

Business Case for a New Economic Opportunity

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Health Care Economics and Decision Making

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Whilborne Medical Center (WMC) is a multispecialty health care facility situated in proximity to an industrial park. Its management is planning to start a new economic initiative in the form of an urgent care center (UCC) within WMC's premises. The UCC will not only help provide quality health care to the community but also provide an additional revenue stream for WMC. The objective of this business case is to present a detailed report on the feasibility and cost-benefit considerations of implementing the proposed economic initiative over the next five years. The business case includes an evaluation of various risks and opportunities associated with the new initiative. It recommends ways to lessen the risks associated with setting up the UCC and strategies for controlling costs and maximizing benefits.

Opportunities Associated With the Proposed Economic Initiative

An economic and environmental analysis was performed to determine the opportunities and risks associated with the UCC. WMC is situated near Maxima Industrial Park. Most of the patients treated at WMC are among the 30,000 workers from different companies in the industrial park. Additionally, the area has around 3,000 locals. The UCC may cater to the non-emergent needs of both the workers from the park and the locals in the area.

UCCs present an opportunity to reduce overcrowding in the ED at WMC. Often, EDs have to tend to patients whose cases are urgent, but do not merit the emergent care that EDs provide (Qin, Prybutok, Prybutok, & Wang, 2015). Non-emergent cases can be diverted to the UCC, where health care personnel will be able to treat workers of the industrial park who walk in with work-related injuries or for preventive care. Additionally, any urgent health care needs of the local community may be met by the UCC. The ED will be able to exclusively tend to the

Comment [A1]: This is great that your initiative can help address a larger problem within the U.S. health care system as well as help your organization.

more emergent cases, while the UCC will exclusively tend to the urgent care cases received by WMC. Thus, an additional revenue stream for WMC will be created with the addition of the UCC.

Additionally, UCCs must serve a high number of patients to break even (Yee, Lechner, & Boukus, 2013). Therefore, location near a target patient population is an important factor in the success of a UCC (Gurganious & Greenfield, 2015). The required target population for the UCC is found in the 30,000 workers employed at Maxima Industrial Park. WMC has developed a relationship with workers from the park through the annual health checkups it organizes. The UCC can benefit from this relationship as there is a high likelihood that employees who are satisfied with the care they received at WMC will return to the UCC for urgent care issues.

A competitor analysis conducted in the area shows that there are two primary health clinics, but no UCCs in WMC's vicinity. Most patients prefer primary health clinics over UCCs and EDs (Qin et al., 2015). This issue is mitigated by the number of work hours that EDs and UCCs have over primary health clinics. With the introduction of a UCC, patients will be able to avail after-hours health care for minor illnesses on any day of the week at lower costs compared to primary health clinics (Chang, Brundage, & Chokshi, 2015). Also, as patients can go to a UCC without an appointment (unlike a primary health clinic), they will find the UCC more accessible for treating minor illnesses (Yakobi, 2017). These advantages over its competitors will help WMC capture a significant market share in the urgent care segment.

Risks Associated With the Economic Initiative and Ways to Address Them

The potential risks associated with the setting up of a UCC were identified. It was observed during the competitor analysis that a retail health clinic inside a Walmart store situated

near WMC could pose a threat to the UCC. Retail health clinics are walk-in clinics located inside grocery stores or supermarkets. They mainly provide convenient care to retail store customers suffering from minor illnesses. Like UCCs, many retail health clinics offer after-hours care and easy accessibility without an appointment; at the same time, the health care cost at these clinics is less than it is at UCCs (Chang et al., 2015). Therefore, the presence of the retail health clinic puts the financial security of the UCC at risk as it might appear more attractive to patients in need of urgent care.

Comment [A2]: It is good that you have identified this threat...this is something that could undermined the economics of your initiative.

A UCC is equipped to handle a wider number of ailments than a retail health clinic (Chang et al., 2015). Being affiliated with WMC, the UCC can provide its patients access to more facilities such as scans and tests that are not provided by retail health clinics and other UCCs. These factors set the UCC at WMC apart from its competitors and can be used to promote the clinic. Clients will consider the UCC a convenient and viable option for their healthcare, where multiple tests can be done if needed. Additionally, the UCC must also ensure that the focus of the clinic is on providing a convenient and satisfactory experience for the patient (Gurganious & Greenfield, 2015). If patients receive quick and timely care from excellent service providers, they will be encouraged to visit again and refer new patients to the UCC.

UCCs are known for providing immediate care to many patients in a relatively short time (Yakobi, 2017). The staff and management of the UCC will have to be aware that the high-volume, speedy health care delivery environment leaves room for errors such as misdiagnoses. These errors can result in the UCC and its staff facing serious legal risks. Therefore, it is important for the UCC to maintain meticulous documentation to insulate itself from the consequences of misdiagnoses or medical malpractice. The symptoms, physical observations, and lab results which are used to develop a plan to administer care should be identified to ensure

that the plan has clarity and is logical ("Why good documentation matters", 2016). It is also binding on UCC physicians to set patients' expectations by communicating with them effectively about the nature of services provided ("Helping patients make informed decisions", 2014). These measures ensure that, despite the difficulties resulting from high demand, both patients and health care practitioners are mindful of the treatment that is administered.

Cost–Benefit Analysis of the Proposed Economic Initiative

After considering the opportunities and risks involved, the costs and benefits of setting up a UCC are analyzed. To assess the economic feasibility of setting up a UCC, the present value of the estimated costs and benefits and the net benefit over a 5-year time horizon are calculated using a present value discount rate of 11%. The present value discount rate has been determined based on the standard cost of capital and the estimated target returns. The estimated capital cost includes minor construction costs and the cost of purchasing furniture and equipment. These are conservatively projected to be \$350,000 in the current year (Golinkin & Danielle, 2013). The estimated operating costs comprise expenditure on salaries paid to the staff; basic utilities such as electricity, gas, and the Internet; insurance (including insurance for staff, business liability, building, furniture, and equipment); and other operating expenses such as administrative and marketing costs.

On an average, most UCCs have two full-time (or part-time) physicians, two nurse practitioners, and three medical assistants or other clinical staff (Weinick, Bristol, & DesRoches, 2009). It is assumed that two physicians, two nurse practitioners, three medical assistants, and a medical receptionist will be recruited by the UCC. Based on the national average recruitment incentives, staff salaries (per annum) in the first year of operation are assumed to be around \$232,000 for a full-time physician, \$112,000 for a nurse practitioner, \$35,000 for a medical

assistant, and \$32,000 for a receptionist (U.S. Bureau of Labor Statistics, 2017). The actual growth rate of an employee's salary in the U.S. is 2.7% per annum (Economic Policy Institute, 2018). For this analysis, salaries of the employees of the UCC are assumed to increase at a conservative rate of 3% per annum. Additional costs will be incurred in years four and five to hire a full-time nurse practitioner (year four) and a full-time physician (year five) to cater to the increased number of patients.

The cost of basic utilities is assumed to increase by around 5% per annum, as utilization of basic utilities will increase owing to an increase in patient volume. Considering that new staff will be hired in the fourth and fifth years of operation, insurance costs are assumed to increase in these 2 years owing to addition of staff. Other operating costs are assumed to be around 12% of annual revenue based on WMC's financial statements. As per the cost-benefit analysis, the present value of the total costs over the 5-year period is estimated at \$5,489,745.62, using a present value discount rate of 11% (see Appendix for more information on cost-benefit analysis over a 5-year period).

Benefit (revenue) was calculated based on the fee collected from each patient and the number of patients expected to make use of the medical services at the UCC. Most clinics tend to the needs of an average of around 357 patients every week and charge an average fee of approximately \$156 per patient visit (AMN Healthcare, 2015; Yakobi, 2017). Therefore, the estimated revenue earned during the first year of operations will be \$2,730,000. It is also assumed that the revenue will increase by 5.3% per annum over the 5-year period based on the national average ("Urgent Care Center Market", 2018). Based on the estimated revenue over the 5-year period and the 11% present value discount rate, the present value of total benefits is estimated at \$11,037,800.03 (see Appendix for more information on cost-benefit analysis over a

5-year period). The net benefit, calculated by subtracting the present value of total benefits from the present value of total costs, is estimated at \$5,548,054.41 over a 5-year period (see Appendix for more information on cost–benefit analysis over a 5-year period). Based on the positive net benefit, it can be concluded that this initiative will be an economically viable one.

It should be noted that, although the cost–benefit analysis suggests that setting up a UCC is a viable option, some knowledge gaps and unknowns are bound to be present. The impact of nonmonetary costs, such as the time and effort spent on marketing and ensuring a good patient experience, has not been considered in the analysis. Nonmonetary costs can have an effect on the patient volume and that, in turn, can affect the net benefit. An increase in capital and operating costs due to some unexpected developments or unforeseen expenses can affect the net benefit gained. The patient volume may also vary depending on unpredictable factors such as the health care market environment. All these factors can have a significant impact on the result of the cost–benefit analysis.

Ways to Control Costs and Maximize Benefits

It is essential for the senior management to regularly implement methods to control costs and monitor the financial position of the UCC. Overhead costs that are not directly related to providing health care services make up a large portion of the total costs of the UCC. Overhead costs include expenditure on building maintenance, repairs, insurance, basic utilities, and supplies. The UCC will keep a check on building maintenance costs by undertaking maintenance checks on a regular basis. To avoid significant repair costs, the staff will ensure that equipment is handled with care and maintained in good condition. By reviewing the usage of electricity, gas, water, phone, and the Internet on an annual basis, the UCC will also control basic utility expenses. Low-cost plans, based on the UCC's requirements, will be chosen to control expenses

on phone and Internet services. To avoid wastage of supplies, the staff will be encouraged to use office supplies with discretion. Impractical cost control measures might adversely affect staff morale and performance. Therefore, care will be taken to ensure that all the measures undertaken are relevant, ethical, and culturally equitable.

Along with keeping a check on the costs, efforts will be made to maximize the benefits.

A potential means of increasing the benefits of the UCC is sending automated health reminders to regular clients. This will help ensure a regular inflow of clients. Providing consistently good

Comment [A3]: Good strategy.

service to all patients will encourage them to come back to the UCC whenever they need immediate medical attention. This will also help build strong patient trust and loyalty. Also, understanding what motivates patients and their views about health care will help the UCC staff to customize care and thus increase patient satisfaction and inflow (Qin et al., 2017). Therefore, ensuring optimal utilization of resources and providing quality care will help the UCC maintain its financial stability.

Conclusion

The UCC will cater to the urgent care needs of the community by providing quick, affordable, and convenient health care services. The center's proximity to the industrial area will benefit workers who might require urgent care or want to get preventive health checkups done as part of their employment requirements. Thus, the UCC will be able to generate an additional revenue stream and contribute to the economic growth of WMC. Moreover, the cost-benefit suggests that setting up the UCC will be an economically viable initiative. Ethical solutions such as careful documentation of the treatment process and full communication of the plan of care with the patient were recommended. These solutions, which reduce the risks associated with the setting up of the UCC, will also help safeguard the future of WMC.

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Comment [A4]: The “www.” is retained as the link does not open without adding it to the URL.

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Appendix

Cost–Benefit Analysis Over a 5-Year Period

Costs	Current Year (CY) (\$)	CY +1 (\$)	CY +2 (\$)	CY +3 (\$)	CY +4 (\$)	CY +5 (\$)	Total Costs (\$)
Capital Costs							
Construction	350,000.00						
Furniture & Equipment							
Operating Costs							
Staff Salaries		825,000.00	849,750.00	875,242.50	1,023,885.20	1,315,719.80	
Basic Utilities		55,000.00	57,750.00	60,637.50	63,669.38	66,852.84	
Insurance		15,000.00	15,000.00	15,000.00	20,000.00	25,000.00	
Other Operating Costs		327,600.00	343,980.00	361,179.00	379,237.95	398,199.85	
Total Costs (Future Value)	350,000.00	1,222,600.00	1,266,480.00	1,312,059.00	1,486,792.52	1,805,772.49	
Total Costs (Present Value)	350,000.00	1,101,441.44	1,027,903.58	959,366.23	979,396.29	1,071,638.08	5,489,745.62
Benefits	Current Year (CY) (\$)	CY +1 (\$)	CY +2 (\$)	CY +3 (\$)	CY +4 (\$)	CY +5 (\$)	Total Costs (\$)
Increase in Revenue		2,730,000.00	2,866,500.00	3,009,825.00	3,160,316.25	3,318,332.06	
Total Benefits (Future Value)		2,730,000.00	2,866,500.00	3,009,825.00	3,160,316.25	3,318,332.06	
Total Benefits (Present Value)		2,459,459.46	2,326,515.70	2,200,758.10	2,081,798.20	1,969,268.57	11,037,800.03
Present Value Discount Rate	0.11						
PV Denominator	1.00	1.11	1.23	1.37	1.52	1.69	
Net Benefit							5,548,054.41