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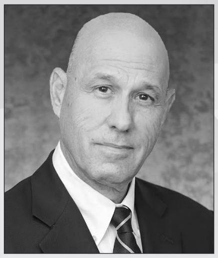
A Clear and Present Disruption



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As I speak with hospital executives across the country, I often hear that industry disruption is not a clear and present danger—that retail clinics are not taking core hospital business, independent freestanding centers can't match hospital quality, virtual care isn't yet in wide demand, and products like app-based diagnostics are still at the science-project stage.

Although I believe that all those examples represent a gathering force for large-scale upheaval, I recently was introduced to a company that represents a threat of real and present disruption.

For hospitals, imaging services account for $24 billion in revenue or 37 percent of profit—the largest of any hospital service line, according to The Advisory Board.[1] Although lower-priced, freestanding imaging facilities have existed for years, hospitals have been able to largely stave off this competition. Hospitals have highlighted their quality, physicians have referred patients to the imaging services of their affiliated hospitals, and consumers have been only minimally aware of the costs of imaging or alternative providers.

A company called Smart Choice MRI is taking on hospitals' valuable imaging business with an attack on all these fronts and more. Its method of attack is a template for future disruption of legacy providers.

Price. Smart Choice charges $600 or less for an MRI. Hospitals charge on average $2,600, according to a 2014 analysis of Medicare pricing data.[2] Healthcare Bluebook lists the "total fair price" for a knee MRI at $1,197, and comments that some facilities charge three to five times more than others, with hospitals usually the most expensive.[3]

Quality. Smart Choice scans are read by subspecialty board-certified radiologists at the Cleveland Clinic. The scans are performed with 1.5 Tesla GE scanners, with an open MRI option. Smart Choice provides MRIs for brain, back, limbs, joints—everything except cardiac, diagnostic breast imaging, and a few other highly specialized exams.

Access. Smart Choice facilities are open Monday through Saturday at a minimum from 7 a.m.-7 p.m., but will open earlier or stay open later based on patient needs. There is no waiting for an appointment. Facilities are located close to well-trafficked stores like Starbucks. "On your lunch hour you can drop off your dry cleaning, get an MRI, and pick up coffee on your way back to the office," said Smart Choice CEO Rick Anderson.

Experience. The facilities are small—2,000 square feet or less—but comfortable, tasteful, and calming. Attention is paid to every detail of the setting, from the art on the walls to the TV shows in the waiting area. (When I visited a not-yet-open clinic with the CEO, he assured me that a better holder for the coffee stirrers was on its way.) The whole process takes less than an hour, including getting a CD of the scan results. "You wouldn't believe the rave reviews we get on our patient surveys about how well people are treated," Anderson said. The company gets 98 percent overall satisfaction ratings and has a net promoter score of 81 (showing that a high proportion of customers are willing to recommend the company to others).

Awareness. So far, Smart Choice markets directly and only to consumers. Its awareness campaigns are highly targeted. For example, the company advertises in gyms and on elevators in buildings with a large number of medical offices. Its digital search and advertising tactics target people who are likely in need of an MRI. Smart Choice also advertises on radio, billboards, and buses. The pitch is focused on low prices and high quality. "We want to drive awareness not only of Smart Choice MRI, but also of consumer choice in healthcare," said Anderson.

A look at who goes to Smart Choice is perhaps the most daunting information for hospitals. Seventy to 80 percent of patients are self-referrals. These are people whose physicians ordered an MRI and who actively pursued a non-traditional facility—in essence, they are working around the typical gatekeeper model that is the basis of hospital traffic.

The majority of patients say that price, their insurance deductible, or their co-pay is the number-one reason they visited Smart Choice. However, convenience and word of mouth are also strong drivers. Visitors are spread across multiple income levels. Perhaps even more revealing is that 65 to 75 percent of visitors have had MRIs previously. These are people who have received a bill for an MRI before and likely do not want to see a similar one, especially when they have high deductibles and co-pays.

Smart Choice is scaling up rapidly. The company has six facilities in Wisconsin. Recently, Smart Choice moved into the Chicago market with four locations and five more to come this year, along with four in Minnesota. The company has plans to expand into five new markets in 2017. The company's key criterion for choosing a region is the spread between Smart Choice's price and average hospital price in that area. Smart Choice also is actively looking for new clinical services that fit its business model—services that the company can peel away from hospitals and offer with high quality, access, convenience, and patient satisfaction.

Smart Choice is not the only company making a play for the MRI market. Nor is it the only company using this model to work around traditional healthcare gatekeepers. For example, a company called WellnessFX offers direct-to-consumer blood tests by connecting patients with local labs, delivering easy-to-understand results on the website, and offering a virtual consultation with a physician, nutritionist, or registered dietician about the results.[4]

Is this is the future of healthcare? Will we be seeing more companies that select a narrow band of high-volume, high-profit services; deliver those services at a significantly lower price; provide a high level of quality and convenience; cater to the growing population of activated consumers; and scale up rapidly?

In the case of MRIs and Smart Choice, hospitals are faced with a different value proposition: Why would a patient go to a hospital facility for an MRI as opposed to a low-price, convenient alternative? In the absence of a good answer to that question, hospitals can expect to see a different kind of competitive market for low-intensity, non-acute services.

Hospitals have a number of options. They can choose to partner with upstart companies, compete with them head to head, or adjust hospital cost structure and operations in anticipation of reduced market share.

Disruption is not an abstraction, a fad, or something that exists only at the margins of the hospital business. Smart Choice and similar companies are introducing a new and viable business model that is under the control of patient needs and preferences—a model that the Internet economy suggests can scale and offers consumers a contemporary way of receiving care.

Think Amazon and Borders, and Netflix and Blockbuster, and you have the general idea.

Your comments are welcome. I can be reached at: kkaufman@kaufmanhall.com.

Ken Kaufman's book *Fast and Furious: Observations on Healthcare's Transformation* is available at: kaufmanhall.com/fastandfurious.

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[1] Basu, P.: "The Radiology Department: From Profit to Cost Center." *Executive Insight,* April 5, 2012. http://healthcare-executive-insight.advanceweb.com/Archives/Article-Archives/The-Radiology-Department-From-Cost-to-Profit-Center.aspx

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[2] Glover, L.: "Why Does an MRI Cost So Darn Much?" *Money,* July 16, 2014. http://time.com/money/2995166/why-does-mri-cost-so-much/

[3] Healhcare Bluebook: Knee MRI (with and without contrast). Accessed May 5, 2016. https://healthcarebluebook.com/page_ProcedureDetails.aspx?id=298&dataset=MD

[4] WellnessFX website: https://www.wellnessfx.com/ (Accessed May 10, 2016)