REVENUE CYCLE MANAGEMENT Q&A

A Half Century of Urgent Care: What Today's Startups Need to Know

■ MONTE SANDLER

The urgent care industry is in its fifth decade and still growing! The driving forces of affordability and accessibility continue to fuel this growth. Success has been propelled by the agility of urgent care operators in adjusting their business model to meet the demands of their communities.

Initially, urgent care centers were a welcome supplement in communities where the emergency department was the only option for medical care apart from PCPs or specialist offices. Roughly a decade ago, the increased adoption of high-deductible health plans shifted much of the financial burden of medical services from the insurance companies to the patients. This shift has required patients to become well-informed consumers of medical services. Today's patients are more knowledgeable than ever before about medical billing practices, their own insurance policies, and the true cost of healthcare in America. Urgent care operators are wise to not only consider the medical needs of the community, but to also purposefully bring the most value to their patients by blending access, efficiency, and affordability.

In the current competitive market, consumers can't tell the difference between many urgent care "brands." Thus, differentiation is critical to ongoing success.

Depending on the market, differentiation may be a superior site with the most accessibility and visibility. In other markets it could be a strategic partnership with an esteemed physician group or hospital system. And yet in others, it may come down to hours of operation or services offered.

While it may be tempting to target a specific medical segment or latest fad in medical services adjacencies and throw "urgent care" behind it, the brass tacks are that trends fade and, with them, possibly the entire business. Stick to the tried-and-true business model and be flexible to address the community needs (eg, COVID) and never stop considering additional services that compliment urgent care and provide additional revenue streams.

New urgent care operators not only face all the same challenges of the past, but now also have to consider a myriad of additional hurdles. In most cases, they will face the delicate balance of creating a worthwhile profit margin in an intimidating financial climate. Labor costs are increasing, and payer reimbursements are stagnant—or worse, decreasing. In just the last 10 to 15 years, the average reimbursement across the nation has declined by at least 15%, but the entry into the market and everyday operational expenses have grown by 25% or more.

The good news is that today's operators are nimble; they continuously seek to offer additional services that will benefit their community, and that are largely not reliant on a payer relationship. The best example of this is occupational medicine.

This involves developing a relationship with area employers for their pre-employment and routine needs, as well as working with them to develop preventative programs and even taking on their worker's compensation cases. Worker compensation cases are reimbursed through the work comp carriers; all other employer-paid services will be a cash-based revenue stream with reimbursement directly from the company clients. In studying the needs of patients and offering a convenient and affordable solution, these operators will realize more visits and revenue, while continuing to deepen the connection to the community they serve.

Differentiation and managing an increasingly delicate balance of revenue and expenses are not the only challenges that new operators face. According to Experity consultant Heather Real, "In some markets, the insurance companies are not always interested in contracting with new urgent care businesses. Insurance companies often cite 'saturation' as a reason for withholding the contractual

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relationship."

While this is sometimes true, in other cases the insurance companies might be obliged to protect the interests of their parent companies. Then, the parent companies may have adopted a vertical integration growth model where they own many layers of the patient experience (including capitated physician groups and payer-owned urgent care centers), reaping profits at every level. While a new business may not be able to compel the payers to work with them, they can seek to avoid an undesirable outcome by performing a Payer Landscape Review prior to advancing in a particular market. The investment in this early process can ensure startups have a sturdy foundation to start from and will likely result in a thriving business with a bright future.

In examining the largest changes of the urgent care industry, it's difficult to ignore the fact that large groups are getting larger and independent operators are consolidating. This shift is largely due to merger-and-acquisition activity, as well as growth through private equity investments. While, historically, urgent care businesses had to scale to double-digit rooftops before consideration for acquisition, today's businesses may only have one or two locations before transacting. Very large operators, private equity firms, hospitals, and even those only just breaking into the urgent care industry may find acquiring an existing, well-run business more appealing than starting from scratch.

Smaller acquisitions may occur for a multitude of strategic purposes; it may be for quick expansion into new geographies, or even simply to obtain a coveted payer relationship that is no longer accessible to startups. Whatever the reasons, today's entrepreneurs will do well to position themselves for acquisition at startup. This includes developing a brand that exemplifies excellence within the community, streamlining all aspects of operations for smooth transitions later, and minding the bottom line. While the multiple of EBITDA used for valuation will vary based on an array of factors, maintaining a healthy and growing EBITDA will pay off now and later.

The landscape of the urgent care industry has changed significantly over the last 50 years. Urgent care has gone from being supplemental to existing medical services to now being essential. While rooftop growth may slow, it's not likely to cease altogether. The ingenuity and agility of today's operators are a testament to the lessons learned in the past and give reason to believe that the next 50 years of urgent care will be nothing but innovative and bright. ■