Positioning Your Health System for Optum Entering Your Market

Introduction

Over the past decade, Optum, a division of UnitedHealth Group, has become a key player in the provider market. Optum grew through the acquisition of ambulatory surgery centers (ASCs) and large physician groups and by collaborating with health systems through market performance partnerships. Optum's robust provider M&A and partnership strategy has targeted affiliation with high-margin outpatient services and increased ownership of the primary-care landscape to advance UnitedHealth Group's (UHG)'s value-based care business models. Optum's impressive growth is restructuring more markets across the country every year, and health systems must develop an effective long-term strategy for competing against or collaborating with Optum—especially for their owned or affiliated physician practices.

Case in Point: Optum's Entry into the Puget Sound & Seattle Markets

Since 2018, Optum made strategic expansion into the Puget Sound and greater Seattle markets a priority. Optum has penetrated both the outpatient and inpatient markets through M&A activity and strategic partnerships with health systems.

In 2018, Optum acquired The Polyclinic--a 240-physician group with 12 locations in greater Seattle[1]. This marked the end of The Polyclinic's century long independence and allowed The Polyclinic to bolster its growth through an influx of capital with the aim to enhance care quality in the Puget Sound region. Additionally, in 2019, Optum acquired The Everett Clinic in North Seattle when its former parent company, DaVita Medical Group, was sold to UnitedHealth for $4.3 billion[2]. With these two acquisitions, Optum now operates 44 clinics in the Puget Sound region under The Everett Clinic name[3]. Starting in April of 2024, both The Everett Clinic and The Polyclinic will be doing business as "OptumCare Washington"[4]. More broadly, Optum now operates more than 500 locations in Washington state and serves around 330,000 patients[5]. The practices include a broad range of specialty services, mental health services, and health-at-home offerings.

Optum is also making strides to partner directly with health systems. In July of 2023, Virginia Mason Franciscan Health (VMFH) announced it will partner with Optum to make Virginia Mason Medical Center in Seattle the preferred acute care provider for Optum's Polyclinic patients[6] . Thus, all Polyclinic patients who require inpatient care, surgery, or other hospital-based ambulatory (HOPD) services will be referred to Virginia Mason Medical Center[7]. The Polyclinic will also assume management of VMFH's 25,000 Medicare Advantage (MA) patients[8].

1. https://www.fiercehealthcare.com/payer/seattle-based-polyclinic-absorbed-by-unitedhealth-s-optumcare
2. https://mynorthwest.com/3931718/everett-clinic-polyclinic-become-optum-2024-rebrand/
3. https://ground.news/article/the-everett-clinic-changing-name-to-parent-company-optum-in-2024
4. https://www.heraldnet.com/news/the-everett-clinic-changing-name-to-parent-company-optum-in-2024/
5. https://www.beckershospitalreview.com/disruptors/optum-expanding-in-washington-state.html

Competing with Optum using the four levers of Value

As of 2024, Optum is the largest employer of physicians in the United States and employs or is aligned with over 90,000 physicians. This equates to approximately 10% of all physicians in the US[7]. Since 2019, Optum has aggressively expanded its physician network by over ~50,000 physicians by acquiring entities such as DaVita Medical Group, the Kelsey-Seybold Clinic, and ProHealth Care. The impact of Optum's scale is significant. Providers across the country are witnessing firsthand how Optum's vast network operates at over 2,000 sites of care and serves 101 million unique customers[8]. Optum has spent billions of dollars in capital to expand quickly, yet the long-term effects on quality of care, cost reduction, and consumer preferences are arguably yet to be seen.

Optum's increasing influence demands a strategic response from health systems. To remain competitive, health systems must develop a comprehensive, robust, and sustainable physician practice and/or network. When competing against a network with scale and resources as Optum, systems must develop strategies that maximize four margin levers to build an impenetrable and cost-effective physician network:

Lever 1: Profitable Physician Practice Operations

Lever 2: Downstream Value of IP and OP Care Continuity

Lever 3: Pharmaceuticals and Durable Medical Equipment (DME)

Lever 4: Care Management

Lever 1: Profitable Physician Practice Operations

The first imperative for physician practices is the same as it has always been: if health systems employ physicians in their practices, they must be run with exceptional efficiency for both fee-for-service and value-based revenues.

Physicians must be supported with efficient scheduling, proactive patient contact to reduce no shows, efficient coding, sufficient staff support and other tools to ensure high patient volumes and adequate reimbursement. Availability and productivity must be monitored continuously to minimize the loss of physician practice expenditures. Additionally, some health systems can leverage higher payment through federally qualified health centers (FQHCs) to ensure high quality and financially feasible care for Medicaid populations. Using these strategies, health systems can decrease administrative costs and decrease the loss per physician, ultimately, competing against Optum requires systems to maintain a focus on efficient operations while developing an environment with the support and professional autonomy where physicians want to practice."

---

6. https://www.vmfh.org/about-vmfh/news-media/news-releases/vmfh-and-optum-washington-launch-strategic-alignment
7. https://www.statnews.com/2023/11/29/unitedhealth-doctors-workforce/#:~:text=U%20nitedHealth%20Group%20has%20about%20 90%2C000%20employed%20or,hired%2020%2C000%20doctors%20in%20the%20past%20year%20alone.

Lever 2: Downstream Value of IP and OP Care Continuity

Optum has been able to increase care continuity and advance its value-based economic model through strategic acquisitions in the outpatient space and their partnership activity with major health systems. Health systems must realize the downstream value of IP and OP care continuity by enhancing transitions in care and maximizing relationships with providers. Systems must study their "leakage and keepage" understand when care is leaving the system (because of external referrals or inefficient scheduling and access) and proactively address these losses.

Through strategies such as increased discharge planning, aligned care coordination teams, and prompt follow-up appointment scheduling, health systems can enhance the process of smoothly transitioning patients from the inpatient care setting to the outpatient care setting and vice versa. Health systems must ensure appropriate access to specialists within the network by reviewing wait times and reported access issues and proactively addressing wait time, travel and scheduling barriers. Health systems can also follow this process to ensure appropriate access to diagnostic & treatment services and capture downstream imaging and other ancillary services. Systems must understand referral and leakage patterns on a physician level and meet with physicians to improve care continuity to provide high value services.

Developing a customized and comprehensive employment and alignment model is crucial for health systems to maximize the downstream value of both IP and OP care.

Lever 3: Pharmaceuticals and Durable Medical Equipment (DME)

Health systems can maximize margin opportunities by providing prescription drugs directly or through pharmacy partnerships and leveraging their 340b or own use pricing rates. 340b designation provides health systems with significant cost-reduction on purchased pharmaceuticals and allows them to maximize margin on infusion services and retail pharmacy. Physicians can prioritize generic options which have higher retail pharmacy margins and capture the value of this transaction either directly through owned pharmacies or through pharmacy relationships.

Even if the system doesn't qualify for 340B, patients who have had an inpatient stay (and potentially others with an ongoing care relationship) may qualify for "hospital own use" pricing. While patients may purchase pharmaceuticals at rates marginally less than retail pharmacy prices, hospital costs can be 5% - 12%[9] below average wholesale price. This cost differential creates a substantial margin opportunity for health systems that sell pharmaceuticals directly to patients or through pharmacy relationships.

For relevant clinicians, providing access to DME creates an additional margin opportunity. When health systems provide DME services, clinicians can refer patients internally. This generates revenue for the health system, as well as strengthens collaboration between clinicians and the health systems. Clinicians also appreciate having convenient access to DME resources, which can influence their choice of where to practice.

---

8. https://www.optum.com/en/about-us/optum-health.html
9. https://blog.cps.com/getting-the-biggest-bang-from-outpatient-pharmacy#:~:text=Under%20the%20%E2%80%9Cown%20use%E2%80%9D%20definition,box%20chains%20and%20community%20pharmacies.

Lever 4: Care Management

Physicians create value by coordinating and reducing the cost of care, which often accrues to private and public payors. However, physician practices that create care management and documentation infrastructure and structure efficient shared savings contracts can achieve well over $1,000 per patient on shared savings payments. Systems with sufficient Medicare Advantage penetration and focused patient panels can use well-structured shared savings contracts to more than cover the direct loss from physician employment.

Conclusion

Optum's influence has grown significantly and will have a bigger impact as they expand their care-delivery footprint. In general, this expansion, as with any market disruptor, negatively impacts a health system's financial sustainability and the path required to deliver integrated care. It is imperative that health systems establish and maintain an integrated clinical network to remain competitive as Optum continues to disrupt the provider market. To support attractive provider compensation and practice environments, systems must capture the full value of patient care and not allow the value to leak to other providers in the value chain. By doing so they create financially sustainable practice models that are highly attractive to physicians and APPs. By maximizing the four levers of margin, health systems will place themselves in a position to succeed against the likes of Optum and other competitive forces.

If you need assistance with your physician workforce strategy, please contact Jeff Kilpatrick.

About The Innova Group

The Innova Group is a national healthcare consultancy that specializes in strategic, operational, financial, and facility planning. Since 1995, health systems and medical groups have sought our advice on their most difficult strategic and facility planning challenges. More information about our team of professionals and consulting services can be found at **www.theinnovagroup.com.**

Contact

Jeff Kilpatrick
Partner
jeff.kilpatrick@theinnovagroup.com
773.251.0675

Keith Loukas
Consultant
keith.loukas@theinnovagroup.com
651.270.5114