



RETAIL CLINICS-FRIEND OR FOE OF THE HOSPITAL? PART I:

The opportunity for hospitals to win with a retail clinic model

By Mary Kate Scott, for HealthLeaders Media, January 4, 2008

Considering that they're the smallest players in the healthcare arena, retail clinics get a lot of attention. In an industry that has seen dozens of hotly contested (and failed) approaches over the years to achieving "right care, right provider, right time, right cost," retail clinics are a rare thing: a model that truly delivers these goals and resonates with consumers. Retail clinics have increased price transparency, quality and convenience, and everyone--including the media, regulators, the medical establishment, investors and major hospitals--is taking notice.

In the past year, the number of retail clinics grew from roughly 150 to 700 clinics, managed by more than 40 operators. To date, 15 percent of these clinics are owned and run by hospitals, and more than a third of the clinic operator companies are part of hospital systems. This, in and of itself, is surprising. Retail clinics typically generate a modest \$1 million in revenues per location, compared with hundreds of millions (or billions) in revenues generated from a hospital.

So why are multi-billion dollar hospital systems interested in these relatively small-time operations? In short, it's because there are strategic, operational, and learning opportunities for hospitals in the retail clinic space. Forward-thinking hospital managers are looking for ways to capture the upside of retail clinics and mitigate the potential future loss of patients and earnings they represent.

The retail clinic model is straightforward: The clinics offer a limited menu of medical services on a walk-in basis, are staffed with nurse practitioners who are lower cost than physicians, and are located in small, relatively inexpensive retail spaces. Consumers have responded very favorably to this approach to care, with 1.35 million clinic visits to date and 90 plus-percent reported satisfaction rates on quality of care, convenience and cost. While initially clinics appealed to the two ends of the economic spectrum (affluent consumers who didn't care about out-of-pocket cost because they wanted convenience and people who didn't have insurance and were looking for lower out-of-pocket costs), consumers from all socioeconomic groups are now using these clinics, reporting high levels of satisfaction and intent to return.

So what does this mean for hospitals? Consider the following value points of retail clinics:

1. Increase capacity and reduce costs in the ED by redirecting patients. Hospitals that have overcrowded emergency departments are diverting non-urgent patients (e.g., a child with a mild middle ear infection who comes in on a Friday night) to their own branded clinics within their facilities or in nearby retail stores.

For example, Aurora Health Care System in Wisconsin, serves its non-urgent patients far more quickly and economically (for both patients and insurance carriers) in a clinic than would not have been possible in a busy emergency room. If the patient is insured, clinics reduce the consumer co-payment costs; if the patient is not insured, he or she will pay a much lower out of pocket cost in a retail clinic than an ER. For uncompensated care, the hospital saves by caring for the patient in the most cost effective manner.

Hospitals are implementing this strategy by either owning and operating clinics in retail stores (such as Aurora in drug stores); other hospitals are evaluating the use of a modular retail clinic facility situated next door to their ED--patients can self-select or are provided with the clinic option when they check in with a nurse.

2. Keep patients in network--a defensive move. Establishing retail clinics as part of a hospital chain "saturates" the market, dissuading the competition from establishing a foothold in that marketplace. AtlantiCare in New Jersey is an example of this strategy.

"We were the first to open a retail clinic in New Jersey. Our intention was to get started and to create some barriers to entry. If we had retail clinic stores then we hoped that Minute Clinic wouldn't come into our market," says AtlantiCare Health Services President Don Parker. To date, this has worked--the AtlantiCare retail clinics are the only clinics in this market.

In a similar vein, Sutter Health wanted to keep patients in its network in the competitive California market. Sutter named its clinics Sutter Express, leveraging a strong brand name, differentiating itself from other clinics, emphasizing the clinics' hospital roots, and highlighting the advantage of a common EMR.

3. Attract new patients into the network. Retail clinics are an inexpensive way to bring your services and brand to new patient populations. This can be a way to pave the entry for a new or larger hospital facility, or a way to draw new populations to your existing facilities.

For example, Geisinger established its retail clinics 10-plus miles from its hospital locations in an explicit effort to bring new patients from a broader area into its network. Alegant Quick Care (part of Alegant Health of Omaha) opened a new clinic in Plattsmouth, 20 miles south of its hospital base, because it couldn't yet justify a full service hospital in this small (but growing) bedroom community, but wanted to establish a foothold for its brand in a promising market.

4. Create new, lower-cost methods of customer acquisition and brand exposure. Clearly, consumers visit their supermarket, drugstore and mass merchandiser more often than they visit hospitals. The average shopper goes to the grocery store 2.2 times per week, and may only visit a hospital once a year (if that). When hospitals compare the traditional cost of acquiring a new hospital customer with the cost of operating retail clinics, they find that clinics are relatively inexpensive for large systems to operate (even if at a small loss, or small profit). Clinics can simply be a lower-cost way to market expensive hospital services and build brand exposure. Strong brands are built through customer experience, rather than only through marketing communications, and a retail clinic can offer a positive, personal consumer experience.

5. Drive changes in public health (integrated payer/provider systems). Wellness is a major priority for

the payer-provider system, and food is an essential part of health and wellness. Organizations like AtlantiCare believe that by putting clinics into grocery stores, often along with nutrition programs, they can drive better public health while also bringing down total patient costs.

Hospitals recognize that there are "ancillary" benefits to their retail clinic operations. While these benefits alone don't justify establishing clinics, they illuminate smart ways to leverage a retail clinic operation.

6. Create a channel for new business lines. Durable Medical Equipment Distribution: AtlantiCare uses clinics to let people try DME items they sell (scooter, canes), while Aurora drives its overall pharmacy business by placing clinics inside retail pharmacies that it owns.

7. Pilot new technologies "skunkworks" with people who embrace change. Hospital staff who choose to work in new retail operations are often agents for change, and relish the opportunity to create new approaches to patient care or system processes. Alegen in Omaha is using their clinics as the pilot for EMRs.

"People who work in our retail clinics enjoy change, and the opportunity to create new ways to serve our patients. They are well suited to trying out new technologies," says Rocky Fredrickson, CEO of Alegen Health Clinic.

8. Understand the new Generation X patient. Seventy percent of all clinic visits are by Gen-X (age 28-42) moms and their kids, compared with about 22 percent of all PCP visits. This generation has a different view of a medical home and medical relationships, and this is the age where medical relationships and habits are formed. Hospitals that are struggling to understand and address the changing needs of younger patients see retail clinics as a straightforward way to serve, learn about and develop relationships with this community.

Next week Part II: **Tools for Hospitals to assess the potential impact on their patient and physician populations, economics, and brand**--a pragmatic guide for hospitals to assess the retail clinic opportunity and create a strategy for improved patient care, patient and provider satisfaction and maximum impact.

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