Executive Insights

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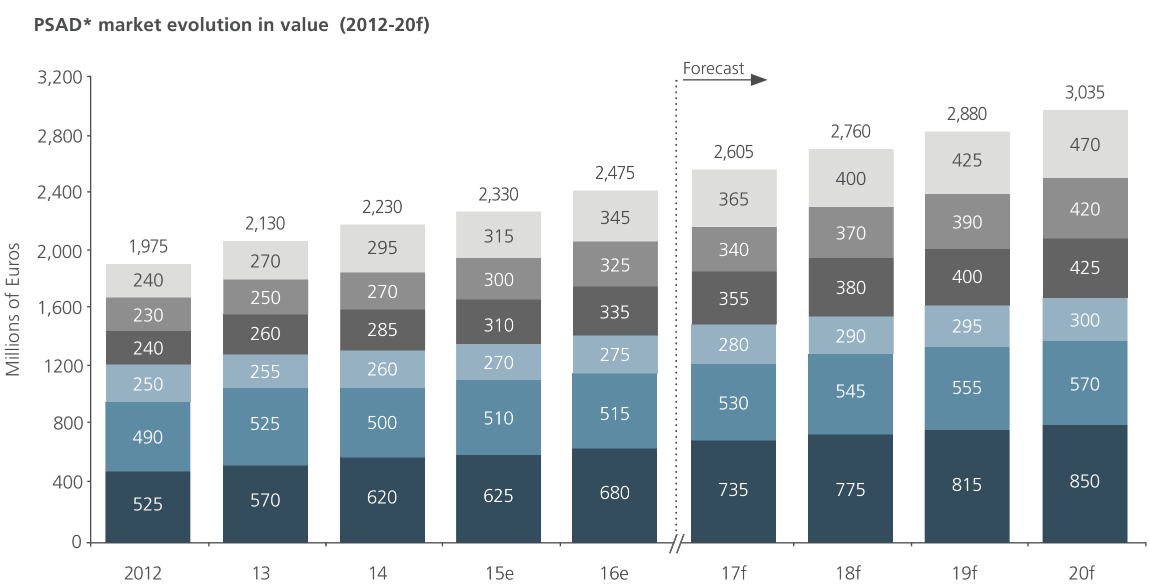
Beating the Health Spending Squeeze: Strategies for France's Homecare Service Providers

France's homecare service providers have enjoyed robust earnings in recent years, but that is beginning to change amid government pressure to reduce healthcare costs.

While more patients are choosing homecare services, spending cuts and new capital expenditure requirements are squeezing providers' margins. However, providers can address these challenges and boost growth and profitability by consolidating local market share in their core segments and improving operational efficiencies.

Figure 1
Value of the French homecare market



	CAGR% (2012-16e)	CAGR% (16e -20f)
Total	**5.9**	**5.2**
Insulin therapy	9.4	8.0
Perfusion	9.1	6.4
Nutrition	8.6	6.4
Ventilation	2.5	2.2
Oxygen therapy	1.5	2.3
PPC	6.8	5.7

Source: CEPS, L.E.K. Research and Analysis
*PSAD: Prestataires de santé à domicile

Beating the Health Spending Squeeze: Strategies for France's Homecare Service Providers was written by **Arnaud Sergent** and **Serge Hovsepian**, Partners in L.E.K. Consulting's Healthcare practice. Arnaud and Serge are based in Paris.

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Pricing pressures

According to L.E.K. analysis, the number of patients receiving homecare services in France has grown by more than 40% in recent years, from c.780,000 in 2012 to 1.13m in 2016. The rise can be attributed to two main factors:

- The growing number of elderly in an ageing population, which experience chronic diseases, triggering the need for services.
- Homecare can cost up to 40% less than a hospital stay for the same level of patient care and is more comfortable for the patient. As a result, it has become the preferred pathway for treating patients with an increasing range of conditions, from respiratory disease to insulin therapy.

The value of the market grew by around 9% a year, between 2006 and 2011. But growth slowed from 2012 to 6% a year, with the market value reaching close to €2.5bn in 2016 (see Figure 1), not reflecting the rise in the number of patients.

As the bill for homecare services increased with patient numbers, the *Comité économique des produits de santé* (economics committee for health products, or CEPS) which sets the homecare service tariffs identified the need to control spending on home healthcare. A number of techniques were introduced to limit spending, including lowering the tariffs set for homecare services and closer control of medical equipment consumption (see Figure 2).

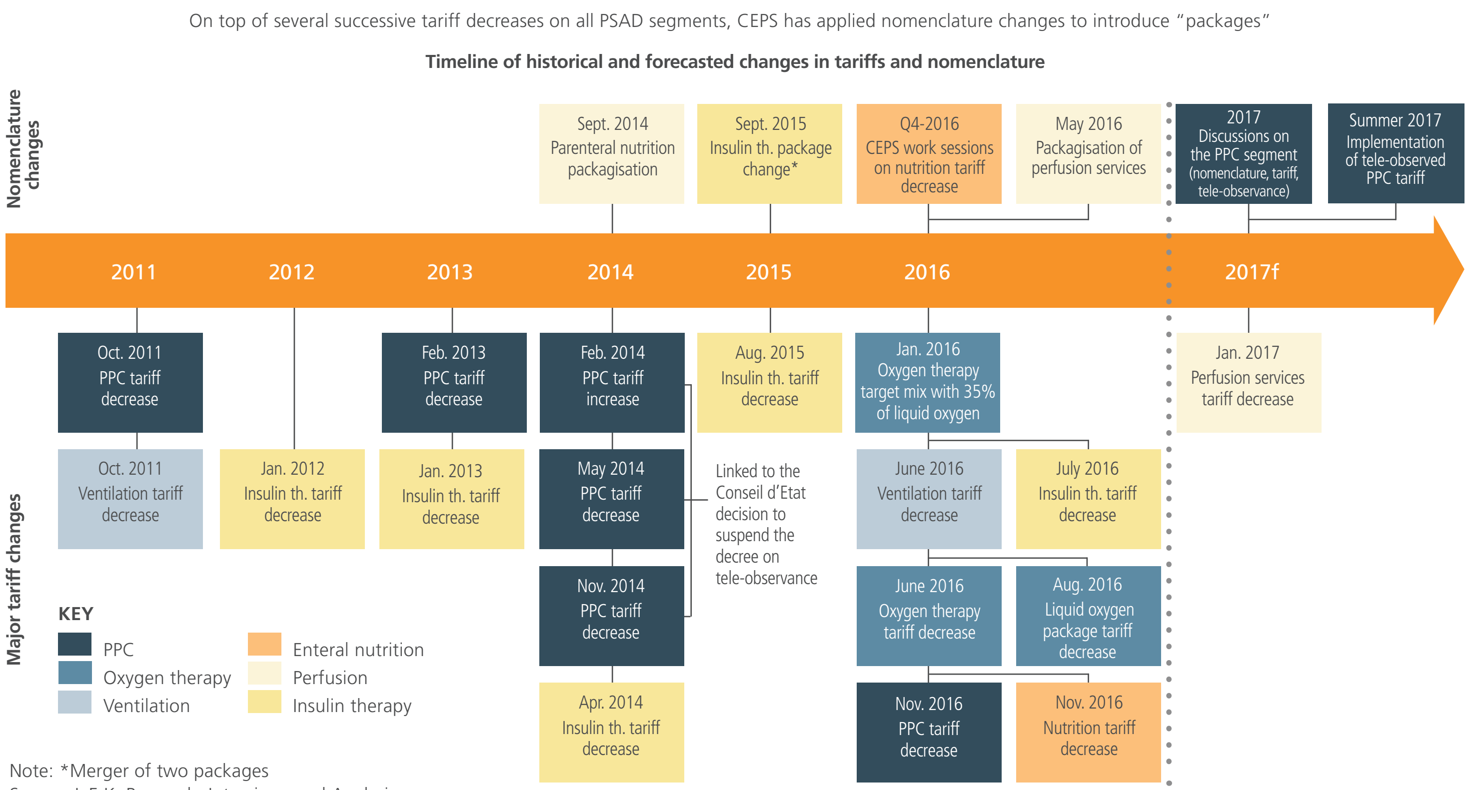
Successive governments have systematically amended the tariff for different services, reducing the amount reimbursed by the French health insurance scheme, *Assurance Maladie*. Most recently, they introduced a change in the way consumables and equipment – such as wound dressings, needles and antiseptics – are reimbursed. Homecare providers charged for each item of equipment and consumables provided to each patient, but in May 2016 the system changed and a fixed reimbursement tariff by patient was set together with obligations for the service provider in terms of type and quantities of equipment to be delivered.

This hit revenues and margins in many areas of care, including in administration of fluids through IV drip or infusions – an area that had previously been untouched by tariff changes.

In August 2016, the CEPS announced further decreases of 4-10% in the reimbursement costs of products and services. These cuts, implemented without negotiation, affected nine areas: self-monitoring of blood glucose levels, self-care of diabetes, sleep apnoea, prevention of bed sores, oral nutrition, enteral nutrition, stoma care, incontinence and orthopaedic shoes.

Figure 2

Changes to tariffs and reimbursement levels



Note: *Merger of two packages
Source: L.E.K. Research, Interviews and Analysis

The changes are expected to save the government more than €180m a year; but for homecare providers, the reductions could significantly impact their margins, even as patient numbers grow.

Homecare service providers are also facing higher operating costs and increased capital expenditure to comply with new standards introduced by CEPS. They are required to invest in a range of updated technology systems, including tele-monitoring equipment to ensure that sleep apnoea patients are using equipment properly. The estimated IT costs of these updates are close to €400,000 per provider.

Despite these challenges, we believe providers can still maintain profits if they act to consolidate local market share and focus on achieving operational excellence.

Expanding local market share

Providers could partially offset the impact of lower tariffs by increasing their patient volumes in local markets; supplying services to multiple patients in the same area reduces travel time for staff, helping to maintain or even increase profitability.

The homecare services market is heavily fragmented. Some 40% of providers are small independent companies or not-for-profit organisations. Such groups are prime acquisition targets for building local market share. Indeed, independent firms are likely to make even better targets now that their revenues are being squeezed by recent tariff measures. They have probably suffered more than others from decreasing profitability and may be more open to the idea of selling.

Recognising the value of such an opportunity, larger homecare service providers have already made several acquisitions. Air Liquide, the market leader in France, has steadily built up its health business by making acquisitions, bolstering its expertise in homecare for respiratory disease and in treating conditions like diabetes.

Local market share can also be increased through an organic growth strategy that focuses on forging strong ties with local doctors and practitioners, i.e. work on the referral pathway. Homecare services must be prescribed by a doctor, so fostering close relationships with doctors in local hospitals and medical facilities in the community should be a priority. Homecare service providers should co-develop protocols to make these ties stronger, entice doctors to direct patients to them, and above all to improve patient care; they are the eyes and ears of the physician in the patient's home, and are able to raise alerts and monitor side effects, resulting in better patient outcomes. Currently, a number of referral models co-exist, some of which have arisen by chance and are highly dependent on the individuals managing them (see Figure 3).

In each locality, there are a few doctors who have a large number of patients and who, as a result of their position, can influence the referral decisions of other physicians in the area; service providers should focus on these physicians and caregivers.

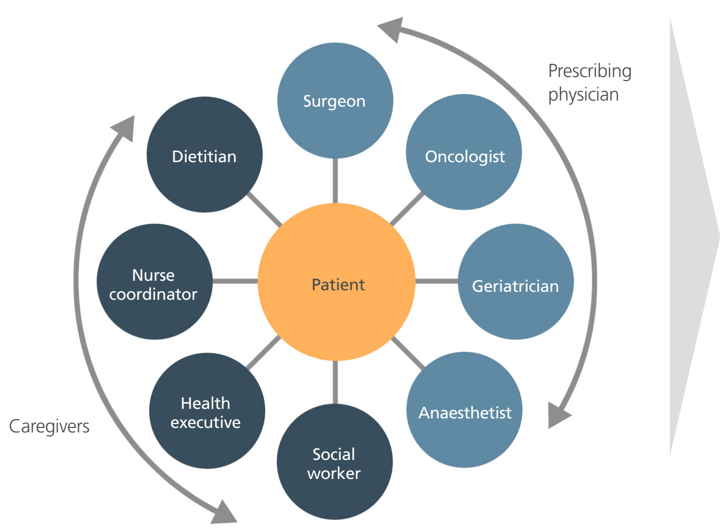
Homecare providers that have forged long-lasting relationships with leading medical practitioners are better positioned to expand their businesses, creating larger and denser patient populations that provide them with efficiencies of scale and size.

Towards operational excellence

Homecare providers should also be aiming to optimize revenues and margins by ensuring that staff systems and routines are

Figure 3

A range of prescribing physicians and caregivers influence a patient's treatment options



5 different models were identified within a department in a given hospital

- Physician advises patients to turn to one or several homecare providers with whom he/she has no pre-existing agreement
- Physician advises patients to turn to one or several homecare partners with whom he/she is used to work
- Caregiver advises patients following guidelines from the hospital
- Caregiver advises patients to turn to one or several homecare partners he/she usually work with
- Caregiver advises patients to turn to one or several homecare providers with whom he/she has no pre-existing agreement

Source: L.E.K. Research, Interviews and Analysis

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streamlined and standardized. Visits to patients should be scheduled efficiently to reduce travel time and ensure that the maximum number of visits can be carried out each day by technicians and nurses. The same approach should be applied to commercial staff visiting prescribers. In a business where profits are tied to staff and logistics costs, deploying the company's on-field staff most efficiently is a cornerstone of achieving operational excellence (see Figure 4).

High-performance IT tools can also help improve management of patient and physician populations and optimize the scheduling and reporting of patient visits. This frees up agents to focus more on patient services and improves patient care by having high-quality interactions that are transparent and faster. Patient and doctor satisfaction creates a virtuous cycle that stimulates business growth.

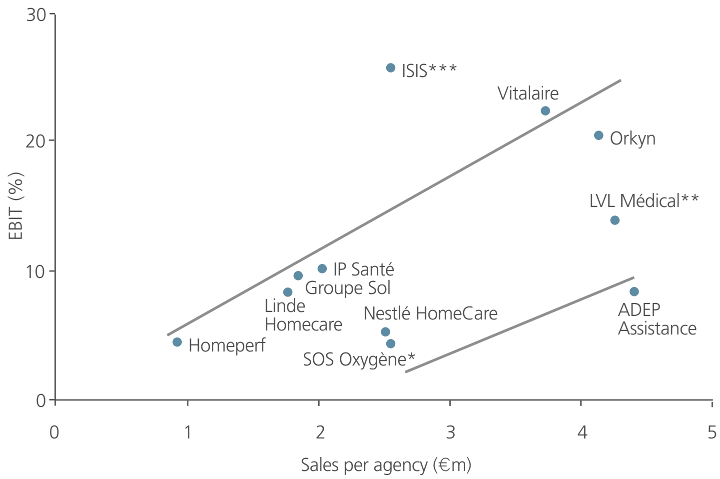
Providers need to adapt

The squeeze on French homecare providers' margin is only likely to become tighter. Providers need to act now to identify strategies that will protect margins and stimulate growth.

Market winners will be the businesses that concentrate on building critical size in local markets, identifying operational efficiencies and fostering relationships with the referrers. Partnerships with medical technology and pharmaceutical companies, and the development of integrated care models, are other opportunities for service line growth.

Figure 4
Larger agencies achieve economies of scale and higher EBIT margins

Ratio between sales per agency and EBIT margin of PSAD players



Note: *Based 12 SOS Oxygène entities; **Based on 5 LVL Medical entities; ***Based on 6 ISIS entities Source: Diane, L.E.K. Research and Analysis

Against all these pressures, providers need to ensure that quality does not deteriorate as they strive for more efficiency while taking on higher numbers of patients with an increasing risk profile.

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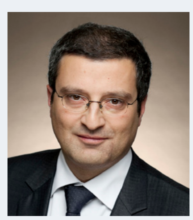

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