personal preferences like post-surgical comfort.<sup>6</sup> Alternatively, physicians appreciate the decision-making autonomy and financial incentives available in smaller, outpatient settings.<sup>7</sup>

## % MEDICARE PROCEDURES PERFORMED IN ASC/OFFICE IN 2016

Due to these factors, most major medical device categories now derive a meaningful portion of sales from outpatient settings. Notably, ophthalmic procedures have an established foothold in the outpatient space, while GI and women's health procedures continue to grow. Coronary and peripheral vascular procedures, such as endovascular stents, are gaining momentum in office based labs. Even procedures utilizing large medical devices, such as cardiac rhythm management and total joint replacements, are now also trending outpatient.



\*Note: Procedures were defined as those performed in an ASC (POS 24) and Office (POS 11)

Source: Kaiser Associates Analysis - CMS 2016 claims data

## SHIFTING CARE SETTINGS

As services move outside the hospital, outpatient settings differentiate themselves through their service mix and care delivery methods

PLACE OF SERVICE			
INPATIENT			OUTPATIENT
			
<b>HOSPITAL</b>	<b>ASC</b>	<b>CLINIC / OFFICE BASED LAB</b>	<b>HOME</b>
VOLUME			
<b>5,534</b> hospitals in the US <sup>8</sup>	<b>5,480</b> Medicare certified ASCs <sup>9</sup>	<b>120,000</b> OBLs <sup>10</sup>	<b>126M</b> homes in the US <sup>11</sup>
REIMBURSEMENT			
<ul style="list-style-type: none"> <li>• Facility fee + physician fee</li> <li>• POS code: 21</li> </ul>	<ul style="list-style-type: none"> <li>• ASC facility fee + physician fee</li> <li>• ~60% reimbursement rate of HOPDs<sup>12</sup></li> <li>• POS code: 24</li> </ul>	<ul style="list-style-type: none"> <li>• Global, non-facility fee</li> <li>• POS code: 11</li> </ul>	<ul style="list-style-type: none"> <li>• 60-day base episode of care payment</li> <li>• POS code: 12</li> </ul>
OWNERSHIP			
Varied ownership structure (private, public, nonprofit) with board-led structure	Privately owned by surgeon stakeholders and / or investors, such as private equity firms and hospitals	Privately owned by physician stakeholders as well as hospital systems and IDNs	N/A
CARE DELIVERY			
Traditional focus on operative care ranging from inpatient, overnight, same-day discharge, and off-campus outpatient procedures	Attentive surgical pre- and post- op care personalized for the patient cross setting	Personalized lab and clinical services in a convenient setting	Personalized care within the home

## MEETING THE UNIQUE NEEDS OF OUTPATIENT CHANNELS

Non-hospital settings have several unique needs that create a new basis of competition for device companies. Companies are leading change by responding to the unique needs of the outpatient setting through innovative strategies. Below are four scenarios of how companies successfully addressed these channel-specific needs.

**1. Unique Need** **Streamlined purchasing:** ASCs and OBLs have fewer procurement and inventory management resources and often seek to minimize suppliers.

**How one company led change** Henry Schein offers ASC-specific product and service bundles tailored to the ASC's surgical, pharmaceutical, and capital equipment preferences.

Traditional surgical products and devices used in the inpatient setting are often acquired through centralized procurement resources and purchasing organizations. Unlike hospitals, ASCs lack the flexibility and buying power to pursue contracts with multiple suppliers. As a result, ASCs often seek a "one-stop shop", a single supplier that can provide them with the complete basics for their center. Henry Schein, a global distributor of healthcare products and wrap-around solutions, has capitalized on the opportunity to supply ASCs with a complete offering of surgery essentials and business solutions. Henry Schein recently partnered with Micro-Tech to offer GI-focused ASCs a complete endoscopy product portfolio to complement its scope repair, reprocessing, and pathology services. Recognizing that ASCs can be specialty-focused, Henry Schein has developed equipment bundles by specialty as well. In addition to their product offerings, they also advise ASCs and share best practices on center management and process optimization. By creating products designed with the needs of their customers in mind, Henry Schein has eliminated the need for ASC surgeons to force-fit hospital products into an ASC operating room.

**Outcome** Henry Schein designed product and service offerings specifically to the needs of the ASC segment to increase market penetration and establish themselves as the #2 distributor to ASCs.

**2. Unique Need** **Right-sized capital equipment:** Outpatient facilities have smaller footprints and are therefore limited in storage and space to acquire capital equipment.

**How one company led change** Philips offers a suite of products designed specifically for the office-based lab (OBL), taking traditionally inpatient products to the outpatient setting.

ASCs and OBLs often cite space restrictions as an important factor in device and equipment purchasing. Many outpatient settings like OBLs stay away from more complex procedures due to high investment or limited space. Philips, though very much in tune with in-hospital health tech advancements, has gained perspective to the more cost-conscious but still innovative OBL channel. Traditionally inpatient devices, like C-arms, ultrasound machines, and diagnostics machines, are now available for the OBL setting in mobile and portable versions. Their SymphonySuite program supplements the OBL product portfolio, assisting with capital financing, marketing, workflow optimization, among others. Philips also supports stakeholders considering an expansion into "hybrid" OBL models, such as incorporating ASCs. This type of forward-looking support demonstrates a long-term and committed relationship with the consumer, something valuable to stakeholders looking to scale the business in the future. Philips tweaked traditionally inpatient products to the infrastructure and workflow limitations of outpatient settings, an effective method of maintaining inpatient market share while staying relevant to the lucrative outpatient space.

**Outcome** Philips successfully transformed their existing product portfolio to practically fit the OBL and has continued to evolve the strategy to provide a full-service OBL offering.

**3. Unique Need** **Limited access to capital:** Lean capital budgets require outpatient stakeholders to make cost-conscious purchases, which may mean forgoing capital equipment.

**How one company led change** Olympus offers creative financing options and disposable device credits towards capital equipment.

Outpatient facilities' tightly-managed budgets are particularly sensitive to high fixed-cost capital equipment investments required to perform minimally-invasive procedures. The high capital costs lead to additional price sensitivity on the associated consumables. In 2015 Olympus introduced their expanded urology portfolio and extended their Advantage Program to address this market need. The program reduces the overall cost of capital products and overall spend by the practice. Outpatient decision-makers are now able to purchase disposable, single use products like guidewires and stents directly from Olympus. These purchases also accrue credits, which can be applied to higher-cost capital equipment, such as scopes and cameras, to lower the final cost. Olympus offers leasing and financing options, like other manufacturers, in addition to the Advantage program to make their products more affordable. Olympus used ASC buying preferences and its market leading equipment position to pull through consumable sales.

**Outcome** After seeing success with the existing Advantage program with endoscopy devices, Olympus expanded the program to include urology devices, which are also highly utilized in ASCs.

---

**4. Unique need** **Cost sensitivity:** Reducing costs to remain profitable is top of mind for ASC stakeholders, especially with ASC reimbursement being lower than hospital-based outpatient surgery.

**How one company led change** Smith & Nephew piloted a delivery model that eliminates the need for a sales rep in the operating room, thereby cutting costs and increasing the purchasing power of the ASC.

In the past 10 years, there has been a clear trend – especially in the orthopedic space – of hospital settings and ASCs seeking more control in purchasing decisions. The customer-facing strategy of an orthopedic sales rep supporting activities prior to and throughout a procedure is a long-standing industry norm. While cherished by many surgeons, this relationship is expensive. As more orthopedic procedures move to the outpatient setting, these costs become less justifiable within limited resources and trend of decreasing care costs. To amend the strategy without major disruption, Smith & Nephew piloted the Syncera program, a “rep-less” model directed specifically at the outpatient setting. Smith & Nephew purchased two applications – Virtual Backtable and TrayTouch – to integrate with the existing Syncera program, an innovative supply chain model designed for ASCs and hospitals. These software assets assist with instrument management during surgery, provide surgical customization opportunities, and in-depth training for hospital administrators. The assets perform and manage activities typically handled by sales reps, but at a much lower cost. By offering a virtual platform and simply replacing the rep with technology solutions, Smith & Nephew appealed to and directly established themselves in the growing outpatient market.

**Outcome** Smith & Nephew estimates that the Syncera program will reduce hip and knee device costs by 40-50%, better positioning themselves against high-cost market competitors.

## THE ROAD AHEAD

Kaiser Associates supports clients within the medical device space with responding to change and winning against the competition. To help companies stay ahead of the outpatient trend, we provide advice to leading companies through:



**Channel assessment:** Measuring performance in decentralized care settings creates additional challenges for medical device companies. Syndicated sources either lack accuracy or completeness in non-hospital channels. Kaiser has expertise in accurately measuring current and potential market sizes across settings, competitive share, and understanding how to effectively deploy competitive strategy



**Product pricing:** Pricing a company's products to perform competitively in the outpatient channel while maintaining current market share, as well as managing contracts with payers and outpatient decision-makers



**Commercial growth strategy:** Developing and deploying a commercial growth strategy, including product and service development efforts to adapt and change with the market, while consistently remaining ahead



## REFERENCES

<sup>1</sup>*Ambulatory Surgical Care Growth*, Franklin Trust Ratings

<sup>2</sup>*2018 Healthcare Trends*, Aetna

<sup>3</sup>*Surgical Robot Market by Segment*, Grand View Research

<sup>4</sup>*Outpatient Statistical Snapshot*, Avanza Strategies

<sup>5</sup>*Why PE Firms are buying orthopedic and ophthalmology practices*, The PE Hub Network

<sup>6</sup>*Assessing patient-reported outcomes and preferences for same-day discharge after percutaneous coronary intervention*, Kim M, Muntner P, Sharma S, Choi JW, Stoler RC, Woodward M, Mann DM, Farkouh ME

<sup>7</sup>*Physicians' Perceptions of Autonomy across Practice Types: Is Autonomy in Solo Practice a Myth*, Lin K

<sup>8</sup>*Fast Facts on US Hospitals 2018*, American Hospital Association

<sup>9</sup>*50 things to know about the ASC Industry 2017*, Becker's Hospital Review

<sup>10</sup>*Report: Labs Within a U.S. Physician's Office A 1.5 Billion-Dollar Market*, Kalorama Information

<sup>11</sup>*Number of Households in the US 1960-2017*, Statista

<sup>12</sup>*Doing the deal: Understanding the key differences between ASC and hospital RCM*, Becker's ASC Review



## ABOUT KAISER ASSOCIATES

### ABOUT KAISER

Founded in 1981, Kaiser Associates is an international strategy consulting firm that serves as a key advisor to the world’s leading companies. We provide our clients with the unique insight to drive critical decision-making and solve their most pressing problems.

Kaiser’s Global Healthcare Practice engages with executives at leading Life Sciences companies, including pharmaceutical, medical device, clinical diagnostics, consumer health, and health IT. We work with our clients to identify new growth markets, develop long-term portfolio strategies, and maximize commercial success.

The foundation of Kaiser’s service offering is its world-class “outside-in” methodology, which involves delivering critical facts and insights from the complex external environment to drive strategic decision making. Kaiser possesses the unique ability to generate insights across physicians, thought leaders, patients, competitors, partners, regulators, suppliers, and payers. Kaiser uses its deep industry experience and analytical tools to synthesize this diverse set of insights and develop high-impact solutions.

### GET IN TOUCH WITH US

#### **Bob Serrano**

Bob is a Senior Vice President in Kaiser Associates’ Global Healthcare Practice based in Washington, D.C.

You may contact him by email at [bserrano@kaiserassociates.com](mailto:bserrano@kaiserassociates.com)

#### **Dan O’Neill**

Dan is a Senior Vice President in Kaiser Associates’ Global Healthcare Practice based in Washington, D.C.

You may contact him by email at [doneill@kaiserassociates.com](mailto:doneill@kaiserassociates.com)

*Special thanks to Jessica Brito for leading the development and authoring of this publication*

*Design and Graphics by Kelly Martin Design*

