ARCHETYPE
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Physician series | Volume 3 of 5

National Medical Group Franchise

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Key takeaways

- A national medical group franchise is a for-profit entity, not owned by a hospital or health system, that directly delivers patient care
- Organizations operate in a variety of reimbursement models including traditional fee for service, concierge medicine and value-based contracts.
- Successful national medical group franchises win market share through cost-efficient care and by becoming a preferred provider for care delivery in targeted markets.
- Health plans and private funders are investing in national medical group franchises, fueling rapid growth.

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Physician-Owned Medical Group

Preview: A medical group that is wholly or majority physician owned, physician-governed, and not operated by a hospital, insurance company, or practice management company

VOLUME 2 To come

Enablement Partner

Preview: A private corporation that provides centralized, scalable business resources through a subscription service or investment in a medical group's managed service organization (MSO)

VOLUME 3

National Medical Group Franchise

Preview: A national, for-profit care delivery organization that is not owned by a hospital or health system

VOLUME 4 Read here

Virtual Care Organization

Preview: A care delivery organization that only offers telemedicine services

VOLUME 5 Read here

Health System-Owned Medical Group

Preview: A single or multi-specialty group of physicians employed by a hospital or health system

Physician Archetype Series Comparison Chart
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Who they are

A national medical group franchise is a for-profit entity not owned by a hospital or health system that directly delivers patient care. National medical group franchises operate in more than one market and are actively looking to grow their footprint. They often receive funding from private equity/venture capital organizations or a large payer.

National medical group franchises can be single specialty (most often primary care), or multispecialty. Multispecialty organizations employ providers to deliver care in owned or affiliated ambulatory surgery, imaging, lab, or infusion centers for high volume, low-acuity outpatient services.

How do these groups make money?

National medical group franchises provide patient care and payers for services. Some organizations operate a traditional a fee-for-service business model, while others use alternate business models including:

- Concierge medicine (e.g. OneMedical). In this model, a patient pays a membership fee to access care with the group and physicians bill payers for services on a fee for service basis. These medical groups compete on access, offering same day appointments and direct communication with providers
- Value-based contracts with health plans to take on full risk for Medicare Advantage patients (e.g. ChenMed). In this model, the organization uses low panel sizes and high-touch care coordination to reduce costs for poly-chronic, high-risk patients.

1. Advisory Board Integrated Medical Group Benchmark Generator 2019.

What's the group's relationship with physicians?

National medical group franchises employ physicians to deliver care. They acquire physician-owned medical groups and/or directly recruit physicians.

Physician compensation structure varies between groups however most use a combination of salary and performance-based bonus. For those groups heavily invested in value-based contracts, physicians are measured on their ability to control costs for patients. Other groups may offer equity or productivity enhancements to drive high quality care.

What makes them different

National medical group franchises operate in multiple markets in contrast to the many health system and physician-owned groups whose operations are often limited to regional or local service areas. Corporate leaders set group priorities at the national level, while regional leaders are tasked with implementation. As a result, individual physicians at any given practice are more likely to be influenced national (as opposed to regional) standards for operational and clinical decision-making compared to physicians in other entities.

Other physician entities may have more targeted, market specific or hospital-led priorities. National franchise groups, however, are focused on cost-efficient care delivery as the primary differentiator driving franchise growth. They also have the flexibility to prioritize attractive markets for entrance and further investment.

Key decision-makers

What is the group's governance structure?

National medical group franchises are centrally governed. The corporate team develops a specific care model which trickles down to individual locations. Though exact models vary, they often include a Chief Medical Officer on their corporate executive team. This individual designs and implements clinical programs.

As these organizations grow, they may create regional structures. In this model, regional medical directors oversee clinical standards and care delivery for a particular part of the country. For the largest groups, they may add an additional level of a site medical director, a physician who spends 10-30% of time on leadership and governance. These regional and site medical directors often have voting rights or input into the group's care standards and may be able to set certain standards for their own group. They are then responsible for implementing these care standards.

How much autonomy do physicians have in purchasing decisions?

LOW

Individual physicians have little autonomy in purchasing as centralized medical boards or leadership make these decisions. Standardization and brand are important to national medical group franchise leadership and they want to ensure that the patient experience remains consistent across locations. Leadership looks to consistency from facility design and furniture selection to medical product selection.

How much autonomy do physicians have in clinical standardization efforts?

LOW

Clinical standards are set by central leadership, with little autonomy for individual locations and physicians. Decisions are informed by centralized data and analytics platforms that compare metrics and performance across sites.

Three market trends to watch

01

TREND

Franchises target specific markets with the best growth opportunities

02

TREND

Groups focus on either specialization or scale

03

TREND

Continued investment by payers and private funders

01 Franchises target specific markets with the best growth opportunities

Successful national medical group franchises win market share through cost-efficient and preferred care delivery in targeted markets. They evaluate the level of provider consolidation, payer mix, shift to risk and patient access needs to identify the best opportunity to carve out a growing portion of the market. Nearly all look for markets that are not heavily consolidated by providers but are high cost, so there is room to compete for volumes currently held by acute care and other health system-affiliated facilities.

These organizations do not deploy a uniform approach across the country. Instead, they adapt to specific market factors when deciding where to expand. Depending on the specific patient population that the organization is targeting, they may also look at payer-specific factors. Those organizations who are looking to take on full risk will look for markets with high Medicare Advantage enrollment rates. Organizations who are looking to attract commercial patients will look for those markets with a higher percentage of patients on commercial plans and growing younger populations.

02 Groups focus on either specialization or scale

National medical group franchises make a deliberate decision to either specialize in niche populations or scale their services to reach as many patients as possible. These distinctions, particularly prevalent in the primary care space, make these organizations different from those that seek to serve all patients through the same channel. Organizations that seek specialization, like ChenMed or Oak Street, typically aim to serve those with multiple chronic conditions. Those that look to scale services, like Crossover Health or OneMedical, leverage advanced practice providers and technology to manage larger patient panels.

Both care and business models differ due to organizations' focus

Focus on specialization		Focus on scale
High-touch management Coordinate care for complex chronic care patients	← *Care model* →	**Convenient access** Provide low-cost access for generally healthy patients
Control total costs Destroy demand for hospitalizations, ED visits, and specialty care referrals to profit from risk contracts	← *Business model* →	**Enhance efficiency** Improve productivity of clinical workforce to profit from primary care itself

03 Continued investment by payers and private funders

Rapid growth in this space is fueled by both health plan investment in patient care and investment by private funders interested in new care delivery models. The past few years have seen many new medical group franchises entering the health care market. Some of this growth is due to health plan investment in care delivery as plans look to grow their ambulatory care presence. Their hope is to both drive volumes to grow revenues from non-plan business but also to push their plan members to lower-cost care sites when possible.

In addition to this vertical integration activity by health plans, there has also been tremendous investment in these medical group franchises by venture capital funds and private equity. For example, Iora Health, a primary care operator, had received over $340 million of funding as of February 2020. Funders in this space see particularly see primary care as a place for innovation and an opportunity to bring down costs of health care.

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