preparing to succeed in a retail healthcare environment

Understanding the principles of retail competition and how to put them into practice can help health systems flourish in a changing healthcare industry.

As health care transitions to value-based models of care delivery and payment, an imperative to engage in retail care has emerged for hospitals and health systems.

Retail care is a consumer-driven approach to care delivery, grounded in retail principles and compelled by market forces that are giving patients tools and incentives to act as consumers, and not merely recipients, of healthcare and well-care services (see the sidebar on page 2). Faced with greater financial responsibility for their health care, individuals are beginning to approach many healthcare-purchasing decisions much as they approach everyday retail purchases, “shopping around” for the best value.

In step with this trend, major retail companies—including Walgreens, CVS Health, Walmart, and Target—have entered or are expanding their presence in the healthcare provider market, offering primary care, specialty infusion, respiratory care, and laboratory and other services at convenient locations and at prices that are significantly lower than those at physician offices and hospitals.

Freestanding ambulatory imaging and surgical centers, urgent care centers, and retail clinics are effectively competing with hospitals by offering low-acuity and well-care services in many areas of the country. Their average prices are difficult, if not impossible, for hospitals to match.

AT A GLANCE

> Health systems should be willing and able to engage in retail health care, given increasing incentives and opportunities for consumers to shop around for care.
> Understanding seven dimensions of retail care, and assessing the competitive landscape and the associated risk, can help health systems prepare to succeed in a retail healthcare environment.
> Health systems then can undertake a focused retail strategy, starting with reconfiguring their delivery network as needed.
Market Forces That Create the Retail Imperative

Health care’s new business model seeks to ensure delivery of the right services at the right location and time and at an appropriate cost, in turn achieving the Triple Aim of lower healthcare costs and improved population health and care quality. This new model has given rise to the following trends:

- Higher out-of-pocket costs for insured individuals
- Transparency of price and quality data, leading to actionable consumer information
- Increased and varied competition among providers, with new entrants attracted by the industry’s evolving business model
- Consumer expectations related to convenience and service consistency
- New applications of technology and data, enabling virtual patient monitoring and care provision

Source: Kaufman, Hall & Associates, Inc.

Consider, for example, that the average cost nationwide to treat a urinary tract infection in an urgent care center is $110, compared with $665 in an emergency department (ED), or that the average cost to perform a colonoscopy in a community-based center is $625, compared with $1,383 in a hospital outpatient department.

Other new types of online competitors, such as virtuwell by HealthPartners and Carena, are providing telehealth services to appeal to busy, price-sensitive consumers who would prefer not to go to any facility at all.

In response to these developments, hospitals and health systems should adopt a clearly defined, consumer-centric ambulatory and virtual strategy and a thoughtfully considered tactical plan for delivering care in all settings and through new modalities. This effort can help organizations create a retail playbook for maintaining or increasing relevance and market share—and building financial and clinical strength—in a changing industry.

Points and Principles of Retail Competition

The trend toward transparency in health care is enabling patients to adopt a retail mentality and be more discriminating in deciding where to go and how much to pay for services. Armed with smartphone-accessible data about providers, patients as consumers can weigh their care choices based on a combination of factors, including convenience, access, patient/customer satisfaction, brand, IT connectivity, quality, service, and price—with the latter increasingly of prime importance.

For payers, employers, and physicians, transparency is providing the information with which to select high-value providers, with price and quality paramount. (In the context of retail care, these purchasers play a role akin to a wholesale distributor.)

The exhibit on page 3 outlines seven competitive dimensions for providers in a retail environment with empowered consumers and other purchasers. Each has critical importance to hospitals and health systems and is applicable to all care settings—including hospitals, outpatient clinics or offices, post-acute care facilities, homes, and virtual/mobile “anywhere care.” Some dimensions, such as competitive pricing and multichannel offerings, are relatively new for most hospitals. Others, such as customer experience and brand preference, have been competitive strategies in health care and other industries for many decades.

All providers are well-advised to study these dimensions because their continued relevance as organizations will depend on how well they can adapt to the growing pervasiveness of a retail/consumer focus within the industry.

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Assessing the Landscape and Competitive Position

Hospitals and health systems should follow a best-practice approach when contemplating how to most effectively participate in a retail care environment. Considerations should be based on an in-depth strategic and financial analysis of the organization’s current and desired future positions.

Like all integrated planning, the analysis should start with an evaluation of the competition for retail-oriented healthcare services in the relevant market of the hospital or health system, focusing particularly on outpatient and virtual/mobile services where active consumer decision making is increasing. Services to consider include:

- Primary care
- Urgent care, walk-in, and retail clinics
- Selected ambulatory surgery facilities
- Outpatient laboratories, imaging, and rehabilitation (including physical therapy and occupational therapy)
- Virtual or mobile-enabled care

The competitive picture may vary by type of service and site. For example, freestanding radiology services may be particularly competitive in some markets based on significantly lower price points and more convenient access, drawing business away from area hospitals.

The best-practice analysis also should consider the potential for expansion of retail-oriented healthcare services in the organization’s market and study the organizations that are ahead of the curve in growing such services. Market entrants that could significantly disrupt the traditional delivery model through exceptional performance in the seven dimensions of retail competition should be identified and monitored.

Next, the organization’s retail infrastructure and readiness to execute retail strategies should be assessed. To identify readiness gaps, this analysis should consider qualitative and quantitative factors related to each of the seven competitive dimensions.

For example, an organization that is relatively unprepared in the “multichannel offering” dimension typically is inpatient-focused, with very little ambulatory or virtual presence. In contrast, a well-prepared organization offers access points that include ambulatory, virtual, mobile, telemedicine, and e-visit options, with advanced use of technology for all patient-facing applications. Similarly, a less prepared organization has limited knowledge of its customers.

**Audio Interview**

Mark E. Grube, managing director of Kaufman, Hall & Associates, Inc., shares thoughts on whether hospitals should adjust their approaches to care delivery in the face of retail competition at hfma.org/hfm.
beyond quantity and type of service provided, while a more prepared organization has clearly defined patient segments and strategies in place to address each segment.

**Understanding Risk**

Hospitals and health systems face market-specific and global risks in a retail/consumerism environment. Market-specific risks include competitor offerings of key price-sensitive services and the likelihood of new competition from lower-priced, nonhospital providers. The strategic and financial implications for an organization’s business mix (as consumers begin to approach their healthcare purchases as they would retail purchases) create global risks. Multiple factors will influence choice and, therefore, provider risk, such as the extent of pricing differentials, perceived quality differentials, access differentials, and how effectively the organization communicates with consumers and establishes customer loyalty.

Certain services for which prices fall within consumer deductibles and out-of-pocket maximums are particularly at risk of migrating elsewhere. For example, as indicated in the exhibit below, the average price of a knee magnetic resonance imaging (MRI) procedure in hospital outpatient departments is about $315 more than in nonhospital, community-based facilities. Hospital radiologists may argue that hospital facilities can deliver better image quality than can community sites, but consumers may not understand or value the difference, in which case their choice is more likely to be influenced by cost. The differential for colonoscopies is even greater.

Multihospital systems serving multiple states or multiple markets within a state may have different competitors or arrangements with payers that will affect revenues and at-risk contribution margins at a local level. For example, an analysis showed that a statewide health system’s mean payments for colonoscopies in its hospitals were higher than payments received by other hospitals and freestanding facilities in each of the three regions it serves. The differences were most notable in the southern and northern regions, where the system’s hospitals were paid at least twice as much as other hospitals in the region and three to four times as much as freestanding facilities. This payment differential represents significant risk in a price-sensitive environment.

Hospitals should identify and quantify the services and businesses that are at greatest risk of moving to nearby providers and settings. Often, the services at risk are important, if not vital, financial contributors for organizations, as indicated in the exhibit at right.

It is important to quantify the total net revenue and contribution margin at risk. Also important is a financial assessment of the trade-off between lost market share and revenue when pursuing a “change nothing” strategy versus a strategy of price discounting (see the exhibit on page 6).

**Developing the Strategy**

An assessment of the organization’s existing retail care capabilities and infrastructure and an analysis of gaps, opportunities, and risks inform the development of its retail care strategy.

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**COST COMPARISON FOR SELECTED SERVICES**

<table>
<thead>
<tr>
<th>Site of Service</th>
<th>Knee MRI</th>
<th>Colonoscopy</th>
<th>Lab Test (comprehensive metabolic panel)</th>
<th>Physical Therapy (therapeutic exercises)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hospital Outpatient</td>
<td>$919.43</td>
<td>$1,383.34</td>
<td>$37.11</td>
<td>$77.74</td>
</tr>
<tr>
<td>Community Setting</td>
<td>$605.67</td>
<td>$625.23</td>
<td>$12.75</td>
<td>$55.23</td>
</tr>
</tbody>
</table>

Key questions that healthcare executives and boards should address as part of this process include:

- How do we reconfigure our delivery network with retail principles in mind? What is our inpatient strategy? What is our ambulatory strategy? What is our virtual/mobile strategy?
- How do we offer services and products in a way that will influence and incentivize first-time purchasing and return business? What is our customer segmentation and engagement strategy? What is our brand strategy?
- How should we price our services? Can we price services based on shifting price sensitivity? What are nonprice considerations for effective competition?
- How can we ensure that our strategy enables us to compete more effectively in a value-based delivery and payment environment?

**Reconfiguring the delivery network.** Network transformation is a multiyear process that requires staging based on each organization’s unique market, physician affiliations, facilities, and competitive abilities. A clear blueprint of the changes to be made, the key interdependencies, the sequence of changes, the related costs, and the potential challenges will guide this transition. The goal is a delivery network that competes in a retail-driven market through lower costs and improved outcomes.

The existing hospital infrastructure is unlikely to have the right assets in the right geographies for the cost-conscious retail environment. In many cases, incremental growth of delivery networks under the fee-for-service model resulted in duplication of resource-intensive services, inconveniently located facilities, and gaps in the care continuum. The infrastructure components needed for a robust consumer-centric system will be different.

As illustrated in the exhibit on page 7, the organization of services in a specific region will include:

- Community-based sites offering a single type of service, a range of types of services (multiproduct sites), or comprehensive multiproduct “big box” centers with multispecialty clinics
- Medical centers with varying levels of sophistication and reach, whether locally, regionally, or nationally

All sites will provide consumer-friendly, high-value services. Hospital and health system executives and trustees should define their organizations’ roles in this largely outpatient- and telehealth-based delivery system. Most organizations will need to develop ambulatory strength to meet intensifying expectations from payers, employers, and patients for low-cost and high-quality care. Healthcare purchasers will be looking for services outside the hospital setting in convenient, high-traffic locations. Building, buying, or partnering opportunities may be feasible for developing low-cost or freestanding service offerings. Partnering with retailers may be an option in some services and geographic areas.

Use of virtual and mobile diagnostic and treatment modalities will be an important competitive strategy. Emerging “anywhere care,” particularly for healthy patients and those with chronic diseases, involves few, if any, facility-based assets.

<table>
<thead>
<tr>
<th><strong>CONTRIBUTION MARGIN OF AT-RISK OUTPATIENT SERVICES, COMMERCIAL PAYERS</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total At Risk</strong></td>
</tr>
<tr>
<td>$154</td>
</tr>
</tbody>
</table>

**Sample Organization**
$3 billion net patient service revenue and $41 million operating income in 2013

Note: Dollars in millions. Source: Kaufman, Hall & Associates, Inc.

A significant portion ($154 million) of a health system’s contribution margin is at risk because of the potential for diminishing commercial payments on certain outpatient services. Loss of even a moderate percentage of this business clearly would compromise the system’s operating income.
until the patient requires an in-person appointment.

**Using a retail-like approach.** The blueprint should identify how the organization will adopt a retail/consumerism approach and mindset for services in all settings.

Key considerations include:

- **Use of clinical and nonclinical “touch points”** with consumers, and consistency of focus on customer service excellence throughout a patient’s experience
- Identification of key customer segments and development of a personalized approach to education and communication for each
- Implementation of procedures for directing patients to optimal sites of care or service and for helping physicians with referrals and payer processes (e.g., preauthorizations and certifications)
- Use of virtual visits, e-visits, and telemedicine to position the organization as progressive and to build its brand as a tech-savvy entity
- Development of a data repository and a corresponding analytics platform that integrates electronic health record and registry data from hospital inpatient and outpatient settings, physician offices, and other sites of care—and that includes claims and cost-accounting data—to build an accurate picture of the patient population as a whole and of segments within

Each dimension of a retail approach as outlined in the exhibit on page 3 should be addressed for each service in each sphere, whether inpatient, outpatient, or virtual/mobile. Markets are moving at different speeds, but consumer, employer, and physician value-shopping can be expected to accelerate over the next five years. Timely development and implementation of retail care strategies will be increasingly important in areas that have a substantial presence of large employers, high rates of adoption of high-deductible health plans, significant enrollment in individual plans through public exchanges, fragmented competition among providers, extensive independent ambulatory and outpatient competition, and relatively high adoption of transparency tools by employers and health plans.

**Addressing price and nonprice points of competition.**

A defined set of pricing strategies and tactics should be included in the blueprint. These should start with policies and procedures to increase organizational transparency about price and quality. The organization should have in place a well-defined system for providing consumers with clear answers to questions about the cost of services. Patients generally want to know their out-of-pocket costs based on their specific benefit design, while payers and employers want to reach an agreed-upon competitive price. Online price estimator tools,
along with accurate cost and quality data, are increasingly common.\(^c\)

Trying to match competitor prices in all services is not likely to be appropriate or feasible, but hospitals should understand the differential between their prices and those of their competitors.

For example, the outpatient pricing strategy developed for one health system—using the analytics illustrated in the exhibits on pages 4–6—included the tactic of offering selectively discounted prices at its freestanding facilities in regions at high risk of imaging attrition. The organization would begin with “micro-experimental” discounting to gauge price and demand sensitivity in the market. In one area, for example, MRI would be discounted, but not computed tomography imaging. The strategy also included identification of “loss leader” services for downstream value in selected regions. But because price can still be viewed as a proxy for quality, the organization recognized that having too low a price may lead to quality concerns among some consumers, particularly those using transparency tools with limited or no quality information.

Price is only one factor that retail-minded consumers will use to select providers. Nonprice elements such as availability, expanded hours, online scheduling, and consumer-friendly communication are critically important. How simple is the scheduling process for consumers, and can it be completed online? How long does a patient wait to see a primary care physician or specialist for non-emergent, non-procedure-based needs? What are the wait times in the ED and for urgent care? Is the waiting time posted at outpatient clinics (as it is at Walgreens clinics)? How differentiated are services from those of competitors, and what level of brand recognition does the organization achieve?

Hospital cost structures continue to be the “elephant in the room.” To compete more effectively on price, hospitals must resize their delivery networks, streamline their cost structures, and offer services in more cost-effective settings. The ability to track and analyze key service line and business costs along with profitability by payer and patient population will...

be particularly important in helping hospitals succeed in retail care.

**A Tectonic Change**

Shifting to a retail focus in a consumer-driven environment represents a fundamental change in how hospital systems have traditionally operated. Effective, sustainable competition and financial performance demand significant focus by leadership to build understanding, support, and momentum across the organization. New strategies are required, each with a series of questions for hospital executives and trustees to answer (see the web extra article at hfma.org/hfm). New “intellectual capital” also is required, particularly related to:

- Consumer research to glean market-leading insights and actions
- Technology and consumer marketing to accelerate a virtual strategy
- Analytics, tactics, and implementation support to guide the overall retail strategy

Partnerships with companies to access their extensive expertise and sophisticated platforms may be required, as these offer a lower-risk way of accelerating progress.

A thorough, organizationwide understanding of global and market-specific risks and the key competitive principles can guide the development and implementation of an effective retail playbook. This playbook positions the organization for success in providing retail-oriented, consumer-focused care to manage population health in a value-based delivery and payment environment.

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