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IN STORE

The cash and carry business of healthcare.

BY DAVID HENRY

WHAT'S IN STORE

Healthcare organizations step into the future by tapping into the cash and carry business of healthcare retail.

Mindy Thompson and her team often spend their workdays in hospital lobbies, where they are helping to inject new life—and new revenue—into the business of healthcare.

Thompson is the founder and president of Simply Retail Inc., a Minneapolis consulting firm. Over the last seven years, her firm has helped 40 clients—primarily hospitals, clinics, and healthcare systems—develop

and implement retail strategies customized to each organization's patient mix and traffic volume. These techniques now generate more than \$100 million in combined annual sales.



“Providing retail products and services on the healthcare campus isn’t a luxury; it’s a necessity,” Thompson says. “If you take a breast cancer patient who has just undergone surgery and tell her she has to drive two or three places to buy deodorant and other health-related items, she isn’t going to be happy.”

Hospitals and healthcare systems are trying to ease that pain. Growing numbers are crafting retail strategies to meet patients’ healthcare needs, while producing significant new revenue. Old-fashioned gift shops are giving way to full-blown retail centers that sell not only magazines, cards, and flowers, but also maternity clothes, specialty products for newborns and moms, lotions for skin cancer patients, identification bracelets for diabetics, and more.

A Growing Market

“Healthcare organizations are overlooking thousands of ‘cash and carry’ products vital to the patient’s health and well-being, such as robes, pillows, moist heat packs, pregnancy belts, and diabetic footwear,” Thompson points out. “Taking advantage of heavy consumer traffic in hospital lobbies and waiting areas allows them to reclaim patients while growing their revenue base.”

Insurance generally doesn’t cover healthcare retail products and services. Out of pocket spending on these items in the United States is around \$256 billion and is growing at a rate of 10% a year. Yet only 2% of healthcare systems are taking advantage of this cash and carry business.

That’s beginning to change rapidly as hospitals develop sophisticated retail strategies, asserts Jamie Orlikoff, president of Orlikoff & Associates Inc., a Chicago-based healthcare consulting firm.

“One of the major drivers of this trend is that hospitals have to lessen their dependence on Medicare and seek other revenue sources. The reimbursement environment is becoming so constrained and the future of Medicare is so worrisome

that they really can’t rely on that alone to stay in business,” Orlikoff says. Healthcare retail also presents opportunities to improve the quality of care, deliver convenience, and increase patient satisfaction.

The need to find new sources of revenue was one of the reasons Woman’s Hospital of Baton Rouge, La., began developing a healthcare retail strategy in 2004, says Stephanie Anderson, the hospital’s vice president of diversified services. Her hospital is implementing the plan this year, with assistance from Simply Retail. (See the “From Retail to Revenue” sidebar on page 18).

“Like many hospitals, we are always looking for new sources of revenue, particularly those not subject to managed care discounting or dependent on volatile funding sources, like government payors,” Anderson says. “Healthcare retail fits that description perfectly.”

And hospitals and clinics can generate a tremendous amount of revenue in a very small space, which is good for existing facilities, according to Anderson.

While traditional healthcare gift shops bring in about \$500 per square foot annually, Simply Retail’s clients are bringing in around \$800 to \$1,000 per square foot. And in 2003, one client produced nearly \$70 million in gross retail sales. That client is expecting gross sales to top \$110 million by 2006. “That’s an organization that really understands this,” says Maria Lemcke, Simply Retail’s chief operations officer. “They get it. They manage multiple retail concepts in multiple locations, and they have fully integrated retail into their operations.”

Retail Discovery

Research is critical to the development of a successful, integrated healthcare retail strategy. “Retail is a science,” Thompson says. “You don’t want to just build a ‘medical mall’ and then lease space to a bank, a restaurant, and a pharmacy. It’s about creating a strategy.” She adds that you need to have a sense of daily traffic volume and to find out what kind of opportunity is available. “You need to customize the kind of retail you want to do for your patient mix and activity.”

Thompson refers to the research process as “retail discovery.” At Simply Retail, an in-depth analysis of a client organization’s opportunities can take 90 days and typically includes seven tasks:

Interviews with healthcare employees. These people know the patients, as well as their needs.

Data collection and review. A clear, objective picture of patients and the reasons they are in the hospital can help with decisions about appropriate retail development.

On-site tours and traffic-volume analyses. Monitors placed at entrances measure activity and help identify suitable spots for particular retail concepts.

Definition of retail concepts. What kind of outlets and merchandise will thrive, given patient mix and traffic volume?

Compilation of financial data. How much will the retail concepts generate annually? And how much will they cost?

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Net margins for a successful operation can reach the 15%–20% range.

Concept renderings. The hospital must develop a clear plan for interiors and exteriors, space, fixtures, and merchandise.

Determination of square footage. Some hospitals elect to open only modest kiosks or small in-line shops, whereas others build multi-store retail spaces that cover 10,000 square feet or more.

Retail Trek

Once a hospital has completed the discovery phase and created a retail strategy, it can begin implementation. This process, which Thompson refers to as the “retail trek,” typically takes three to six months for a single facility and includes six components.

Project management. Retail development isn’t a core competency for hospitals, so many elect to outsource project management and other specialized tasks.

Store and signage design. These can offer opportunities to extend the hospital’s brand.

Hardware and software selection for point-of-sale use.

Appropriate technologies can facilitate such tasks as record-keeping and purchasing.

Interviewing and hiring of retail staff. For these positions, retail experience is more valuable than healthcare experience, Lemcke and Thompson claim.

Development of an appropriate product mix and an appropriate list of vendors. This may be difficult if the healthcare system has little retail experience or tries to implement the strategy without expert guidance.

Grand opening merchandising and store setup. The objective isn’t necessarily to attract shoppers from outside the hospital but to reach and interest people within the hospital.

Plan for Success

One of the secrets of a successful venture is point-of-care integration, Lemcke says. “That’s the buy-in from the entire healthcare system.” Nurses, doctors, educators, discharge counselors, and other frontline staff members can play an important part in ensuring the organization selects and offers the right merchandise. The frontline staff also has invaluable

opportunities to educate patients, caregivers, and family members about the need for and availability of these products.

Another key to success is hospital ownership and operation of the retail system. Hospitals can’t achieve point-of-care integration effectively if outside vendors own or run the kiosks, shops, and in-line stores, according to Thompson.

Retail experience is an additional factor. “Most hospital CEOs I meet with don’t have the experience to take on all of this,” Thompson says. “Early on, we saw some healthcare systems get through the strategy work and then let their existing employees—nurses, for example—run the operation. That didn’t work very well. We find that having retail experience is critical to success.”

Simply Retail recommends that hospitals hire a director of retail (someone with a retail background) to oversee the operation, work with the entire organization to ensure it offers the right products, and educate frontline employees about the retail strategy and their role in implementing it.



“You don’t want to just build a ‘medical mall’ and then lease space to a bank, a restaurant, and a pharmacy. It’s about creating a strategy.”

“The director of retail drives the process,” Lemcke says. “All the elements of an integrated retail operation feed off each other. That’s why it is critical for the hospital to own and run the retail. The director serves as a liaison between the retail operation and the rest of the staff.”

Incidentally, heavy advertising beyond the hospital typically isn’t necessary. “We’re not trying to get people from the community to visit the hospital for shopping or to have lunch in the restaurant,” Thompson says. “We are focused on meeting the needs of a captive audience.”

Recognizing Roadblocks

Perhaps the biggest reason hospitals miss retailing opportunities is hospital leadership, says Orlikoff of Orlikoff &

FROM RETAIL TO REVENUE

Woman's Hospital of Baton Rouge, La., is a private, 225-bed hospital that specializes in the healthcare needs of women. Each year, the hospital delivers more than 8,000 babies and has traffic counts exceeding 1.35 million people. Last year, Woman's Hospital hired Simply Retail Inc. to assess the hospital's retail potential.

"Retail is very much a science," says Stephanie Anderson, vice president of diversified services at the hospital. "What Simply Retail has done is taken the concepts and strategies and applied them to the healthcare industry." This has proven helpful, because hospitals rarely have anyone on staff with traditional retail experience or the time to devote to developing such a service, she says.

Although Woman's Hospital already has a successful gift shop and a small boutique, which primarily offers breast pump rentals and items for new moms, the hospital soon will be providing a much broader range of products that are a good fit for the hospital's patient base and clinical services. "We view healthcare retail as an extension of the care and services we provide our patients. It's a big part of that full continuum of care," Anderson says.

Historically, Woman's Hospital has provided patients with recommendations regarding products they might need in order to take care of themselves following discharge from the hospital. "We then sent out patients armed with this list to purchase them elsewhere." The new services to be provided at the hospital will help meet patients' needs directly. "We aren't creating these

needs or trying to create destination shopping like a mall. We want to capitalize on the traffic that comes through our hospital every day (3,750 people), and provide things that are very much needed," Anderson says.

Anderson learned about Simply Retail (and healthcare retail in general) at a recent conference, but says it was the "retail discovery" evaluation process, tailored specifically to Woman's Hospital, that brought the opportunity into focus.

The retail discovery included actual traffic counts and analysis of Woman's Hospital's volumes and the types of patients the hospital cares for. Simply Retail also interviewed staff members for a better understanding of what everyone does. "So all the recommendations were specific to us and really represented a road map to implementing healthcare retail the right way for Woman's Hospital," Anderson says.

"Pretty much everybody at Woman's Hospital, from the top down, was receptive and excited from the start," she says, adding that the enthusiasm will be helpful in implementing the new strategy. "We didn't have to spend a lot of time trying to gain support. We just had to spend the time getting things lined up—following our procedures and protocols. Our board, too, is very engaged, supportive, and trusting of our recommendations. Healthcare retail works well with our culture."

For more information about getting your health system/hospital involved in healthcare retail, please contact Anni Hodroff, director of strategic communications at anni@simplyretailinc.com.

Associates. "Some people in management are very upset or threatened by this," he says, adding that there are those who view retailing in the clinical environment as unethical. Despite such reservations, Orlikoff predicts that within a year, at least 10% of U.S. healthcare systems will have developed integrated retail strategies. Within a decade, he expects the amount probably will reach 50%.

"Many, many hospitals are already providing some type of retail," Orlikoff says. "But only a few have begun to develop an integrated retail strategy, in which they link retail to products and services. This is just beginning to pick up steam."

Within five to 10 years, Thompson forecasts, "we'll see a conglomeration of bricks-and-mortar stores, Web site e-commerce, and catalogue opportunities. It will spread beyond products to out-of-pocket clinical services such as fitness, massage therapy, weight management, and a gamut of other

things insurance doesn't pay for. Right now, hospitals are learning how retail works."

Thompson expects to gain a firsthand look at how well hospitals are learning the retail trade when she enters the hospital for surgery later this year. "I'll be in the hospital for two or three days," she says.

But Thompson isn't planning to take it lying down. While recuperating, she will also be shopping. "I expect to buy all the health-related items I'll need for when I get home." As healthcare retail expands throughout hospitals and other healthcare organizations, many other patients will be doing the same. **MHS**

About the Author

David Henry is a Colorado-based freelance writer who covers the healthcare industry. For additional information on Simply Retail Inc., please visit www.simplyretailinc.com.