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As more inpatient care shifts to outpatient settings, competition in ambulatory surgery intensifies

Week of June 23 - June 29, 2024

| JUN 28, 2024

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The Buzz This Week

The push to shift some medical procedures from the expensive inpatient setting to a less costly outpatient site has been increasing for more than a decade. Value-based reimbursement models, which incent providers to reduce the cost of care while maintaining quality and outcomes, have fueled the trend. Clinical studies have shown that patient outcomes for certain surgeries performed in ambulatory facilities are similar or better than inpatient settings, which has accelerated efforts to move healthcare delivery to an outpatient setting when appropriate.

As one academic medical center executive recently stated in an article in Becker's, "the real growth is [being driven by] the decreasing need for hospital beds in the future. Many services, orthopedics being a prime example, already have moved from primarily an inpatient to an outpatient environment. We're going to see more of that with more services, as procedures become less invasive and slide down to ambulatory surgery centers with overnight stay capacity, and then out of surgery centers to office buildings." Additionally, recent consumer preference trends favor convenient, outpatient care—avoiding a hospital stay if at all possible.

These dynamics are driving demand for ambulatory surgery centers (ASCs) that can offer convenient, lower-cost healthcare alternatives. ASCs can provide "easier scheduling, shorter wait times, faster procedures and more personalized care."

As a result, competition in the ASC sector has intensified. Not-for-profit health systems' lingering financial challenges from the pandemic have limited their ability to invest in ambulatory network growth, including ASCs. In addition, they make a bigger margin on procedures performed in designated hospital outpatient department (HOPD) sites.

Furthermore, as a leading physician at a spine surgery-focused ASC in California noted, “most hospital systems lack the ability to encourage the efficiency and flexibility to manage a profitable ASC. Therefore, venture capital firms and existing big ASC players who have reliably demonstrated the necessary traits for succeeding will continue to do well.”

However, in the meantime, physicians are coalescing privately to fund new ASCs. These ventures provide the opportunity to receive a larger portion of revenue generated as compared to the procedures and surgeries they provide in a hospital setting, particularly from technical fees. ASCs now compete with local health system-based surgical services and are drawing specialists (particularly in cardiology and orthopedics) away from legacy hospitals and health systems.

For-profit providers, payers, and private equity firms are also taking advantage of this market opportunity. Optum (part of UnitedHealth Group) now owns more than 320 ASCs. The Tenet Healthcare Corporation, a for-profit healthcare provider, acquired more than 90 ASCs across 21 states in 2021. For-profit HCA Healthcare owns more than 120 ASCs in the US. It reported \$17 billion in ASC revenue and \$1.8 billion in income from ASC services in the first quarter of 2024. Private equity firms that have invested include KKR, Apollo (Hybrid Value Fund), Partners Group, Omers, and Bain Capital, among others.

In some markets, the competition between independent ASCs and legacy health systems has become extreme. A CEO of a surgical group based in St. Louis, Missouri, recently stated in an article in Becker's, “to call it adversarial would be an understatement. ASCs are often the only competitors of the hospital business. ASCs were nonexistent in the ‘60s and were barely around in the ‘70s. Now, there are more ASCs than hospitals.”

Why It Matters

As medical care moves from the inpatient hospital setting to less-costly outpatient sites like ASCs, significant strategic market opportunities exist. Health systems, physician groups, and payer-providers that establish strong ASC networks will reap the benefits of the increased demand for outpatient surgeries and procedures. In addition, they can potentially leverage their lower-cost care delivery model to perform well under risk-based reimbursement contracts.

The ASC market size was estimated to be \$84 billion in 2020. It is projected to grow to \$131 billion by 2031, as governmental agencies, payers, and providers are redoubling their efforts to rein in healthcare expenditures by shifting appropriate surgeries and procedures to a lower-cost outpatient setting.

The industry is still highly fragmented. More than 70% of ASCs are independently owned, and the remaining 30% are owned by larger companies. First-movers and organizations willing to take an aggressive stance in the ASC sector will benefit. However, the window of opportunity will soon fade, given the level of interest in the ASC sector and clamoring of investors looking to corner the market.

Forward-looking healthcare organizations should consider prioritizing investments in ASCs, building partnerships with local physician surgical practices, and strengthening their network of referring physicians.

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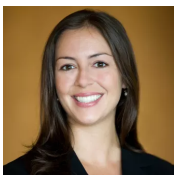
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