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Innovative Revenue Streams for Academic Medical Centers: Reaching Beyond On-Site Patient Care

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Academic Medical Centers (AMCs) are commonly known for providing communities across the globe with comprehensive patient care, extensive research programs, and educating our future health care providers. However, the high costs for delivering these programs are challenged by continual reductions in reimbursement, resulting in AMCs operating on razor-thin margins. Some AMCs have begun to invest in new lines of business that result in innovative revenue streams outside of their "core services" to mitigate financial risk and further promote their missions by investing in the future of their programs. In fact, a number of AMCs have set quantifiable strategic targets for this growth, for example: "25% of net income coming from transformative activities," establishing a "$500 million strategic capital fund," and ensuring "1-2% of long-term investments are in private equity arrangements."

The authors conducted a series of structured interviews with clinical and administrative leaders at leading AMCs in different stages of pursuing innovative revenue opportunities to learn of their successes and reflect on the business and legal challenges of each initiative. Three of these opportunities are highlighted in part one of this two-part article.

Ancillary Services

Although ancillary services are not a new trend in health care, there continues to be a place for investment in ancillary services to access additional revenue streams and expand the patient base. AMCs may also choose whether or not to associate their name and brand with the ancillary service. Common examples of these services include specialty pharmacy, ambulatory surgery centers (ASCs), imaging centers, wellness centers, and urgent care and retail care facilities. When strategically placed, these services allow AMCs to expand their footprint, gain market share, and generate revenue.

For example, Vanderbilt University Medical Center (VUMC) demonstrated this approach in 2017, partnering with Walgreens to provide clinical services at 14 Walgreens stores throughout Middle Tennessee. These retail clinics extend VUMC's footprint and provide patients with access to VUMC clinicians seven days a week for laboratory tests and treatment for common health conditions such as bronchitis, flu, and minor wounds.[1] Another AMC found ASCs to be a significant source of revenue generation, having established over 20 facilities to date.

Business Challenges and Risks

Profitable Operating Models: Freestanding ASCs, imaging, and urgent care centers typically offer services at lower prices than hospital-based facilities and are preferred sites of care for some patients and payers. They are of growing importance with the shift to site-neutrality, direct-to-employer contracting, risk/value-based care initiatives, and delivery of bundled services for a service line's care continuum, such as orthopedics, neurosciences, or oncology. Financial success depends on the freestanding sites developing more streamlined operating models than traditional AMC facilities to deliver more competitive, lower cost services. These programs may be entirely divorced from the core teaching and research missions of the AMC, but they may have some "creep" in these areas as well, as ASCs may also provide some teaching and research opportunities, particularly for training interns and residents who will be dependent on such modalities in their practices, such as orthopedic residents practicing in ASCs. However, this may not be the best approach from a pure bottom-line perspective, as ASCs can be a lucrative venture to fund other core, mission-based service lines. This can similarly be challenging for current imaging leadership and staff that may have less experience developing and working within departments with very lean resources. Leadership must carefully and routinely review operating and administrative costs to ensure expenses remain low and can produce a sufficient profit margin. For-profit providers, particularly, have embraced ancillary services as highly profitable ventures. Done well, these can be real revenue generators for AMCs, rather than a concession to retain the services previously performed in the hospital, and also provide needed services to the community in furtherance of the AMC's charitable mission.

Physician Alignment: Ancillary facilities can be great opportunities to better align with physicians, many of whom are also looking to diversify their time and investments beyond core patient care services. However, employed physicians may be contractually limited from participating in joint ventures (JV) with the AMC. This leaves AMCs to decide whether to allow such opportunities for independent providers in its network at the risk of alienating employed physicians.

Legal Considerations

Ownership and Tax Status: Where does the ancillary service sit within the AMC's ownership structure? The physician enterprise? The hospital? A JV entity? A for-profit venture entity? These decisions have tax implications and may help drive the decision on whether the business is set up as a for-profit or not-for-profit entity. This organizational and tax structure will drive how funding flows through the organization, which ultimately impacts how much profit can be generated by and distributed to owners of the entity. Whereas majority ownership by the AMC is not necessarily required to maintain tax exempt status, if the AMC desires to brand the ancillary services, it should look carefully at any restrictions within its bylaws and any charitable trusts that may apply to its organization to allow for use of the brand. For instance, some AMCs do not allow use of its brand for any venture with less than 50% ownership by the AMC.

Compliance Implications: All ancillary service ventures, particularly those established as JVs between the AMC and physician groups, should be highly scrutinized to ensure they comply with fair market value standards and other current laws and regulations, such as the Stark Law, which regulates physician self-referral, or the Anti-Kickback Statute, which prohibits any person from "knowingly and willfully" providing any remuneration to induce referrals, or in exchange for referrals, of federal health care program patients or business.[2] Of note are the new "value based" exceptions and safe harbors effective in early 2021 that provide creative solutions for joint ventures that further value-based purposes that will likely align with AMCs' missions.[3]

Branding and Affiliations

AMCs often have a unique opportunity to become market makers through the recognition and reputation of their individual brand. In our interviews with AMCs across the country, we found that organizations have varying comfort levels with "monetizing" their brand. While some organizations are reticent to capitalize on this value, others are seeking ways to appropriately recognize the value of these historic intellectual property and reputational assets every time they do a deal. For example, one AMC allows its brand to be associated with a non-owned urgent care center because the center is a part of its clinically integrated network (CIN). Other AMCs insist on greater control over the use of their brand and only allow its use on fully- or majority-owned centers. Other opportunities include brand licensing, care network subscriptions, or external affiliations (e.g., Mayo Clinic Care Network[4] or MD Anderson Cancer Network[5] relationships), including those with organizations outside of the traditional health care market.

One prime example, UK HealthCare, the clinical enterprise of the University of Kentucky, has had great success using its brand in affiliation relationships. As UK HealthCare worked to become a leading research-intensive organization, it focused on providing exceptional, quality care to all Kentuckians. To do so, it partnered with other local organizations and community physicians to help expand its clinical capabilities. These established relationships helped UK HealthCare strategically expand its footprint and led other partnering institutions to seek out UK HealthCare for additional joint venture opportunities. The branding and affiliation opportunities set up UK HealthCare for further financial and clinical success, while simultaneously uplifting other community health care providers.[6]

Business Challenges and Risks

<u>Assigning Value</u>: It can be challenging to assign value to an organization's brand. There are no set rules for what a brand is worth, which makes determining the financial inputs of these intangible assets complicated. However, it is important for AMCs to establish a financial model capable of assessing the return on investment for associating the brand via affiliations, consulting services, capital investments, and other ventures. To assign fair market value to their brand, AMCs may wish to engage in the expertise of a third-party valuator, who may have access to other market information to help apprise the brand's value.

<u>Brand Tarnishment:</u> AMCs must be aware of the significant reputational risks associated with branding. An AMC that chooses to extend its brand to an organization with a negative performance record, such as poor quality, patient experience, unfavorable outcomes, or unethical business practices can have an indirect impact on the AMC and may even cause financial harm to the institution. This is a significant risk that AMC Boards are concerned about when restricting the use of the brand. For example, Tennova Healthcare-Lebanon continued to independently sue patients for outstanding medical debt in the immediate wake of the COVID-19 pandemic, though they were recently acquired by VUMC. As these patients began to speak out, VUMC was obligated to release a public statement clarifying they do not sue patients to collect on medical debt and were not involved in the Tennova Healthcare-Lebanon lawsuits, in an effort to preserve the VUMC brand and mitigate any potential risk from the legal action.[7]

<u>Strategic Alignment:</u> Branding opportunities should be carefully considered to ensure they align with the AMC's mission and strategic vision. AMC Boards of Directors should review potential transactions to determine the appropriateness of the relationship and ensure the arrangement is mutually beneficial and serves to align and elevate the AMC's strategic mission and vision.

Legal Considerations

<u>Oversight</u>: It is essential for AMCs to maintain oversight into the quality, service, and compliance of the organizations with which they partner. AMCs must preserve some quality, charitable, and compliance controls to avoid missteps and potential brand tarnishment. Any agreements that involve the use of the AMC brand should be sure to include provisions for strict brand usage rules and quality monitoring by the AMC as well as termination clauses if the partnering organization's actions put the AMC brand at risk. The AMC should also anticipate all

potential costs that may be incurred in the relationship and ensure these costs are covered in the agreement, such a reimbursement, payer costs, or even legal defense.

Compliance Implications: AMCs must consider the reputational risks associated with licensing and/or affiliating their brand with other organizations. Regardless of approach, AMCs should carefully weigh the risk to their brand and ensure appropriate standards and controls are in place to mitigate potential fallout. As noted previously, AMCs must contemplate how others are benefiting from the brand and appropriately assign fair market value but also ensure all arrangements are commercially reasonable and do not take into account the volume or value of anticipated referrals. Compliance considerations associated with marketing referral source joint venturers in such arrangements have established approaches and risk assessments. These must be taken into account in structuring any such relationships.

Consulting Services

AMCs can leverage their best practices and expertise into consulting services to other organizations to generate additional revenue streams. Such revenue streams may include clinical consultations, telehealth, group purchasing, billing and coding, revenue cycle management, clinical care protocols, and specialty pharmacies.

The Mayo Clinic Laboratories (MCL) is one such service that successfully created a global reference laboratory with the most sophisticated test catalog in the world, performing 25 million tests annually with over 3,200 test and pathology service types, and serving 4.5 million patients worldwide.[8] Through this program, an organization can consult with Mayo Clinic subject-matter experts for logistical best practices to achieve strategic goals and operational excellence within their own institutions.

The Mayo Clinic Care Network is another area for revenue generation, having engaged with 40 practices since 2011 that align with Mayo's values. These organizations pay a membership fee to access Mayo's knowledge and tools, such as eConsults, AskMayoExpert digital platform (care protocols, order sets, alerts, etc.), eBoards, administrative consulting, and more.[9] Mayo Clinic has also designed a consulting package to assist other hospitals seeking to develop "hospital at home" programs, piggybacking on Mayo's best practices in their own such innovative service offerings in Arizona, Florida, Wisconsin, and Minnesota.[10]

A prominent public health care system in California also offers consulting services. As a comprehensive and technologically advanced AMC, this system offers a range of consulting services in areas such as management, clinic development, patient experience, and advanced treatment practices. These services are also offered internationally, expanding their impact and patient base.

However, opportunity for additional revenue generation is not only within the clinical space. AMCs have the opportunity to make a difference in areas outside of the traditional health care industry. Though some of these examples may not be for monetary gain, Delta Airlines (Delta) engaged with Emory University as clinical advisors on safety measures for employee and passenger safety and sanitation processes during the COVID-19 pandemic.[11] Similar partnerships were publicly established last year with JetBlue and Northwell Health,[12] Southwest Airlines and Stanford University School of Medicine,[13] United Airlines and Cleveland Clinic,[14] and American Airlines and Vanderbilt University Medical Center.[15]

Business Challenges and Risks

Resource Constraints: Guiding other organizations to elevate their programs takes time and effort on the part of the AMC. Some programs provide this support through leveraging existing AMC staff, such as the Mayo Clinic Care Network, which offers only services used by Mayo's own staff. Others have found it beneficial to develop a service line within the AMC dedicated to supporting these consulting services. This ensures that there are sufficient resources to provide consulting services as well as the core services typically performed at the AMC. However, hiring and onboarding can be costly, so AMCs must ensure the fees charged for consulting services outweigh the costs and effort associated with providing the benefit. Nevertheless, if done well, consulting service lines can become a collaborative opportunity to improve quality for a community and a large revenue source for AMCs.

Physician Alignment: While consulting services may be a welcome opportunity for some physicians and staff, it may cause conflict for providers with already established consulting relationships with the same organization as the AMC. For instance, an outside organization may compensate a practitioner directly for regular participation in annual speaking events; however, the AMC may later decide to enter into a consulting agreement with the same organization, which includes a certain number of annual public speaking events as part of its fee. This would likely cannibalize those speaking events previously paid directly to the individual physician, who may now be expected to provide this service as part of his or her employment contract with the AMC. AMCs should be aware of such existing relationships and establish protocols for how both the physician and the AMC should proceed when such relationship conflicts arise.

Legal Considerations

Brand Use Rules: AMCs must, again, consider reputational risk and liability implications in high profile consulting projects. It is important to clearly define the scope of consulting services as well as the brand use rules within the contractual relationship and actively monitor use and potential reputational risks when providing consultative services.

Compliance Implications: The Office of Inspector General pays close attention to "white coat advertising," which refers to the practice of physicians, nurses, and other health care professionals advertising or marketing pharmaceutical products. The government often casts a skeptical eye on arrangements where pharmaceutical manufacturers engage physicians to perform research, data collection, consulting services, to serve on advisory boards, or to speak at meetings.[16] Therefore, it is crucial to analyze the reasonableness of any consulting arrangement. Does the arrangement add appropriate value for both parties? Or is the organization interested solely in the AMC's brand and endorsement? If practitioners are paid for public speaking for the AMC, content review and disclosure as a paid consultant is key.

Closing Thoughts

While pursuing non-traditional revenue streams may feel intimidating, they should be considered as part of the AMC's overall strategic goals and initiatives, not just as opportunistic ventures. The three approaches of investing in ancillary services, branding, and consulting services have potential to drive significant revenue to the organization, while enhancing the mission and strategic vision of the AMC. To begin establishing a culture of innovation, key AMC leadership should encourage staff across all departments including legal, administration, and other areas, to be as creative as the clinical innovators within the AMC. Setting system-level goals and metrics for innovation is key to becoming a true "market maker," leveraging the opportunity provided by the AMC brand and expertise. For even more innovative revenue-generating opportunities, look out for part two of this two-part article.

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