

## **RETAIL CLINICS-FRIEND OR FOE OF THE HOSPITAL? PART II:**

*Tools to assess the potential impact on patient and physician populations, economics, and brand*

By Mary Kate Scott, for HealthLeaders Media, January 18, 2008

Part I of this article discussed the retail clinic model, the increase in clinics, and the consumer interest in clinics, with particular emphasis on the surprising fact that more than a third of the clinic operator companies are part of hospital systems. 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 (new patients, brand building and financial gain) and mitigate the potential downside (loss of patients and earnings) they could represent.

Before moving forward with a retail clinic, hospitals need to be clear on their own goals and understand how a clinic might play out across their system and in their community. Only then can a hospital choose the right play: to "watch and wait" as retail clinics evolve in their markets, form a partnership with an existing clinic operator, or build and manage their own branded clinic.

**1. Prioritize the hospital's goals for a retail clinic.** Retail clinics can help hospitals achieve several goals, so it's critical to ensure which are the highest priority needs. Some examples of high-priority goals are: cost reduction from uncompensated care, better quality of service, keeping patients in networks, and caseload reduction in other areas of the hospital network. Different strategic priorities lead to different clinic solutions. For example, if the goal is to keep patients in network, a high-traffic external location in the community (even next door to potential competitors) makes sense; whereas if the goal is to reduce uncompensated care and overcrowding in the ED, it makes more sense to extend the ED with a co-located modular facility where uninsured patients can be easily redirected.

**2. Understand local consumer attitudes about health care options.** Consumer response to clinics has been positive and strong. Still, it's critical to understand how local consumers respond to competitive health care offerings. It's relatively easy to commission consumer research in your own market to determine patient response to a hospital affiliated clinic. One hospital in the Pacific Northwest tested several different retail clinics models, with different clinic names, prices, menus of services and different retail locations to predict consumer acceptance. This research can be tailored by Zip Code, by in or out of network patients, and by insured or uninsured populations. Consumer research can help a hospital reduce its risk by better understanding which patients might be attracted and the overall impact on hospital operations.

**3. Develop a financial forecast based on the volume of patients who might shift from the ED to retail clinics.** Within your own hospital, how many ED patients would be candidates for retail clinics given the limited scope of service--that is, how many of your current ED visits are for diagnoses or treatments that could be provided in retail clinics? Beyond the basic numbers, you must also understand who these patients are and why they might opt to use retail clinics (for convenience or cost) or not (perceptions of quality of care, awareness of the options). What will be the economic impact of moving patients to a different facility? Reimbursement rates will be lower from insurance carriers for retail clinics, but if a hospital has significant uncompensated care, savings are substantial. It is not as simple as determining if a patient is insured or not-- both groups of patients can have positive economic impact.

**4. Anticipate the physician reaction and the hospital's response and communication plan.** One unique challenge for hospital-affiliated clinic providers has been to secure their own physicians' support. Clinic advocates have made two arguments to physicians: one, if the hospital didn't offer a clinic then a competitor would; and two, that clinics are an opportunity to keep a patient in the network. Despite substantial investments in outreach to physicians to educate them on the rationale for the clinics, the majority of clinic operators experienced significant physician concern prior to opening. However, once the clinics were open, physicians were more positive, viewed the clinics as one of several points of delivery of care, and saw it as worthwhile to maintain the patient within the system with continuity of care. Hospital systems can test local physicians' potential reactions using online research techniques. This research can enable a system to determine the fit with their own hospital goals, anticipate physician response, and formulate communication strategies for different constituents.

**5. Decide who will operate the clinic--the hospital or an external provider.** Several hospitals are choosing to operate their own clinics (see above for examples) and others are working with existing clinic operators, providing their brand names, expertise, physician oversight, and access to nurse practitioners. Aurora--the earliest hospital entrant to the retail clinic world--operates its own clinics, whereas Hermann Memorial in Houston, Texas, provides its brand and physician oversight to RediClinics, and has developed a deeper understanding of the potential of clinics and their patients as a result of this partnership. Several other hospitals work with external operators (such as Medcor and others) who operate the clinics under the name of the hospital system.

**6. Determine where the clinic should be located--on hospital grounds or in a retail environment.** Most hospitals who are participating in this trend are using retail locations for their clinics, including drug, grocery and mass merchandiser formats. Aurora is in WalMart, Sutter is in drug stores, and Atlanticare is in grocery stores. Several hospitals are now considering establishing clinics on their own grounds--either outside the front door of an ED, near the ED, or in a modular facility. Hospitals need to make this decision based on their goals--and an understanding of which patients will use this new facility, for what conditions and when. Each location offers different economics and will need a higher or lower volume of patients to justify the economics of different venues.

**7. Understand the non-economic commitment it takes for a hospital to be a retail clinic operator.** Launching a clinic business has required a paradigm shift for hospital providers, who are eager to innovate and extend their knowledge of new delivery models, but who often know little about executing consumer-driven health care.

"We're learning every day about consumers and the retail world," says Linda Khachadourian, VP of Strategy and Business Development at Sutter Health. "This is so consumer-centric, and we don't have retail experience. We hired a program director, specifically recruiting someone with a retail background. We've also had to learn to be lean and simplify. As a large organization, making these changes has required a mindset shift."

Every hospital-affiliated clinic operator has different business goals and economic models, and retail clinics may not necessarily be suitable for every hospital. However, every hospital should know how to assess the opportunity clinics present. Understanding the economics and business models of clinics is a start, but, in fact, hospitals have numerous cost-saving advantages over standalone clinics: They can leverage their existing infrastructure (technology, protocols, and electronic records), assets, physician referral networks, brands, and insurance carrier relationships. Hospitals should systematically evaluate their assets, their strategic goals, their patients' needs, local consumer attitudes, and potential physician responses in order to realize the full potential economic and brand impact retail clinics can offer.

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Mary Kate Scott, Principal of Scott & Company, is a nationally recognized authority on retail clinics. Her firm helps hospital systems evaluate the retail clinic opportunity, calculate the economic and brand impact, and predict local consumer and physician response to different clinic operations. She is the author of The California HealthCare Foundation reports: *Health Care in the Express Lane: The Emergence of Retail Clinics*, and *Health Care in the Express Lane: The Retail Clinics Go Mainstream*. She offers speeches, workshops and media commentary on the intersection of consumers, healthcare and technology. Scott can be reached at [mks@marykatescott.com](mailto:mks@marykatescott.com) or (310) 822-6130.