Strategies in Capital Finance

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Consumer Express

Hospitals and Health Systems Participate in Retail Clinics

Cain Brothers

Investment Bankers & Capital Advisors to the Health Care Industry

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EXECUTIVE SUMMARY

In response to consumer demands, retail health care clinics ("retail clinics") located in retail stores with pharmacies have grown rapidly in the U.S. to almost 1,000. Based on a business model of conveniently providing fast, limited services at transparent prices, retail operators such as CVS, Walgreen Company, Target, Kroger, and Wal-Mart have developed strategies to incorporate retail clinics into their customer strategies. Hospitals and systems have increasingly entered the retail clinic market through owning and operating their own retail clinics or by affiliating with non-health care retail clinic operators. Hospital motivations include increasing brand awareness, responding to patients' desires for convenience, growing referrals, more closely integrating patient experiences and health care records, and enhancing quality. The market for retail clinics is dynamic and immature, with significant risk of clinic and company closure. Despite this, the number of retail clinics is expected to continue to grow rapidly, and opportunities to affiliate with retail clinic operators or to establish and grow hospital-owned retail clinics are increasing. Participation in retail clinics can also put the hospital closer to a trend that has the potential to be a disruptive innovation in health care delivery as the retail clinic model evolves in the future.

INTRODUCTION

Hospitals and systems are facing a future fraught with uncertainty and the possibility of significant change. IBM Global Business Services, for example, offers the following vision:

> *By 2015, acute care facilities will no longer try to be "all things to all patients." They will specialize and build their competencies around targeted conditions and treatments. And, non-urgent acute conditions, such as strep throat, sinusitis, and otitis media, will be treated from home, via the use of telemedicine or at retail settings that provide low cost, good quality, and convenience, for example.*[1]

Consumerism is cited as a growing trend in health care, which supports IBM's vision of the future. In our view, the primary and sustaining impact of the "consumerism" trend is greater transparency regarding the cost and quality of health care and greater engagement by consumers in their own health care decision making. We believe this trend may impact the industry in profound ways. One response to the growth in consumerism is delivery system innovation designed to address consumers' unmet demands and preferences through development of retail clinics.

Most of the earliest retail clinics were independent and not aligned with established health care providers. Established industry providers such as hospitals[2] have rarely been early-moving innovators in developing their own retail clinics, but, after two-plus years of retail sector growth, hospitals have expanded their participation in the industry and have opportunities to increase their involvement in the future. Forward-thinking hospitals will need to develop and refine strategies to respond to these trends. This *Strategies in Capital Finance* white paper describes the rapidly growing retail clinic industry and the opportunities it presents for hospitals looking to participate.

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[1] IBM Institute for Business Value, "Healthcare 2015: Win-Win or Lose-Lose? A Portrait and a Path to Successful Transformation," (Somers, NY: IBM Global Business Services, 2006).

[2] Both free-standing hospitals and health care systems that include hospitals are important established industry providers, which are often hard to clearly distinguish from each other. For simplicity, we refer to both as "hospitals" in this white paper.

BACKGROUND

CONSUMERISM

Individuals have become more discerning consumers as they are increasingly responsible for the costs of their own health care decisions. Fewer employees are now covered by employer-sponsored health insurance, and those employers who do offer health coverage have increased the amount of cost sharing in the form of deductibles and coinsurance borne by the insured. The number of people with high-deductible health plans paired with health savings accounts increased to 6.1 million in January 2008, up 36% from the previous year.[3] Continued health insurance inflation and disappointment with managed care's ability to impact cost trends have increased interest in making the consumer the nexus of the health care cost equation.

The number of U.S. uninsured and underinsured has also been growing with an estimated 49.5 million adults ages 19-64 uninsured and 25.2 million underinsured for some period during 2007. Within working families earning \$20,000 - \$60,000, the percent of underinsured and uninsured non-elderly adults rose from 37% in 2003 to 45% in 2007.[4] This group of consumers is very sensitive to the cost of care and also requires convenient, quality health care services.

Internet users now have better access to easy-to-understand clinical information. As individuals become more active health care decision makers, they are demanding value: acceptable levels of clinical quality at a reasonable price, delivered in a way that minimizes inconvenience.

Overall, a Deloitte survey of health care consumers showed that they are generally satisfied with their primary care physicians with a satisfaction score of 82 out of 100. Of the surveyed patients, 31% also indicated a desire for service improvements such as more time with the doctor, shorter waiting times, faster appointments, and faster telephone response. The same survey found that 83% of consumers have an interest in same-day appointments, and 26% are willing to pay extra for that access.[5]

One response to consumerism has been the opening of small retail health care clinics (200 to 500 square feet) that are usually open seven days a week with evening and holiday hours and available to patients on a walk-in basis.

Most primary care physicians have not responded to these consumer convenience and service demands. A public opinion telephone survey in Massachusetts, for example, found that in 2007 only 42% of patients were able to see a primary care physician within a week of contacting the doctor, compared to 53% in 2006. In 2007, 17% of surveyed patients who had a serious (but not life threatening) medical problem reported that the wait for an appointment was a problem, up from 7% two years prior.[6] There is an evident unmet demand for convenient access to medical care.

MODEL OF CARE

One response to consumerism has been the opening of small retail health care clinics (200 to 500 square feet) that are usually open seven days a week with evening and holiday hours and available to patients on a walk-in basis. Because most of these clinics are located in retail stores with pharmacies, we have chosen to refer to them in this

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[3] AHIP Center for Policy Research, "January 2008 Census Shows 6.1 Million People Covered by HSA/High-Deductible Health Plans," (Washington, DC: America's Health Insurance Plans, 2008).

[4] C. Schoen, S. Collins, J. Kriss, and M. Doty, "How Many Are Underinsured? Trends Among U.S. Adults, 2003 and 2007," *Health Affairs* 27, no. 4 (2008): w298-w309 (published online 10 June 2008; 10.1377/hlthaff.274.w298).

[5] Deloitte Center for Health Solutions, "2008 Survey of Health Care Consumers: Executive Summary," (Washington, DC: Deloitte, 2008).

[6] Massachusetts Medical Society, "Physician Workforce Study," (Waltham, MA: Massachusetts Medical Society, June 2007).

white paper as "retail clinics," but they are also known as "convenient care clinics." [7] These clinics emerged in 2000, with the establishment of QuickMedx (now MinuteClinic) in Minneapolis-St. Paul. The number of clinics in the U.S. grew slowly through 2006, but since then has increased rapidly to close to 1,000 clinics.

Retail clinics are typically staffed by nurse practitioners[8] who diagnose and treat a limited set of non-emergent common ailments and also deliver some basic preventative care. Clinics are most frequently used for vaccinations (40%), treatment for common medical conditions like ear infections, colds, strep throat, skin rash or sinus infection (39%), and preventive screening tests for conditions like high blood pressure, high cholesterol, diabetes or allergies (24%). [9]

Services are provided in a highly standardized way that requires no direct physician involvement. Medical directors in most retail clinic companies oversee the patient care at a high level, that is, not on site. This model of care is assisted by information systems that support the use of evidence-based treatment protocols for the covered conditions to standardize care. Clinics typically use electronic medical records to coordinate care. Visit times and waiting times are short, facilitating consumer convenience. In cases where there are waiting times, some retail clinics will issue pagers so the patients can shop or do other things while waiting. The clinics are designed to be used episodically with services that require minimal follow-up. Patients are typically referred to a primary care physician for ongoing care outside the scope of the retail clinic.

While many clinics started by expecting cash payments from patients at the time of service, insurance coverage of retail clinic services is now expanding. Retail clinic patients responding to a Harris Interactive pole reported that in 2008, 62% had some or all of the costs of the visit covered by insurance, compared to 42% in 2007.[10] Affordability of services is the hallmark of retail clinics, with a typical visit costing $40-$70 compared to a primary care physician visit of $150+ and an emergency room visit of $300+ for treating the same conditions. While affordability is essential in retail clinics, consumerist patients highly value the transparency in pricing available at retail clinics. Prices for offered services are clearly posted at the entrance to the clinic area, and patients can easily understand what they will owe before seeking services.

Only 7% of adults polled have used onsite retail clinics, but those who have are very or somewhat satisfied with the quality of care (90%), the cost of care (86%), the convenience of care (93%), and the availability of qualified staff to provide care (88%), according to a 2008 Harris Interactive pole.[11]

CHALLENGES

Regulations impacting retail clinic ownership structures and operating models vary considerably state-by-state. Today, retail clinics are mostly located in states that allow prescribing by nurse practitioners, but retail clinic opportunities will continue to be influenced by continuing state consideration of the scope of nurse practitioner activities in many states and corporate practice-of-medicine laws that impact development in some states.

[7] The Convenient Care Association is the trade association representing 95% of the industry. Its website is www.convenientcareassociation.org.
[8] There are some retail clinics that use physician providers and some that use physician's assistants, but the predominant provider is the nurse practitioner.
[9] "New WSJ.com/Harris Interactive Study Finds Satisfaction with Retail-Based Health Clinics Remains High," (Rochester, NY: Harris Interactive, 21 May 2008 Press Release) http://ww.harrisinteractive.com/nes/allnewsbydate.asp?NewsID1308 (accessed 2 June 2008). (Numbers add to more than 100% due to multiple responses and also include physical exams for sports, school, camp, etc. [10%], receiving a referral to family physician or emergency room [8%], and other [16%].)
[10] "New WSJ.com/Harris Interactive Study."
[11] "New WSJ.com/Harris Interactive Study."

Physician reaction to retail clinics has been mixed, but has improved as experience with the model has demonstrated that patients value the experience. The American Academy of Family Physicians (AAFP) has challenged its physicians who are uncomfortable with the retail clinic model to respond by offering their patients more convenient services within their primary care practices. The American Medical Association and the AAFP have both published standards of care that were incorporated into standards adopted by Convenient Care Association in 2007. As retail clinic operators push to expand operations into a larger number of states, there will no doubt be lively debate, such as that seen in Massachusetts and Illinois, with attempts to regulate, on the one hand, and Federal Trade Commission efforts to assure fair competition, on the other.[12]

A report from the California HealthCare Foundation describes the retail clinic business model, which includes low overhead, efficient use of space leased from the retail store, and low staffing costs. According to the report, retail clinics have mostly fixed costs and a clinic must see 17 to 23 customers per day to break even. Clinic operators confirm that clinics themselves usually break even within 18-24 months. Additional time is needed to cover the $2 million to $5 million a year overhead at the corporate level, however. "While individual clinics are beginning to break even at the store level, the corporate break-even point for independent operators is still far away and hundreds of clinics may be required to generate a reasonable economic return."[13]

In addition to generating direct lease income, retail store owners of retail clinics are expecting retail health care clinics to contribute indirect revenue by increasing the number of customers in their stores and driving sales (especially prescriptions). They may also be expecting that retail clinics will provide them an opportunity to lower the cost of providing health care to their employees.[14] Both retailers and independent operators are also focused on earning profits from the retail clinics consistent with their expectations.

New clinics may take as long as two years to reach break even.

Aggressive announced expansion plans by some retail owners have often been tempered by the reality of the industry. New clinics may take as long as two years to reach break even. Some private equity backers of retail clinics have experienced longer-than-expected start up periods, and there have been closures due to the lack of capital to sustain operations until break-even status could be achieved. For example, the first half of 2008 saw CheckUps closing 23 clinics and Medical Marts closing more than a dozen clinics. Companies need sufficient capital to sustain the start-up and awareness-building period and the skill to manage the complexities of operations in multiple locations. Medical Marts is also an example of one of the few retail clinic operations that was staffed by physicians rather than nurse practitioners. The higher cost of the physician staffing model proved an additional challenge in that case.

In June 2008, several operators closed their clinics including SmartCare with 15 clinics, Early Solutions Clinic with six clinics, InstaClinic with two clinics, ReadyCare with one clinic, and Mercy ExpressCare with one clinic. The number of retail clinics went down between the first of June and July of 2008,[15] reflecting an industry in the early stages of development.

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[12] Bruce Japsen, "FTC: Clinic Rules Not What Doctor Ordered," *Chicago Tribune* 14 June 2008.
[13] Mary Kate Scott, Scott & Company, "Health Care in the Express Lane: Retail Clinics Go Mainstream," (Oakland, CA: California HealthCare Foundation, September 2007).
[14] Mary Kate Scott, Scott & Company, "Health Care in the Express Lane: The Emergence of Retail Clinics," (Oakland, CA : California HealthCare Foundation, July 2006).
[15] Merchant Medicine News: Expanded Retail Clinic Market Report 1, no. 5, (July 2008).

It is notable, however, that only one of these closing operators in June, Mercy ExpressCare, was directly owned by a hospital. As strategic owners of retail clinics, hospitals' objectives for retail clinic ownership go beyond financial return and often include support of mission, vision, and strategic values. For example, Sutter Express Care's goals include supporting system-wide goals of "capturing" the uninsured for future care within the Sutter system, differentiating them from stand-alone retail clinics.[16]

Retail clinics affiliated with hospitals are also typically part of a broader strategy that provides a more complete spectrum of options for delivering care to the hospitals' patients, retaining patients within their networks, and increasing visibility for the hospitals' brands.

Hospital-affiliated retail clinics have to date limited expansion plans to their existing geographic footprints and, thus, do not have the opportunity to cover retail clinic overhead by national expansion and economies of scale. Instead, they have leveraged their existing infrastructures in areas such as technology, protocols, medical records, medical professionals, and referral mechanisms. Hospital-affiliated retail clinics that can leverage the existing hospital brand may be able to take advantage of lower marketing expenditures than independent clinics. Retail clinics affiliated with hospitals are also typically part of a broader strategy that provides a more complete spectrum of options for delivering care to the hospitals' patients, retaining patients within their networks, and increasing visibility for the hospitals' brands. Hospitals face the challenge of operating in a retail environment that is very different than traditional outpatient operations and securing physician support for the effort.[17]

While consumers are attracted to the straightforward value proposition of retail clinic pricing and convenience, investors have found that building successful retail clinics can be far from simple. Hospital executives who may know how to make traditional outpatient operations run smoothly may be challenged to understand the basics of retail operations needed to make a clinic successful. Retail executives likewise are often unfamiliar with the patient service delivery process. Making both the retail and health care parts of this equation work together can be quite challenging. Retail clinic expert Mary Kate Scott comments, "The mindsets and cultural assumptions of retail executives and health care executives are often quite different. Bridging retail and health care perspectives requires partnering skills that should not be taken for granted."[18] Hospitals, retail operators, and private investors who want to build and operate successful retail clinics will need to develop strategies to overcome these challenges.

ESTABLISHED PROVIDER PARTICIPATION

Although early retail clinics operated fairly independently from established providers, lately, as the industry has evolved, established providers have become more involved. The Convenient Care Association's Quality and Safety Standards issued in March 2007 state that all CCA members "build relationships with traditional health care providers and hospitals, and work towards a goal of using EHRs [electronic health records] to share patient information and ensure continuity of care," and "are committed to encouraging patients to establish a relationship with a primary care provider, and to making appropriate and careful referrals for follow-on care and for conditions that are outside of the scope of the clinic's services."[19]

[16] "Proceedings of the California HealthCare Foundation/Health Affairs Roundtable: Retail Clinics: Disruptive Innovation in Primary Care?" (Oakland, CA: California HealthCare Foundation, May 2008).
[17] Mary Kate Scott, "Health Care in the Express Lane: Retail Clinics Go Mainstream," (2007).
[18] Mary Kate Scott, private communication.
[19] CCA Quality and Safety Standards, Convenient Care Association, were issued in March 2007 and are available at http://www.convenientcareassociation.org/QSS.htm. (Accessed on 2 June 2008).

Because the type of care delivered in retail clinics is a subset of what primary care physicians do, it might seem that physician groups would be active provider participants in retail clinics. However, hospitals, not physician groups, have been the predominant providers moving into ownership or affiliation with retail clinic operations. Separate physician groups account for only 3% of clinics owned or affiliated with providers. As retail clinics first developed, physician organizations such as the American Medical Association (AMA) were not welcoming, and many physicians saw retail clinics as a potential competitive threat. Today, both the AMA and the American Academy of Family Physicians have developed principles for patient safety and continuity of care for retail clinics, but independent physician groups are still not becoming participants in large numbers.

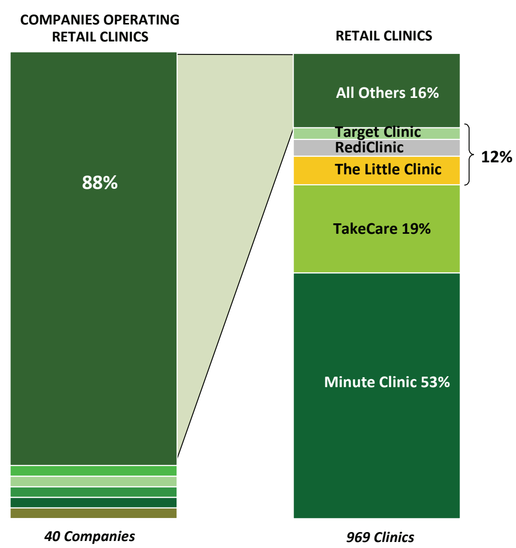
Hospitals and particularly hospital systems, with their related physician organizations, have instead taken the lead in participating in this market. A motivating factor for hospitals is that they and their associated physicians benefit by tapping into a potential market for retail clinic referrals that has been estimated at 150 referrals per mature retail clinic site a month.[20]

For their part, many retail clinic companies now include hospital affiliations as part of their strategies. In many cases, they believe affiliation will improve their market positions. A consumer survey by Market Strategies International, for example, found that nearly eight in ten consumers would be at least somewhat more likely to use a retail clinic affiliated with a hospital.[21]

Retail Clinic Market

A snapshot of the retail clinic market and its participants is shown in Figure 1. It is an immature and rapidly growing market, with 53% of the current total number of clinics represented by CVS's Minute Clinic and 19% by Walgreen's TakeCare. Three medium sized companies with 24-60 clinic sites, The Little Clinic, RediClinic, and Target Clinic, together comprise 12% of the market. The remaining 16% of clinics are owned by 35 companies, each operating less than 20 clinics.

Figure 1. Most U.S. Retail Clinics Are Operated by Five Larger Companies. 35 Companies with Less Than 20 Clinics Each Make Up Remainder of Market



Source: Merchant Medicine and Cain Brothers Analysis as of July 2008.

Hospitals considering a potential role in the retail clinic market will need to understand the broad market as illustrated in Figure 1, but the overall number of clinics can be a limited perspective because of the dominance of several large companies. Of the five companies with the highest market share, only RediClinic has to date publicly

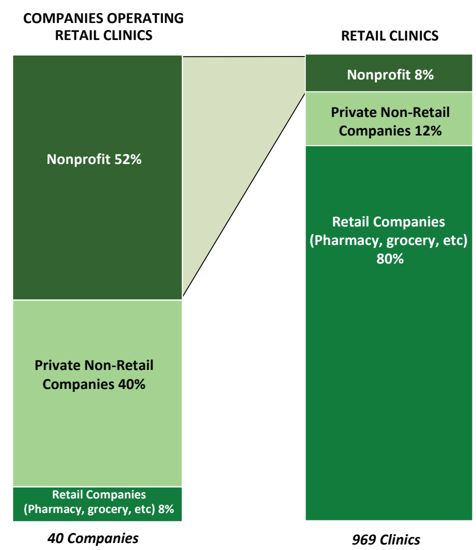
[20] Arthur Sturm, Jr., "Retail Clinics: Here to Stay," *Healthcare Financial Management*, (July 2007): 102-104.
[21] "Nearly 50% of Retail Clinic Patients Needing a Referral for Follow-up Care are Being Referred to a Specific Practice or Physician by Name," (Market Strategies, Inc., 19 April 2007 Press Release) http://www.marketstrategies.com (accessed 15 April 2008).

affiliated its clinics with providers such as hospitals. Providers currently owning or affiliating with retail clinics are, therefore, mostly competing as part of the 35 smaller companies (all of which own less than 20 clinics each) that operate only 16% of clinics in the market. Providers own or affiliate with 59% of the clinics associated with clinic companies smaller than the top five, so they are an important part of that segment of the market, even though overall only 12% of the 969 currently operating clinics are formally affiliated with a provider.

Early entrants into retail clinics built market share on a model that did not see value in established provider participation. The early entry advantage of this operating model as well as rapid growth of many of these companies meant that hospitals that wanted to compete in this market either had to start their own smaller regionally based retail clinic operations or affiliate with some of the smaller retail clinic companies. This aspect of the market is now shifting. Wal-Mart recently announced plans to open 400 new retail clinics in its stores by 2010 by partnering with community hospitals under its own brand "Clinic at Wal-Mart." Two hundred of these new clinics were expected to be opened through a deal with RediClinic, a retail clinic firm that already partners with hospitals as strategic partners with or without an ownership stake.[22]

Figure 2 shows that retail companies (e.g., pharmacies, grocers) own or control 80% of the U.S. retail clinics, through four large companies, Minute Clinic, Take Care, The Little Clinic, and Target Clinic. Figure 2 also indicates that 12% of the clinics are owned by private non-retail companies, and only 8% are owned by nonprofits.[23] In contrast, the retail companies only own or control four (or 8%) of the 40 retail clinic companies, with ownership of the remainder of companies split between nonprofit (52%) and private non-retail company (40%) ownership.

FIGURE 2. Four Retail Companies Own or Control Most Retail Clinics. Smaller Nonprofit and Private Companies Predominate



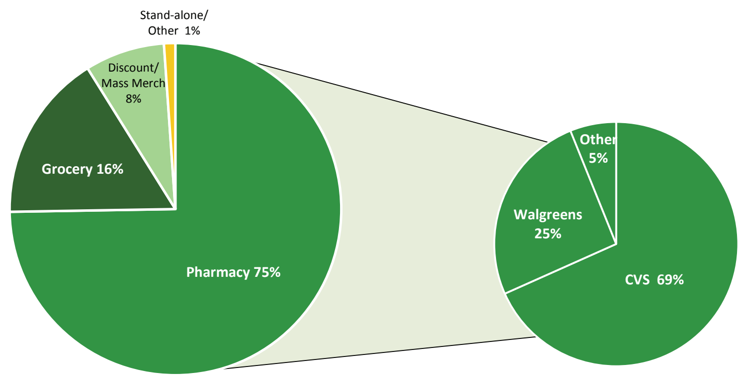
Source: Merchant Medicine and Cain Brothers Analysis as of July 2008.

Private funding for retail clinics has come from several sources. Venture capital funding backed some start-ups and is actively involved in many companies. For example, Take Care Health Systems is backed by Beecken Petty O'Keefe & Company, and RediClinic has been funded by Revolution LLC. Some retail clinics have also been funded by private investors. While private funding in start-ups has certainly been a feature of the retail clinic industry, it is not clear that the economics of retail clinics will sustain returns necessary to make private or public ownership by financial owners attractive over the long term. Strategic owners such as retail operators or hospitals appear to be ascending.

[22] "The Clinic at Wal-Mart to Open in Atlanta, Little Rock and Dallas Supercenters," (Bentonville, Ark: Wal-Mart Press Release 7 February, 2008) http://walmartstores.com/PrintContex.aspx?id=7922 (accessed 2 June 2008).
[23] Ownership was considered to be nonprofit if the ownership was associated with a nonprofit hospital or health system, while in some cases, the actual owner could be a taxable corporate affiliate of the nonprofit.

In describing the recent announcement that retail grocer Kroger has invested in The Little Clinic, retail clinic expert Tom Charland reports "…we don't believe retail clinic operators who are 100 percent owned by venture capital firms or private investors can survive. There must be more to gain than an increase in financial equity, which takes a long time."[24] Illustrating the typical private equity life cycle, MinuteClinic, originally backed by Bain Capital Ventures was sold to retail operator CVS in September 2006, and Walgreen Company purchased Take Care Health systems in May 2007 from private equity investors.

FIGURE 3. Distribution of Retail Clinics by Retail Location

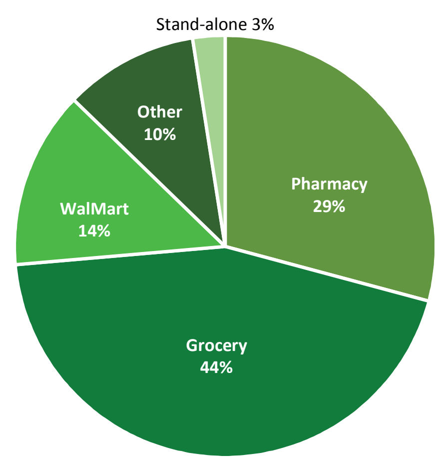


Source: Merchant Medicine and Cain Brothers Analysis as of July 2008

Retail clinics are overwhelmingly located within retail stores as opposed to in free-standing or mall locations. Figure 3 shows that 75% of clinics are located in pharmacy retail locations, with the dominance of CVS's Minute Clinic and Walgreen's TakeCare explaining most of the pharmacy locations. For the remainder, 16% are in grocery and 8% in discounters/ mass merchandisers. Many of these grocery and discounter/mass merchandisers are super-stores that also contain pharmacy operations. Alignment of the retail clinic locations with pharmacies' retail and other health care products and services shopping opportunities has been an important component of the retail clinic strategy. It is also notable that only 1% of clinics are located in stand-alone locations.

Figure 4 presents the retail location of clinics associated with the smaller companies with less than 20 clinic sites each. For these clinics, the largest type of retailer is grocery operations at 44%, with 29% in pharmacy locations (not CVS or Walgreens). Discounters/mass merchandising firms make up 24% of this group, with Wal-Mart contributing 14 percentage points. Providers, which have currently participated largely through ownership and/or affiliation with these smaller companies, may find this perspective of the retail market locations of clinics a better description, because it excludes the top five firms, of which only RediClinic currently has a public branding of its clinics with hospitals.

FIGURE 4. Distribution of Retail Clinics by Retail Location for Smaller Firms with Less than 20 Clinics



Source: Merchant Medicine and Cain Brothers Analysis as of July 2008

[24] "Kroger Invests in the Little Clinic," *Merchant Medicine News: Expanded Retail Clinic Market Report* 1, no. 4 (June 2008).

MODELS FOR PROVIDER PARTICIPATION

Providers have used two models to participate in the retail clinic business. Providers either own and operate the retail clinic activity themselves directly or have affiliated with a company in the retail clinic business. We examine these two alternatives below.

OWN AND BRAND RETAIL CLINIC COMPANY

Some hospitals have entered the retail clinic market by developing, owning, and operating a retail clinic operation themselves. These retail clinics are either operated as a subsidiary or joint venture corporation or are a part of the hospital's patient care operations. To date, two-thirds of the 30 providers with retail clinic participation have employed this model. Figure 5 shows providers using this approach. All of these retail clinic operations are regionally based. With the exception of Aurora QuickCare, all are currently small operations with less than ten clinics. Providers using this approach are able to clearly brand the retail clinic with the provider name and market the care based on the sense that the hospital is a trusted local source for high quality care. Some consumers also value the hospital's ability to provide oversight of the clinical care through hospital physicians.

Hospitals that own their own retail clinics have the ability to integrate medical record information from retail clinic visits into their hospital-wide information systems. A Deloitte survey found that 70% of consumers want their hospital to provide online access to integrated medical information including all of their test results, doctor visits, and hospitals stays; and one in four consumers report that they are willing to pay extra for this type of access.[25] Implementing hospital-wide information systems within retail clinics to capture and make medical information available to patients and providers can also present challenges, as hospital electronic medical record systems can be difficult to customize for the limited scope of the retail clinic environment.[26]

FIGURE 5. Many Providers Own and Brand Their Own Retail Clinics

PROVIDER	RETAIL CLINIC COMPANY	# CLINICS	STATE
Alegent health	Alegent Quick Care	6	NE
Albert Lea Medical Center (Mayo Clinic)	ALMC Express Care	1	MN
AtlantiCare Physician Group	AtlantiCare Health Rite	2	NJ
Aurora Health Care	Aurora QuickCare	19	WI
Bellin Health	Bellin Health Fast Care	5	WI
Carolinas Medical Center	CMC Express	1	NC
Fairview Health Services	Fairview Express Care	4	MN
Geisinger Health System	Geisinger CareWorks	5	PA
Gunderson Lutheran Medical Center	Gunderson Lutheran Express Care	3	PA
Health Partners	Health Partners Health Station	2	MN
Intermountain Healthcare	Intermountain Express Care	5	UT
Mayo Clinic	Mayo Express Care	1	MN
Mercy Medical Center-Des Moines	Mercy QuickCare	4	IA
MeritCare Health System	MeritCare Fast Track	1	ND
Olmsted Medical Center	OMC FastCare	2	MN
Palomar Pomerado Health	PPH Express Care	2	CA
Premier Health Partners	Premier ExpressCare	2	OH
Saint Alphonsus Regional Medical Center	Saint Alphonsus Express Care	5	ID
Saint Luke's	Saint Luke's Q-Care	1	MN
Sutter Health	Sutter Express Care	6	CA
	Total	**77**	

Source: Merchant Medicine July 2008 and Cain Brothers analysis.

25 `Deloitte , "2008 Survey of Health Care Consumers" (2008).
26 `"EHR Systems in Retail Clinics," *Merchant Medicine News: Expanded Retail Clinic Market Report*, 1, no. 4 (June 2008).

AFFILIATE WITH RETAIL CLINIC COMPANY PARTNER

A second strategy providers are using is to affiliate with a company in the business of developing and operating retail clinics. One-third of 30 hospitals publicly identified with retail clinic participation have used this model, as shown on Figure 6. These affiliations involve a contractual agreement between the hospital and the retail clinic operator. In these arrangements, providers typically provide some medical oversight, benefit from exclusive referral agreements within a defined geography, and may include clinical data sharing or integration features. Finally, some providers have taken ownership interests in the retail clinic operations within a region and become formal joint venture partners.

FIGURE 6. Many Providers Are Affiliating with a Retail Clinic Partner

	PROVIDER	RETAIL CLINIC PARTNER	# CLINICS	STATE
MEDICAL OVERSIGHT, REFERRAL AGREEMENT AND/OR EXCLUSIVITY IN REGION	Bailey Medical Center	RediClinic	1	OK
	Bon Secours, Richmond Health System	RediClinic	9	VA
	Community Health Network	Medpoint Express	3	IN
	Hillcrest Medical Center	RediClinic	1	OK
	Memorial Hermann - TX Medical Center	RediClinic	14	TX
	Saint David's HealthCare	RediClinic	2	TX
	Saint Luke's-Roosevelt Hospital	DR Walk In Clinics	2	NY
	Saint Mary's Medical Center (CHW)	MedAisle Express Care	1	CA
AFFILIATION AND JOINT VENTURE OWNERSHIP INTEREST WITH RETAIL CO.	Memorial Health System	MedPoint Express	4	IN
	Mercy Medical Center- Sioux City	Curaquick	4	IA
TOTAL IN OPERATION			41	

Source: Merchant Medicine July 2008 and Cain Brothers analysis.

Of the largest five retail clinic companies, RediClinic has most clearly articulated a strategy of affiliating with providers, as illustrated by its prevalence in the list above. The affiliation model for clinic development is gaining ground. All of the large retail clinic companies are working to develop their own strategies for the right partnership, brands, and positions, so hospitals looking for affiliation partners should remain open to considering potential partners not currently on the above list. Looking forward, Wal-Mart has announced that it will develop its own retail clinic brand, The Clinic at Wal-Mart, and will use an affiliation strategy to partner with providers within local regions to "co-brand" 400 clinics with local hospitals.

Partnering with a retail clinic operator permits a hospital partner to leverage off of the previous experience of the operating partner, capture brand recognition in some circumstances, secure referral arrangements, and create opportunities to develop more integrated medical information systems for patients, among other potential benefits. In addition, the hospital partner will not have to invest the amount of money full ownership would involve. Compared to full retail clinic ownership, however, hospitals will have to give up control over at least some aspects of clinic operations in return for these benefits. For example, as national clinic operators seek efficiencies and consistency of operations across all of their sites, they will limit flexibility within a particular region. Wal-Mart, for example, is currently requiring all retail clinic operators to use its selected medical record and information system to achieve consistency for patients across all of its stores, which means affiliating hospitals will be more challenged in achieving consistency within their own clinical information systems.[27]

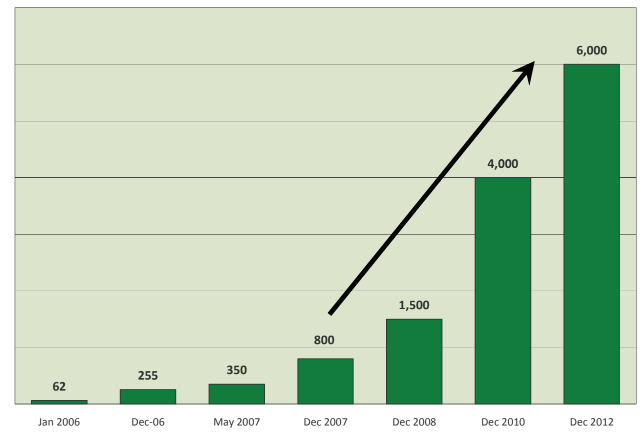
[27] "EHR Systems in Retail Clinics."

The Future

Retail Clinic Forecast

Mary Kate Scott has studied the retail clinic industry and has developed a forecast of continued significant growth as shown in Figure 7. She expects 5,000 additional clinics and 40-60 million visits by 2012.[28] With opportunities expanding to participate in retail clinics as direct owners or by affiliating with a retail or independent operator, hospitals can participate in a significant portion of this growth.

Figure 7. Number of U.S. Retail Clinics Expected to Grow Rapidly



Source: Scott & Company, Inc. from California HealthCare Foundation Briefing in Sacramento, Healthcare in the Express Lane: Retail Clinics Go Mainstream (May 2008).

An obvious response to forecasts of this kind of future growth in retail clinics is for hospitals to determine how they should position themselves in their own regions. This is a practical starting perspective for hospitals that have been on the sidelines to date, but hospital participation in retail clinics really needs to be seen within the broader strategic framework of innovation and consumerism. Retail clinics are only one response to delivery innovation and consumerism, and it is unlikely that the current model of a two-and-a-half year old industry will remain static. Participation in retail clinics may, nevertheless, represent a tangible and practical way for hospitals to stay connected to innovation in delivery and to develop a deeper understanding of consumer desires and needs.

…hospital participation in retail clinics really needs to be seen within the broader strategic framework of innovation and consumerism.

Technology and Innovation within Retail Clinics

Retail clinics are driving and participating in delivery system innovations that have application far beyond just the retail clinic setting.

Compact point-of-care testing devices that deliver rapid results are key to the current model of delivering a limited scope of services quickly. Improvements in technology are rapidly expanding this kind of testing to more complex conditions, including making home-based use of testing and monitoring more of a reality. Retail clinics are positioned to take advantage of these changes by broadening the types of services they offer as medical devices for a broader array of services are approved for home use. Retail clinics can use these devices to broaden their offerings and potentially serve as a link between home-based care and monitoring and other parts of the delivery system.

[28] Mary Kate Scott, “Healthcare in the Express Lane: Retail Clinics Go Mainstream,” Presented at California HealthCare Foundation Briefing in Sacramento, California (May 2008) http://event.on24.com/eventRegistration/EventLobbyServlet?target=lobby.jsp&eventid=109713&sessionid=12Key=06CDB855B4E3F01B2032DCC1A272519D&eventuserid=16761923 (accessed 19 May 2008).

Successful retail clinics have implemented technology-enabled systems that support protocols for consistent care and quality assurance. However, medical records created by independent (non-hospital affiliated) retail clinics are not automatically available to a patient's subsequent provider. Most clinics try to address this issue by offering a paper clinical summary of the encounter that can be given to the primary care physician.

Individually controlled web-based medical records may address some of the challenges surrounding the portability of medical records more effectively going forward. Deloitte's survey of health consumers showed that 46% say they would be interested in using a software program or web site for a personal health record.[29] Google recently announced such a product in partnership with CVS Caremark. Patients who receive treatment at CVS's MinuteClinics will be able to import their visit summaries into their Google Health Accounts, and medication history information will also be linked from CVS pharmacies.[30] Other announced partners for the Google venture include Cleveland Clinic, Beth Israel Deaconess Medical Center, Walgreens, Medco, Longs Drugs, RxAmerica, and Blue Cross Blue Shield of Massachusetts.[31] Web-based personal health records may also facilitate the affiliation model of retail clinic participation by providing a source of clinic information without hospitals having to integrate their medical information systems into retail clinics.

Participation in a retail clinic can move the hospital much closer to the evolution of portable electronic medical records and better prepare the hospital to respond in the future as patients begin to have the ability to receive and send targeted medical records information on their home computers or cell phones. Hospitals that participate in retail clinic operations also have the opportunity to benefit from retail clinic solutions in the area of technology enabled protocols. Hospitals can develop direct interfaces into their medical record systems to facilitate continuity of care and medical information. These can both enhance patient care and give the hospital experience finding solutions that may serve in different ways in the future.

Payment innovation that can impact hospitals also arises in the retail clinic setting. Employers and others are experimenting with stored value cards as a way to provide a limited amount of payment for health care services at designated providers. Hospitals will want to pay attention to this trend for both competitive reasons and to understand potential uses in their own revenue cycle processes as they work to respond to consumers' needs and their own needs for collection of increasing consumer co-pays and cost sharing amounts.

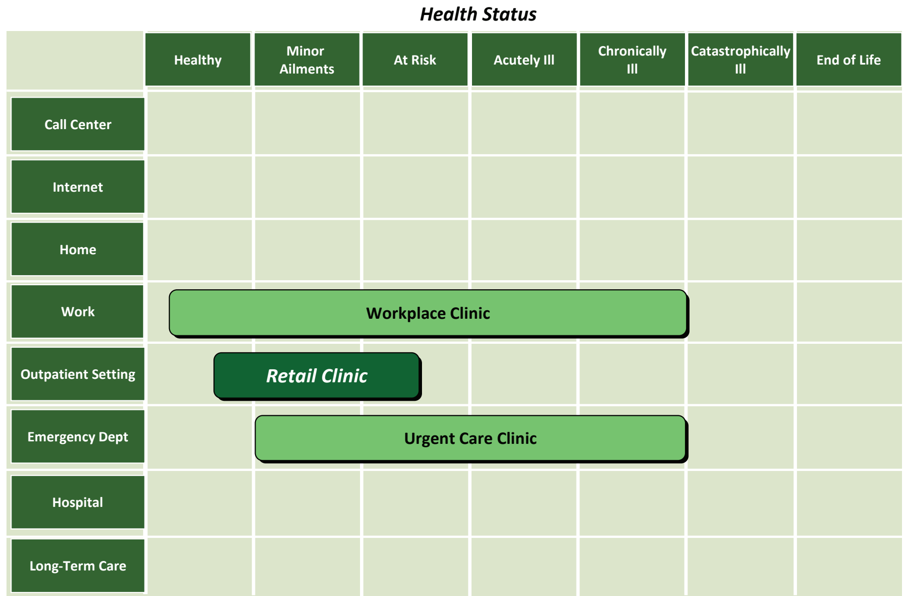
RETAIL CLINICS AND BEYOND

► *Urgent Care Clinics/Workplace Clinics*

Retail clinics to date have been defined principally by their location in certain types of retail stores and by the limited scope of services they provide. They substitute for care that otherwise would have been provided by a primary care physician or, sub-optimally, in an emergency department. Figure 8 illustrates the position of retail clinics based on the location of care they provide and the health status of patients they serve. It also shows the position of retail clinics in comparison to two other models: workplace clinics and urgent care centers.

29 Deloitte, "2008 Survey of Health Care Consumers" (2008).
30 "CVS Caremark Partners with Google on the Launch of Google Health," (Woonsocket, RI: CVS Caremark Press Release 19 May 2008) http://www.cvscaremark.com/newsroom/press-releases/cvs-caremark-partners-with-google-launch-google-health (accessed 2 June 2008).
31 "First Insurer to be 'Early Mover' on Google Health Platform Will Provide Claims Data to Members in Safe and Secure Online Environment," (BCBSMA Press Release 13 June 2008) http://www.bluecrossma.com/common/en_US/aboutUSIndex.jsp (accessed 17 June 2008).

FIGURE 8. Current Position of Retail Clinics



Source: Adapted from IBM Institute for Business Value and Cain Brothers Analysis

Urgent care clinics are not usually located within a retail store. Unlike retail clinics, the staff of urgent care clinics typically includes physician providers. They are, therefore, capable of assessing and treating a broader array of services than retail clinics, although the services they perform can vary considerably. Some urgent care clinics are designed to handle many urgent conditions that would otherwise be treated in an emergency room, and others provide more limited episodic primary care services.

Despite these differences, retail clinics and urgent care clinics share some similarities. Both retail clinics and urgent care clinics have extended hours, are organized to provide unscheduled episodic care, and view patients as customers. Both retail clinics and urgent care clinics benefit from consumer backlash over long waits for primary care appointments. While retail clinics, through their one-stop location in a store with a retail pharmacy, have to date provided more convenient access to prescriptions than urgent care clinics, an increasing number of urgent care clinics are now also providing prepackaged, point-of-care dispensing of pharmacy products.[32]

Workplace clinics also operate in some of the same territory as retail clinics and urgent care clinics. They are sited at or near the workplace and may perform a broad array of services including wellness, employment screening, injury assessment and stabilization, and sometimes more complete primary care services, or they may have a much more limited scope. Depending on their scope of services, workplace clinics may be staffed by physicians or other health care providers. Workplace clinics that address employers' needs for employment screening and workers' compensation provide unscheduled care, as do retail clinics and urgent care clinics. Workplace clinics that have extended their services beyond the workers' compensation basics are also aiming to address consumers' preferences for access to care in a convenient location (i.e., at the work-place). Employers cite the productivity benefits of less time away from the workplace for health care visits.

[32] Robin M. Weinick and Renee M. Betancourt, "No Appointment Needed: The Resurgency of Urgent Care Centers in the United States, Prepared for the California HealthCare Foundation," *Journal of Urgent Care Medicine* (November 2007) http://www.jucm.com/2007-nov/update.shtml (accessed 24 March 2008).

There will likely be increasing overlap between retail clinics, urgent care clinics, workplace clinics, and other types of care delivery evolving in the future.

There will likely be increasing overlap between retail clinics, urgent care clinics, workplace clinics, and other types of care delivery evolving in the future. Employers are already contracting with urgent care clinics and some retail clinics to provide some services to employees. As occupational medicine services are offered by urgent care and retail clinics, there will inevitably be some movement away from their historic episodic focus on services that may involve more than one visit.

Walgreen's March 2008 announcement that it is forming a new division to include both its Take Care retail clinics and newly acquired worksite health centers I-trax, Inc. and Whole Health Management points to one example of this trend. Walgreens' Chairman and CEO described the company's strategy: "Walgreens Health and Wellness division will marry our store clinics and pharmacies with worksite health centers and pharmacies."[33] Some retail clinics are also offering preventative health services such as weight management and nutrition counseling.

► ***Disruptive Innovation***

Clayton Christensen describes a disruptive innovation as one that "brings a much more affordable product or service that is much simpler to use into a market. And so it allows a whole new population of consumers to afford to own and have the skill to use a product or service, whereas historically, the ability to access was limited to people who have a lot of money or a lot of skill."[34] With a disruptive innovation, the service or technology "enters a market at the low end, initially not performing as well as higher-end incumbents, then improves until it captures the whole market."[35] Retail clinics have certainly entered the health care delivery market at the low end of complexity. The model is designed to provide value through its limited menu of services delivered efficiently and conveniently. If retail clinics are to become a disruptive innovation, they will have to broaden their scope of services, moving up on the scale of complexity of services offered.

The current retail clinic operating model's value proposition is tied to a limited scope of services, so it may be challenging to execute an expansion of services. We believe, however, that there are a number of ways in which retail clinics can broaden their scope of services, potentially moving up on the scale of complexity of services offered and creating momentum for disruptive innovation. Figure 9 illustrates three potential changes across patient health status and location of care delivery.

As was mentioned above, the clear distinctions between retail clinics, urgent care clinics, and workplace clinics have in some cases started to erode. Innovation that responds to the consumer's desire for convenience, and value for money spent, is likely to evolve beyond the current definitions of these three delivery models, making distinctions among them less clear.

Technological innovations in point of care testing, maturation of the retail clinic operating model, and competition caused by the expected opening of many new retail clinics, are all forces driving an expansion of scope in retail clinic services offered. For example, as technology continues to make laboratory and imaging services more feasible for small outpatient locations and algorithms for chronic illness diagnosis and

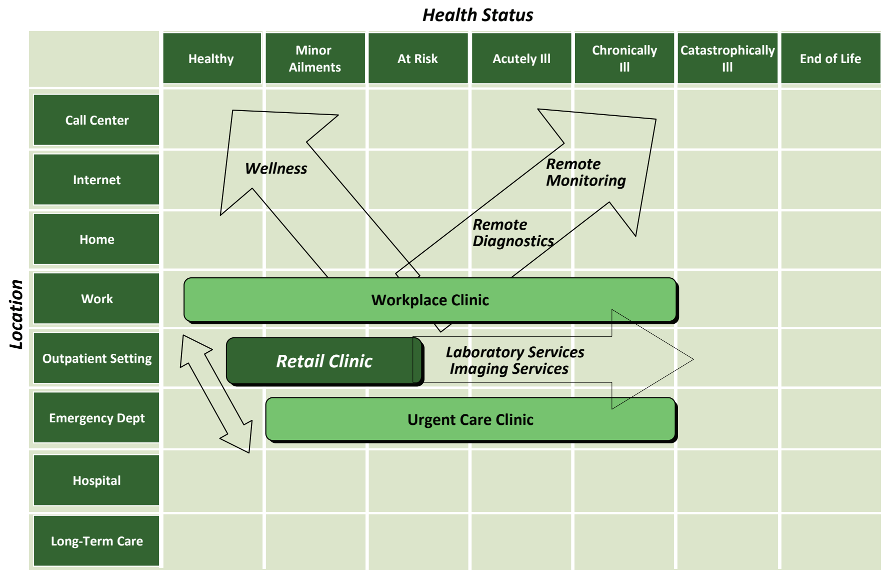
[33] "Walgreens Creates New Health and Wellness Division as Part of Strategic Move to Expand Health Care Access Beyond Retail Sites," (Walgreens Press Release 17 March 2008) http://news.walgreens.com/article_print.cfm?article_id=4917 (accessed 28 March 2008).

[34] Mark D. Smith, "Disruptive Innovation: Can Health Care Learn From Other Industries? A Conversation With Clayton M. Christensen," *Health Affairs* 26, no. 3 (2007) w 288-w295 (published online May/June 2007).

[35] Richard Bohmer, "The Rise of In-Store Clinics—Threat or Opportunity?" *New England Journal of Medicine Perspective* (February 22, 2007) 356;8.

treatment are developed, retail clinics will have opportunities to expand services beyond their current limited scope and potentially serve patients who are more seriously acute or chronically ill.

FIGURE 9. Future Direction of Retail Clinics – Disruptive Innovation?



Source: Adapted from IBM Institute for Business Value and Cain Brothers Analysis

Many of the same trends in consumerism, demand for convenience, and advances in technology that have supported the emergence of retail clinics are also cited by those who envision a future of technology-enabled care for chronic conditions and post-hospitalization managed by involved consumers in their homes.

Many of the same trends in consumerism, demand for convenience, and advances in technology that have supported the emergence of retail clinics are also cited by those who envision a future of technology-enabled care for chronic conditions and post-hospitalization managed by involved consumers in their homes.[36] Consumer interest in using a self-monitoring device at home, if needed to respond to a health condition, was found to be high at 88%, with 33% saying they would be extremely interested.

Retail clinics that gain consumer loyalty are aligned with consumers' demand for convenience; know-how to use technology for medical information; and are supported by companies with an interest in the sale of pharmaceuticals, medical products, and medical devices. And we anticipate that they may develop a meaningful role in this broader health care delivery area, as illustrated by the arrows in Figure 9 showing potential expansion into wellness and even remote monitoring and diagnosis.

Health reform, affordability, and increasing access to health care services in the U.S. have been principally seen as related to the health financing system. Addressing the growing number of individuals who cannot afford health insurance has been framed as developing insurance mechanisms for the currently uninsured. Retail clinics may provide a very different direction by focusing "on health care instead of health insurance coverage."[37] By tackling the question of affordability using a bottoms-up, delivery system approach to change, they also may be a source of disruptive innovation for health policy as well.

[36] Deloitte Center for Health Solutions, "Connected Care: Technology-enabled Care at Home"(Washington, DC: Deloitte, 2008).
[37] William M. Sage, "Symposium: The Massachusetts Plan and the Future of Universal Coverage: Implementing Universal Coverage: Might the Fact that 90% of Americans Live Within 15 Miles of Wal-Mart Help Achieve Universal Health Care?" *The University of Kansas Law Review* 55 (June 2007) : 1233.

Proceed with Caution

Hospitals considering developing, owning, or partnering with retail clinics will need to ask themselves some hard questions to determine if they really have the ability to develop the kinds of partnerships with retailers required to make this model a success. Additional areas to explore include an assessment of physician reaction, market demand, availability of financial resources, and other alternatives. Financial feasibility should take into account the extended time period often required to build demand to achieve break even. A deliberate process with constituents needs to be grounded in industry knowledge.[38]

Private equity investors will take note of the challenges purely financial investors have had sustaining investments in retail clinics. In addition to assessing fundamentals of the potential investment, they need to have a strong focus on their ability to add value through creating partnerships with and among the retail and health care operators and potential strategic investors in retail clinics.

While caution is certainly required when considering a strategy for retail clinics, we believe that the decision should not be focused narrowly on the impact of the current or proposed retail clinic operation. The kind of disruptive innovation described in the previous section is only easy to identify with the benefit of hindsight. Retail clinics in their current configuration may not prove to be that singular disruptive market entrant that some expect, but they certainly are a growing sector connected with consumerism, technology, and the role of alternative site delivery.

Conclusion

Hospitals may not be able to predict exactly where retail clinics fit into the future delivery system, but, by participating with retail clinics today, they can position themselves to be part of this future as it unfolds, better enabling them to develop strategic responses to these trends and changes.

[38] For example, Mary Kate Scott, "The Hospital Retail Clinic Toolkit," provides a book, slide presentation, financial models, and consumer survey tools to guide hospitals through this decision process.

About Cain Brothers

Cain Brothers is an employee-owned investment banking and financial advisory firm that focuses exclusively on the medical services and medical technology industries and their related businesses. Cain Brothers has one of the largest teams on Wall Street dedicated to the health care industry, with bankers and traders who possess experience in all facets of the industry.

Cain Brothers is all about ideas and direct senior banker involvement with the firm's clients. Our philosophy is to roll up our sleeves and work side by side with our clients to produce innovative, market driven solutions for the many opportunities and challenges they face.

The firm's client base is primarily composed of nonprofit and investor-owned health care service providers, third-party payors, medical technology companies, and companies that provide services to the health care industry such as information technology and real estate companies. The firm was formed in 1982 based on the belief that health care organizations have unique needs that can be best addressed by professionals with a focus on the health care delivery system as a whole. The firm has grown to become one of the nation's preeminent investment banking and advisory firms to the health care industry.

Cain Brothers research scans the health care industry environment to identify client challenges, trends, and solutions. Through our *Strategies in Capital Finance* series of white papers, the firm communicates substantive strategic perspectives to senior management teams and board members. The firm also keeps its clients up to date on industry developments, interest rate changes, and equity price trends through its two newsletters, *Industry Insights* and *Senior Health and Housing Weekly News*. These publications are available on our website.

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