

A photograph of a smiling female pharmacist with dark curly hair, wearing a white lab coat over a light blue collared shirt. She is standing in a pharmacy, with shelves of various medications and products visible in the background. In the foreground, the backs of two customers' heads are visible, one with white hair and another with dark hair, suggesting she is interacting with them. The overall atmosphere is professional and friendly.

Deloitte.

Retail health & wellness
Innovation, convergence,
and healthier consumers

Can industry convergence and innovative offerings lead to profitable health care services and healthier consumers? Traditional retailers entering or expanding in the US health and wellness market are staking their future on it.

A convergence of powerful external and internal forces – coverage expansion through health care reform, technological advances, rising consumerism,¹ retailers’ desire for increased foot traffic and cross-selling opportunities, and more – are prompting many retailers to consider broadening their corporate growth strategy to include health and wellness services via in-store pharmacies, health care clinics, health and wellness programs, and other consumer-focused initiatives. And while the opportunities for profit and market share growth are substantial, there are numerous risks that retailers should consider.



Retail health and wellness trends

The US health care market is evolving from an increasingly expensive, volume-based, acute-care model to a cost-conscious, value- and population-based model that emphasizes prevention of health problems requiring acute care. Population-based health care incorporates education (such as teaching patients to be more health-conscious); delegation (for example, retail clinics’ use of nurse practitioners and physician assistants); and intelligent use of data and information systems² to focus on value over volume and improve the health outcomes of groups of individuals. Retailers (chain drug stores, grocery stores, mass merchandisers, and club stores) are uniquely positioned – both physically and operationally – to capitalize on the idea that success will be measured by keeping individuals healthy, which can be facilitated by encouraging regular contact with care providers, improving medication adherence, and managing chronic conditions.

Among the drivers fueling retail health care’s growth (Figure 1), the following are particularly notable:

- **As consumers take on a larger share of the health care cost burden, they are becoming more active and engaged in managing their health.** Many seek to curate their own experience and are approaching health care as they do other goods and services.³ Consumers want greater convenience, service, and support from their health care provider; retailers are disrupting the existing system by offering care centers with multiple locations, more hours of operation, lower fees, and access to basic diagnostic tests and medical services.⁴
- **Medicaid expansion and health care reform** (particularly the launch of public health insurance marketplaces) **have led to growth in the insured population and increased demand for care and medications.** These challenges are further magnified by the shortage of primary care physicians (PCPs). Retailers can respond to increasing demand for primary care and offer services in a convenient and cost-effective manner to capture a significant proportion of the newly insured population.
- **Payers are pressuring other industry players to control spending along the health care value chain.** In response, some retailers are partnering with care providers to establish a continuum of care and boost patient outcomes. Technology integration such as Electronic Medical Records (EMRs) may help to address patient safety concerns and prevent care fragmentation.
- **The cost of branded and generic drugs continues to increase.**⁵ While this is generating some additional revenue for manufacturers it is coming out of the pockets of payers and/or consumers – both of which are looking for ways to reduce costs.
- **New devices and applications are being introduced in the marketplace to monitor patients’ physical conditions** (blood pressure, heartbeat, etc.) **and improve medication adherence.** Retailers can provide equipment, education, and encouragement for patients seeking to leverage wearables and other technologies as part of a healthy lifestyle.
- **The use of telemedicine is on the rise.** Given retailers’ unique positioning, investments in infrastructure and training may allow them to become a leader in telemedicine, which can assist in increasing consumer access (albeit virtual) to PCPs and driving down the costs of care.

These and other marketplace drivers are generating a broad array of opportunities and potential paths for traditional retailers to enter or expand their presence in retail health care. Doing so can help companies increase store traffic, support cross-selling and up-selling, improve the customer experience, enhance brand recognition, and grow revenue and market share. Three options in particular – retail pharmacies, retail clinics, and health and wellness programs – merit consideration.

Figure 1A - How is consumerism changing retail and health care?

- A convergence between retail and health care is driving traditional health care providers to adopt retail approaches to marketing and customer service, while retailers are increasing their role in health care

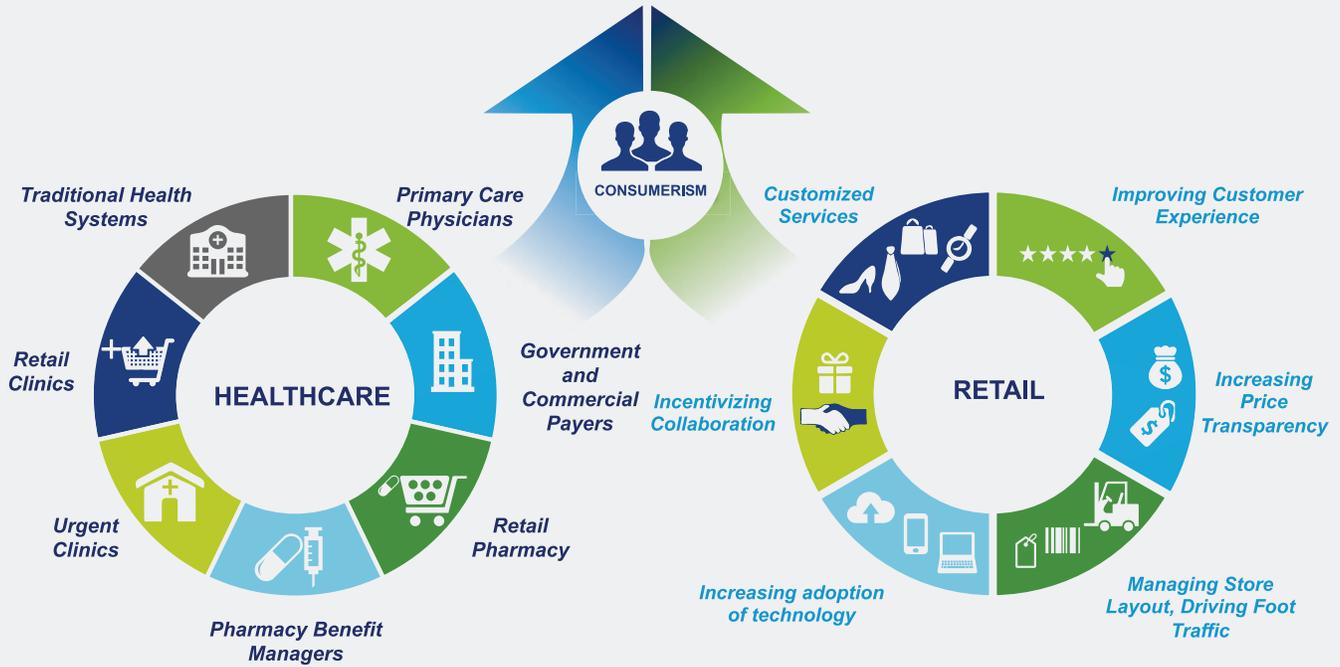


Figure 1B - What trends is the converged-industry facing?

Key Factors Driving Convergence



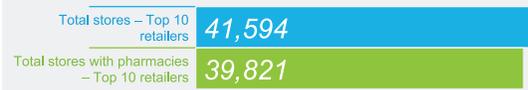
- End users' relationship with health care providers is transforming from the old paradigm of "patient" into a new model of "consumer"
- Changing dynamics in the marketplace, including health care reform, technological advances and demographic changes, are having a significant impact on the retail health and wellness marketplace
- Retailers with health and wellness services are realizing benefits such as increased foot traffic, increased sales growth, improved cross-selling, brand recognition, and enhanced customer experience



Retail pharmacies

Operating an in-store pharmacy appears to be a popular first step for retailers looking to incorporate a health and wellness area into their existing operations, as evidenced by the number of industry competitors that have a similar total of retail stores and stores with pharmacies (Figure 2).

Figure 2: Retail stores and retail pharmacies



Through personal interactions with patients and face-to-face consultations, retail pharmacies – in partnership with doctors, nurses, health plans, and others – are in a strong position to help shape the consumer-focused health care delivery system of tomorrow. For example:

- There is often competition among pharmacies and Pharmacy Benefit Managers (PBMs) to offer integrated health care services that may help lower costs to consumers. Pharmacies are expected to continue to build out their disease management and diagnostic services, wellness and medication therapy management programs, adherence efforts, and other initiatives as part of their integrated service offerings.
- Point-of-care testing services are anticipated to surpass immunizations to drive revenue. Pressure from payers to detect high-cost diseases early will help speed up the growth of pharmacy-based diagnostic screening services.
- In recent years, a highly competitive PBM market has spurred consolidation among retail pharmacies and PBM providers.
- A variety of factors, including effectiveness of specialty drugs in treating complex health conditions and large populations of patients benefiting from certain drugs, are driving up specialty drug costs as a share of total prescription drug costs. Retail pharmacies can profit from exclusive formulary strategies and use the specialty drug channel to drive revenue growth.



Retail clinics

Retail clinics, health care practices entirely located in a drug store, grocery store, or mass merchandiser, are a prime example of disruptive innovation in health care.⁶ Fueled by a growing shortage of PCPs and consumers' demand for quality health care that is convenient (proximity, operating hours) and affordable, retail clinics staffed by medical professionals (nurse practitioners and physician assistants) are becoming an increasingly visible and influential aspect of health care. The number of retail clinic sites increased almost 900% between 2006 and 2014, from 200 to 1,800, and the number of visits increased sevenfold from approximately 1.5 million to 10.5 million in 2012, which represents 2% of primary care encounters in the United States.⁷

Retail clinics and urgent care centers can be cost-effective and time-saving alternatives to hospital emergency departments (EDs) for non-emergency care. It's estimated that 13.7–27.1 percent of all ED visits could take place at a retail clinic or urgent care center, with potential cost savings to the health care system of approximately \$4.4 billion annually.⁸ Patients who visit retail clinics for non-emergency care ideally will have their prescriptions filled at the pharmacy and buy other products while they are in the store.⁹ In addition, retailers can use these channels to better engage customers and enable them to make health-conscious decisions (e.g., discounts for purchase of healthier foods, smoking cessation, medication adherence). Also, the integration of retail clinics and health care technology such as mobile apps and wearable devices can create positive customer experiences and provide a continuum of care through data-sharing platforms between clinics and physicians. There is also a considerable "hidden" benefit to retailers offering onsite clinics: Internally delivered health care and wellness services can drive down associated costs for both the company and its employees. These cost savings are likely to become increasingly important, as the Affordable Care Act (ACA) will impose an excise tax on high-cost health plans (often called the "Cadillac" tax) beginning in 2018. These health plans' premiums are paid for mostly by employers, with low, if any, deductibles and little cost-sharing for employees.¹⁰

The scope of services offered at retail clinics has gone beyond flu shots, acute illness services (sore throat, fever, infections), and routine health exams to include preventive screenings, chronic disease management (diabetes, asthma, hypertension, and cholesterol), infusion services, and more.

US retail clinic sales are estimated at more than \$1 billion and are expected to continue expanding through 2019.¹¹ Deloitte's 2015 health care consumer survey¹² shows that retail clinics' convenience, speed, and cost are driving consumer interest and usage. The trend of aligning clinic use with incentives from health insurers is also likely to increase their appeal. In the past, consumers often paid out-of-pocket to visit these clinics, but many can now use insurance coverage to pay for services. Today, more than four in five visits to retail clinics operated by major pharmacy retailers are covered by health insurance¹³ (although consumers typically bear some costs in the form of co-pays, deductibles, etc.). Health plans may be expanding coverage, in part, because they see retail clinics providing higher-quality and lower-cost services. In addition, more clinics have hired nurse practitioners and physician assistants.¹⁴

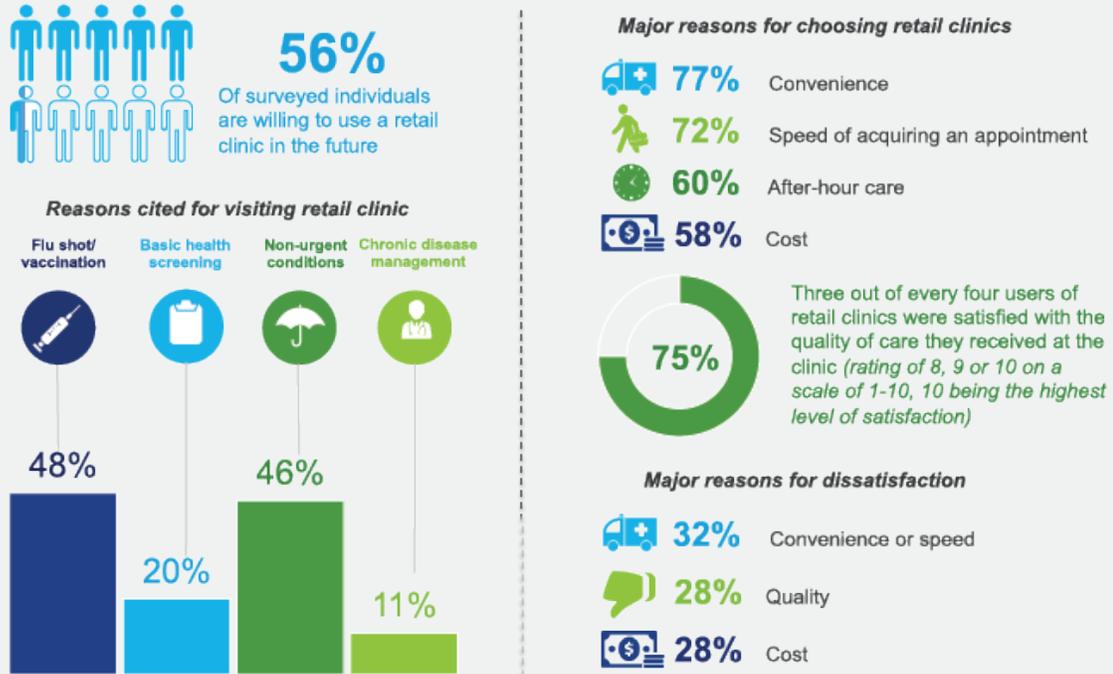
While the business case for entering the retail clinics market may appear attractive, sustaining performance and realizing the benefits of this strategy require a clear understanding of clinics' operational complexities, dedicated leadership, and strong senior executive support.



Retail clinics: Convenience, speed, and cost appeal to consumers

Deloitte’s 2015 Center for Health Solutions Survey of US Health Care Consumers¹⁵ shows that retail clinics’ convenience, speed, and cost are driving consumer interest and usage.

Retail clinic drivers

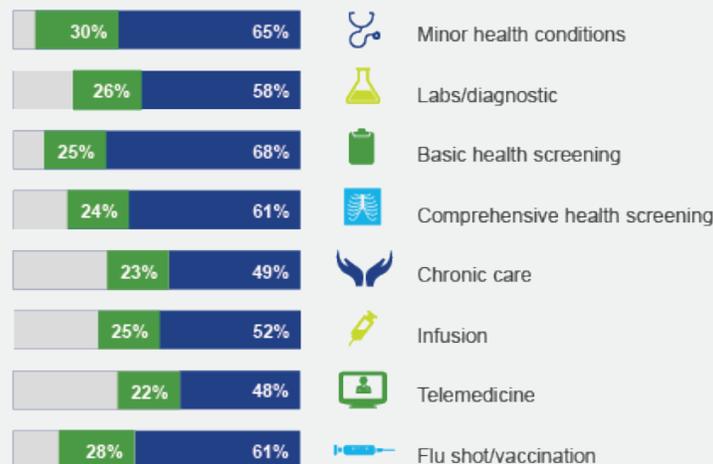


*Deloitte Center for Health Solutions Survey of US Health Care Consumers, 2015

Willingness to use retail clinics if...

Overall, when surveyed, individuals are willing to use retail clinics if...

*Cost is cheaper than traditional doctor ...
Or
... Cost is the same or comparable to the traditional doctor*



*Deloitte Center for Health Solutions Survey of US Health Care Consumers, 2015



Health and wellness programs

Retailers increasingly are incorporating health and wellness programs that affect and improve consumers' lives into their retail offerings. Creating customized "wellness experiences" for each consumer type allows companies to expand their retail health offerings and differentiate themselves from competitors (Figure 3).

Figure 3: Designing the "wellness" experience

Retailers are looking at ways to offer wellness services that impact and change consumer lives to capture more of the retail market by customizing the "wellness" experience for each consumer type.



Retailers are also seeking to differentiate their "wellness" experience from their retail competition.



Retailers also are finding ways to engage and encourage customers by offering yoga and fitness classes, healthy meal planning tips, and information on how lifestyle choices (exercising, smoking cessation) can impact customer health. By offering programs, advice and coaching, retailers can play an active role in customer health management and, in the process, build trust and create loyalty.



Thinking of entering or expanding into health and wellness? Risks and considerations

The opportunities for growth in retail health and wellness are considerable. Retail clinics, for example, represent just 2% of all primary care encounters in the United States, even though the cost of care at a clinic is about one-third that of traditional outpatient settings.¹⁶ However, retailers face a number of risks when entering or expanding in a market as complex, costly, and highly regulated as health care:

1. Quality and patient safety risks

As retail health and wellness operations increase in number and scope, key stakeholders – including insurers, government, mainstream providers, and consumers – will be closely watching for potential negative quality and patient safety issues. Prevention is the watchword: Federal and state governments and industry groups are establishing evaluation and monitoring programs to promote quality standards for nontraditional health care operators. One example is Patient-Centered Connected Care Recognition, established in 2015 by the National Committee for Quality Assurance (NCQA). The program recognizes ambulatory care providers that communicate and connect with primary care providers as they deliver care to shared patients. Among program requirements: the site connects with and shares information with primary care providers; directs patients to appropriate providers; uses evidence-based decision support and collaborates with patients to make care decisions; uses electronic systems; and monitors performance

systematically.¹⁷ Individual retailers also are taking steps. For example, some retailers are establishing relationships with local physicians and hospitals to help patients get the right level of care.¹⁸

2. Billing-related financial risks

No matter how successful retailers are in their traditional market, health care is a very different world, especially when it comes to getting paid. Dealing with government and third-party payer reimbursement programs may require different payment systems for pharmacy and clinic operations. Also, unlike a traditional retail sale, payment for a health care service may not be received until months after a transaction takes place, which can affect cash flow and revenue forecasts. To further complicate matters, contract requirements may sometimes affect the ability of the retailer to collect some or all of the revenue from payer organizations.

3. Regulatory risks

The regulatory requirements for a retail health and wellness program vary by state, and federal regulations add another level of complexity. Among challenges to overcome are scope-of-practice rules (e.g., some states say each clinic needs an on-site physician while others permit a nurse practitioner onsite and a physician on the phone); Health Insurance Portability and Accountability Act (HIPAA) patient privacy rules; Clinical Laboratory Improvement Amendments for laboratory testing; Drug Enforcement Administration (DEA) prescription requirements for controlled and non-controlled drugs; and lack of government reimbursement for certain services (e.g., Medicare only covers reimbursements for telehealth in limited settings and never in retail clinics).¹⁹

4. Data sharing and security risks

Widely reported data breaches at major retailers and potential security risks around sensitive Protected Health Information (PHI) make proactive data protection efforts imperative for retail health providers. For example, patient data on in-store clinic visits can provide companies with valuable insights on upselling opportunities but HIPAA regulations do not allow the retail side of an organization to access health care data. Also, with more retail clinics connecting Electronic Health Record (EHR) systems and otherwise integrating data systems with providers and payers,²⁰ the potential for security threats increase.



Partner or go it alone?

Some retailers are targeting the health and wellness market because their competitors are either partnering with providers and/or payers to offer in-store services or are “going it alone.” Rather than take a follow-the-leader approach, new or expanding players should determine whether or not health and wellness aligns with their overall strategic vision. Among questions to ask:

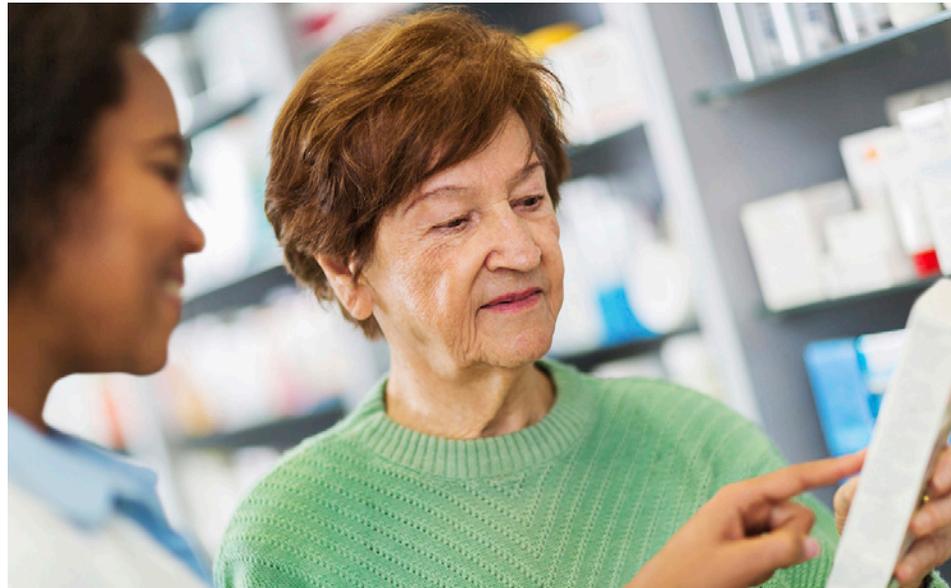
- What kind of operational model do we prefer? Do we want to build our own clinic and assume all of the risks? Or should we partner with an established health care provider?
- What are the risks to our organization of partnering? How will it affect our brand and reputation? Does partnering conflict with our overall strategy?
- What do our customers want and expect from us?
- Who are our competitors in this space?
- What do we want to get out of this new market (expanded geographical footprint, more sales per store)?
- What is the breadth of services we want to offer – flu shots and other low-dollar services or diabetes/COPD/asthma specialty services? If it’s the latter, what is our value proposition versus others offering those services?
- Do our existing stores have adequate floor space to add a pharmacy or retail clinic?
- How do we obtain referrals from area health plans and providers?
- What upgrades will we need to make to our billing systems and processes?
- How do we communicate and collaborate with patients’ PCPs, specialists, and health plans to provide seamless care?

Until a retailer can answer these questions, it might want to hit “pause” before operationalizing its health and wellness offerings.



Conclusion

It remains to be seen how well retail establishments will be able to fully integrate with health care providers to improve care coordination and engage payers to offer reimbursement for a greater number of services, including in-store pharmacies, retail clinics, and health and wellness programs. However, many retailers are positioning themselves to address the current and future health care needs of a large section of the US population, significantly reduce the overall costs of care, and grow their bottom line.



Contacts

Thomas Delegram

Deloitte Advisory Director
Deloitte & Touche LLP
+1 412 596 1078
tdelegram@deloitte.com

Matthew Hourin

Deloitte Advisory Principal
Deloitte & Touche LLP
+1 617 596 3262
mhourin@deloitte.com

David Betts

Principal
Deloitte Consulting LLP
+1 412 402 5967
dabetts@deloitte.com



End notes

- 1 "Rising consumerism: Winning the hearts and minds of health care consumers," *Deloitte University Press*, Issue 16, January 2015, http://d2mtr37y39tpbu.cloudfront.net/wp-content/uploads/2015/01/DR16_rising_consumerism.pdf. Accessed June 29, 2015
- 2 "Just What the Devil Is Population-Based Care?" *Managed Care*, September 1998, <http://www.managedcaremag.com/archives/9809/9809.population.shtml>. Accessed May 20, 2015
- 3 "Rising consumerism: Winning the hearts and minds of health care consumers," *Deloitte University Press*, Issue 16, January 2015, http://d2mtr37y39tpbu.cloudfront.net/wp-content/uploads/2015/01/DR16_rising_consumerism.pdf. Accessed June 29, 2015
- 4 "Rising consumerism: Winning the hearts and minds of health care consumers," *Deloitte University Press*, Issue 16, January 2015, http://d2mtr37y39tpbu.cloudfront.net/wp-content/uploads/2015/01/DR16_rising_consumerism.pdf. Accessed June 29, 2015
- 5 Why Are Generic Drug Prices Shooting Up?," *Forbes.com*, February 27, 2015 <http://www.forbes.com/sites/greatspeculations/2015/02/27/why-are-generic-drug-prices-shooting-up/>. Accessed June 29, 2015
- 6 "The Modern Day Health Care Disrupters," *Hospitals & Health Networks*, April 14, 2015, http://www.hhnmag.com/display/HHN-news-article.dhtml?dcrPath=/templatedata/HF_Common/NewsArticle/data/HHN/Magazine/2015/Apr/feature-new-healthcare-consumers-disruption. Accessed May 21, 2015
- 7 "New study examines the potential value proposition of retail clinics," *Drug Store News* citing a recent report by Manatt Health, the health care division of Manatt, Phelps & Phillips, April 23, 2015, <http://www.drugstorenews.com/article/new-study-examines-potential-value-proposition-retail-clinics>. Accessed May 21, 2015
- 8 "Many Emergency Department Visits Could Be Managed At Urgent Care Centers And Retail Clinics" *Health Affairs*, May 2015, <http://content.healthaffairs.org/content/29/9/1630.abstract>. Accessed June 8, 2015
- 9 "The Modern Day Health Care Disrupters," *Hospitals & Health Networks*, April 14, 2015, http://www.hhnmag.com/display/HHN-news-article.dhtml?dcrPath=/templatedata/HF_Common/NewsArticle/data/HHN/Magazine/2015/Apr/feature-new-healthcare-consumers-disruption. Accessed May 21, 2015
- 10 "Excise Tax on 'Cadillac' Plans," *Health Affairs*, September 12, 2013, http://www.healthaffairs.org/healthpolicybriefs/brief.php?brief_id=99. Accessed June 29, 2015
- 11 "Kalorama study: Rx renewals are key reason for clinic visits," *Drug Store News*, May 8, 2015, <http://www.drugstorenews.com/article/kalorama-study-rx-renewals-are-key-reason-clinic-visits>. Accessed May 22, 2015
- 12 *2015 Survey of US Health Care Consumers*, Deloitte Center for Health Solutions, 2015. Since 2008, the Deloitte Center for Health Solutions has annually polled a nationally representative sample of US adults about their experiences and attitudes related to their health, health insurance, and health care, and their views about the health care system. The general aim of the survey is to track changes in consumer engagement over time and investigate key questions of interest to the health plan, provider, life sciences, and government sectors. The 2015 survey, conducted between January 16 and February 8, included 3,616 adults (18 years and older). As in prior years, the national sample is representative of the US Census with respect to age, gender, race/ethnicity, income, geography, insurance status, and insurance source. For more information about the Deloitte Center for Health Solutions and other consumer survey reports, please visit www.deloitte.com/centerforhealthsolutions.
- 13 "Health insurers now cover most retail clinic visits," *FierceHealthPayer*, May 5, 2015, <http://www.fiercehealthpayer.com/story/health-insurers-now-cover-CVS-MinuteClinic-Walgreens/2015-05-05>. Accessed May 21, 2015
- 14 "Health insurers now cover most retail clinic visits," *FierceHealthPayer*, May 5, 2015, <http://www.fiercehealthpayer.com/story/health-insurers-now-cover-CVS-MinuteClinic-Walgreens/2015-05-05>. Accessed May 21, 2015
- 15 Deloitte Center for Health Solutions Survey of US Health Care Consumers, 2015
- 16 "Retail Clinics Hit 10 Million Annual Visits but Just 2% of Primary Care Market," *Forbes.com*, April 23, 2015, <http://www.forbes.com/sites/brucejapsen/2015/04/23/retail-clinics-hit-10-million-annual-visits-but-just-2-of-primary-care-market/>. Accessed May 22, 2015
- 17 "New evaluation program to weave clinics into network of patient-centered care," *Drug Store News*, April 15, 2015, <http://www.drugstorenews.com/article/new-evaluation-program-weave-clinics-network-patient-centered-care>. Accessed May 22, 2015
- 18 "Betting big on health," *FORTUNE*, April 23, 2015, <http://fortune.com/2015/04/23/betting-big-on-health/>. Accessed May 21, 2015
- 19 "New study examines the potential value proposition of retail clinics," *Drug Store News* citing a recent report by Manatt Health, the health care division of Manatt, Phelps & Phillips, April 23, 2015, <http://www.drugstorenews.com/article/new-study-examines-potential-value-proposition-retail-clinics>. Accessed May 21, 2015
- 20 "Retail Clinics Grow their Capabilities," *Hospitals & Health Networks*, April 22, 2015, http://www.hhnmag.com/display/HHN-news-article.dhtml?dcrPath=/templatedata/HF_Common/NewsArticle/data/HHN/Daily/2015/April/retail-clinics-more-offerings-blog-barr. Accessed May 21, 2015

The following individuals have contributed to this paper:

Bharath Natarajan, Jim Recupero, Janet Lynn Rossi,
Dhara Satija, Guneet Singh

As used in this document, "Deloitte" means Deloitte LLP and its subsidiaries. Please see www.deloitte.com/us/about for a detailed description of the legal structure of Deloitte LLP and its subsidiaries. Certain services may not be available to attest clients under the rules and regulations of public accounting.

Copyright © 2015 Deloitte Development LLC. All rights reserved.
Member of Deloitte Touche Tohmatsu Limited