

WHITEPAPER

# Barbarians at the Primary Care Gate





# The Situation

## Oak Street Health

In August 2020, Oak Street Health issued an IPO, making it one of numerous healthcare services companies who have recently become publicly traded. Oak Street Health operates 54 primary care centers in nine states: Illinois, Michigan, Ohio, Rhode Island, Texas, Indiana, North Carolina, Pennsylvania and Tennessee. The company serves Medicare Advantage members with primary care services, transportation to doctor appointments, fitness classes and other services to assist the senior community. The company positions itself as a provider of high-quality healthcare services for the elder population.

Oak Street Health has described their focus as value-based primary care services<sup>1</sup> and has an operating philosophy that targets unnecessary hospital use. The company is utilizing preventive health as part of their primary care model with the goal of reducing the use of hospitals and specialists.

## VillageMD

Another major entrant into the primary care market is VillageMD after announcing their partnership with Walgreens. VillageMD provides value-based care services and has 2,800 physicians in eight states: Georgia, Illinois, Texas, Indiana, Kentucky, Michigan, New Hampshire and Arizona. The two central components that VillageMD focuses on are: equipping physicians with the technology and resources they need to deliver care 24/7; and chronic care management. The company has said that in unison, these two components result in better adherence to care and more comprehensive patient management.<sup>2</sup>

The partnership with Walgreens will significantly increase VillageMD's footprint. VillageMD will be offering primary care services in 500 to 700 Walgreens stores in over 30 underserved markets. In order to fulfill the needs of this commitment, VillageMD will be aggressively recruiting primary care physicians to join their ranks.



# The Challenge

The Centers for Medicare and Medicaid Services (CMS) says that national healthcare spending will reach \$4.01 trillion by the end of 2020 and \$6.19 trillion by the end of 2028. Medicare spending will increase 7% annually with 10,000 seniors enrolling daily. These numbers are why the primary care market has become so appealing to venture capitalists and private equity firms. Today, venture capitalists and private equity firms have over \$1.6 trillion in dry power sitting on the sidelines and are in search of the right opportunity. These savvy investors know that healthcare isn't going away and the dollars spent will continue to increase annually, especially with an aging population.

Companies like Oak Street Health and VillageMD are targeting Medicare patients and those in underserved communities with their primary care offerings. They are employing advanced technologies and are making primary care more accessible and more affordable than ever before. Not only will this pull patients away from health system primary care practices, it also has a strong possibility of pulling physicians away as well.

Private equity companies have a lot of money to throw behind primary care offerings, meaning that they can invest in the latest technologies, data and resources, as well as physician salaries.

They are focused on healthcare and are looking to grab a large share of the market by targeting preventive care and reducing the utilization of hospitals and specialists. If companies such as Oak Street Health and VillageMD accomplish what they set out to achieve, they will be attracting patients away from hospitals and health systems, subsequently driving down revenue and changing referral patterns for these entities.

Although Oak Street Health is currently focused on Medicare patients and the VillageMD/Walgreens partnership looks towards underserved communities, it's only a matter of time before they set their sights on the commercial market. As they make their primary care services more available in the marketplace, they will begin to forge relationships with local employers who will be attracted to their accessibility, technology and affordability.

As employer-based health plans represent the most profitable revenue for hospitals and health systems, these entities simply cannot afford to lose these patients. Health systems need to be prepared to protect their commercial markets, because quite literally, the barbarians are at the gate. The only way to do this is to start capturing the commercial market as quickly as possible before private equity gets there first.



# The Opportunity

Engaging the commercial market through direct to employer initiatives is essential for hospitals and health systems to protect their investments in their primary care perimeter. Securing relationships with local employers is the best defense for health systems to push back against private equity-backed companies looking to encroach on the primary care space. There are a number of key strategies that hospitals and health systems can take that will demonstrate cost savings to employers and help structure a plan that will fend off the onslaught of new primary care entrants:

- **Focus on Preventive Health Benefits:** Preventive care translates into high-value care as it is often inexpensive to provide yet results in significant savings down the line. In fact, it is estimated that providing preventative care can save employers between \$89 and \$111 billion annually.<sup>3</sup>
- **Reduce Wasted Healthcare Costs:** Employers are always looking for ways to reduce healthcare costs and hospitals and health systems that can demonstrate their ability to do so have more opportunity to be the provider of choice. Twenty-three percent of healthcare spending is wasted, amounting to \$2,581 per individual. With average healthcare costs representing a total spend of \$11,559 per person, a savings of \$2,581 per employee annually represents a significant savings to an employer.<sup>3</sup>
- **Provide Value-Based Care:** A recent study has shown that providers deliver higher quality care in value-based models versus fee-for-service models. Patients that were treated by providers in a value-based care model were screened at higher rates for cancer, demonstrated higher control levels of blood sugar, were given more eye exams for diabetes and received medication reviews more frequently.<sup>4</sup> By providing value-based care, these patients not only achieved better outcomes, but they were provided preventive care that kept them from more

costly medical treatments, such as hospitalization. This plays a crucial role in keeping employees healthy and reducing overall healthcare costs for employers.

- **Get Chronic Condition Patients into the System:** Chronic conditions affect a significant portion of the population and thereby are the biggest factor in driving up healthcare costs for employers. According to the United Health Foundation's annual rankings report, long-term challenges in obesity, diabetes and cardiovascular disease are having a significant impact on the population.<sup>5</sup>

**The report states that more than 30% of adults in the U.S. are obese, an increase of 11% in the last eight years. Diabetes is at the highest level in the report's history, affecting 10.9% of the population, which is an increase of 148% in the last two decades. Heart disease is the leading cause of death in the U.S. with the cardiovascular death rate increasing 4% in the last five years.**

And we can't ignore the data that was evidenced during the COVID-19 pandemic. Hospitalizations for those with chronic conditions were 45.4% higher and deaths were twelve times higher than healthy individuals with no underlying conditions. Pandemic aside, these growing numbers show the importance of early detection and getting patients with chronic conditions into the healthcare system as early as possible. Not only will this help improve patient outcomes, it will significantly reduce their dependence on costly medical treatments, thereby reducing healthcare spending for employers.



# The Solution

Employers who work directly with a hospital or health system will better understand the health of their employees through the use of technology and resources that can help identify high-risk populations. Employers will be able to utilize analytics to determine which employees are delaying care and not taking medications, allowing them to deploy health system interventions earlier. A focus on primary care interventions is especially important to employers as they look to reduce escalating healthcare costs and maintain employee health. It also helps drive revenue for hospitals and enhance their payer mix.

Applied Health Analytics positions hospitals and health systems as the leading providers of population health management services in the communities they serve. Applied Health Analytics partners with health systems to deliver evidence-based and risk stratified member engagement technology developed to identify individual health risks and align these risks with client-provided services. Applied Health Analytics can help health systems employ successful direct to employer strategies through the following proven tactics:

- **A Risk-Stratification Engine:** Purposefully designed algorithms, health risk assessments, biometric and claims data work together to provide a prescriptive view of individual and overall employee population wellbeing. The data engine offers accurate access to analytics and analysis that is easy-to-use and query to empower change and measure impact.
- **Care Coordination:** The risk-stratification engine identifies individuals by health risks, behavior change needs, health history or gaps in care and targets these individuals to promote health system services, products, partnerships and PCPs. Key to any successful strategy is the ability to mitigate health risk by aligning such risk with the resources of community-based physicians and hospitals. And, an effective care coordination strategy is key to delivering value-based care.
- **Early Detection:** Two of the easiest ways to uncover underlying health conditions are through biometric screenings and health risk assessments (HRAs). These methods provide test results, uncover family histories and identify behaviors that are indicative of a chronic condition. There are tools that can help in the assessment of this data, including bMetrix™, a screening application that allows for the seamless collection and recording of biometric data. Screenings can detect the presence and onset of chronic conditions such as diabetes, heart disease and other issues that have a significant impact on employee health and employer healthcare costs.

To Learn more about a direct to employer strategy that can help you protect your primary care perimeter, contact Applied Health Analytics to set up a strategy session at [appliedhealth.net](http://appliedhealth.net).

## About Applied Health Analytics

Founded in 2009, Nashville-based Applied Health Analytics, LLC provides a range of analytics, technology and services to hospitals and health systems that support population health, value-based care arrangements, employer-centric strategies and risk-based contracting. Applied Health Analytics, a joint-venture partner with Vanderbilt University Medical Center and Charlotte, North Carolina-based Atrium Health, empowers hospitals and health systems to administer programs that influence a positive payer mix, reduce health benefit costs, improve quality outcomes and manage patient health. For more information, visit [appliedhealth.net](http://appliedhealth.net).

## References

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- <sup>3</sup> Healthcare Value Hub, Low Versus High Value Care, [healthcarevaluehub.com/org/low-vs-high-valueecare](http://healthcarevaluehub.com/org/low-vs-high-valueecare), 2019
- <sup>4</sup> UnitedHealth Group, Physicians Provider Higher Quality Care Under Set Monthly Payments Instead of Being Paid Per Service, August 2020, [unitedhealthgroup.com/newsroom](http://unitedhealthgroup.com/newsroom)
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