

How to define and execute on a successful retail health business model



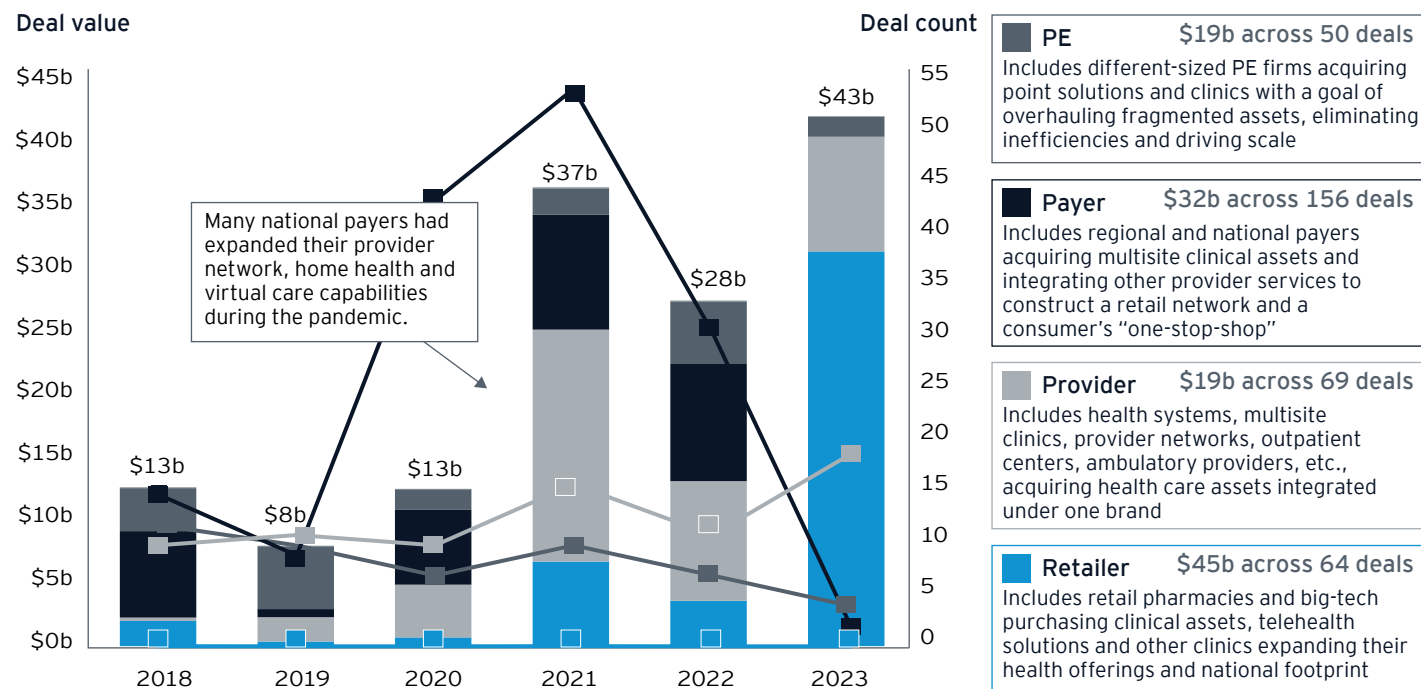


As the lines between health care and consumer companies have blurred, many organizations have tried to implement retail health offerings. EY research identified over \$115 billion invested across more than 300 deals in retail health since 2018.¹ These investments by private equity firms, payers, providers, pharmacies and retailers have been spurred by changing patient priorities, including increased emphasis on convenience, transparency, quality and affordability. The COVID-19 pandemic led to greater emphasis on these priorities as consumers paid more attention to their health and were increasingly encouraged to use nontraditional care delivery methods.

However, retail health providers have yet to realize the potential growth that they expected. This is, in part, because “retail health” has become a vague catch-all term without a defined business model that differentiates it from traditional health care.

Companies looking to reach their full potential in retail health should understand what the essential characteristics of a retail health business model are and how to execute them, either through organic development or M&A.

Investment in retail health since 2018²



¹ Includes publicly available data as of September 2023 with disclosed deal values; deals were classified as retail health if the transaction included some components of incorporating retail health business model characteristics.

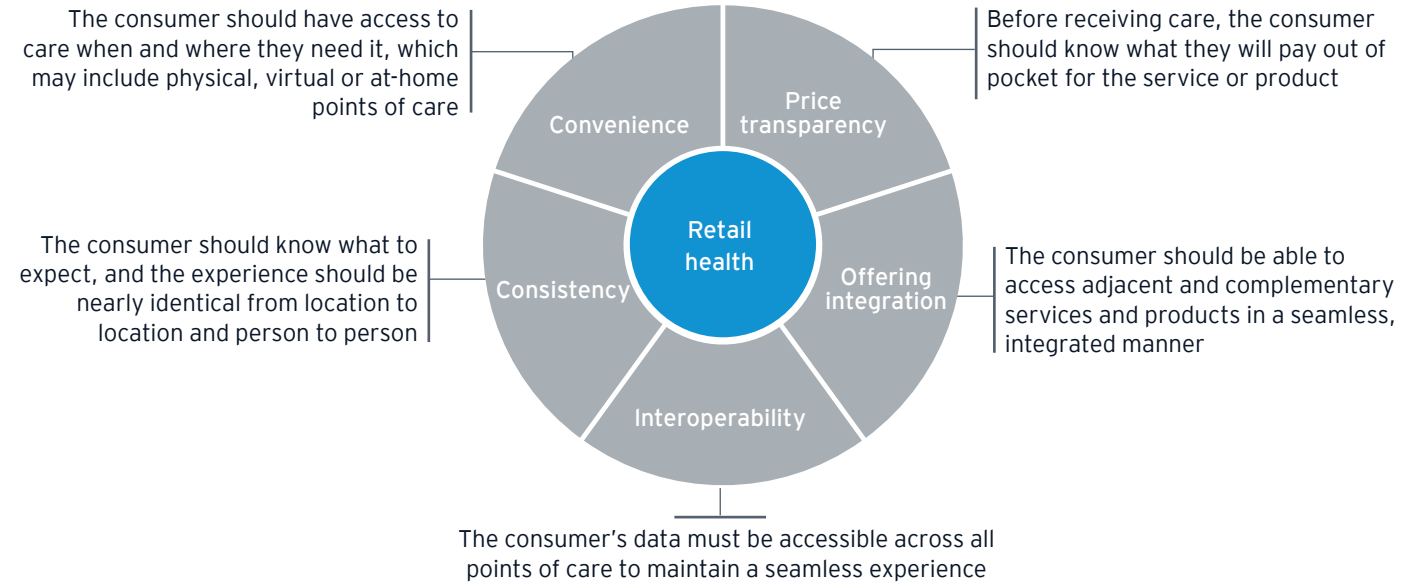
² Source: Pitchbook; EY-Parthenon analysis.

What is retail health?

Success in retail health requires health care products and services to be provided across virtual and physical locations – under a unified brand – in a convenient, price-transparent, interoperable, integrated and consistent business model. A common misconception is that the term refers to only traditional retailers operating in health care, but retail health is not limited by the type of organization providing the care or the type of health care provided. It can include both organizations that provide a specialized service, such as physical therapy, and mass merchants who offer pharmacy, urgent care and vision care.

A successful retail health business model has five essential characteristics:

Successful business model characteristics



Source: EY-Parthenon analysis.

- 1 Convenience:** The consumer should have access to care when and where they need it, which may include physical, virtual or at-home points of care. While many retail health providers have attempted to offer convenient solutions, the end-to-end experience – from scheduling to care delivery to payment – should feel convenient to the consumers, which is rarely the case.
- 2 Price transparency:** Before receiving care, the consumer should know what they will pay out of pocket for the service or product, similar to the experience of shopping for a box of cereal where prices are clearly marked. This will provide differentiation from one of traditional health care's biggest pain points.
- 3 Offering integration:** The consumer should be able to access adjacent and complementary services and products in a seamless, integrated manner. Currently, retail health providers may have multiple offerings that are not integrated or complementary. For example, a provider may offer both pharmacy and clinical services, but have separate web portals, brands and payment processes. This breaks the end-to-end experience and reduces a company's ability to meet multiple consumer needs. Offering integration will also allow organizations to improve

- 4 Interoperability:** The consumer's data should be accessible across all points of care to maintain a seamless experience. Having health and prescription history, as well as insurance and payment information, readily available will facilitate the continuity of care and will support the other business model characteristics of convenience and consistency.
- 5 Consistency:** The consumer should know what to expect, and the experience can be nearly identical from location to location and person to person. The value of consistency is clear – a consumer has a better experience when they are in a familiar setting. This can be seen in traditional retailers that have created an environment that looks and feels the same across locations, providing comfort and trust in their brand. This concept can yield even more benefits in health, where it is paramount that consumers feel safe and comfortable as they relay personal information to their care team. Creating consistency also allows retail health providers to scale quickly, lowering costs.

Why the definition of retail health matters

Retail health - broadly defined - saw a spike in growth during the pandemic, but actual growth rates over the last several years have been below initial projections. While vaccinations and testing served as a catalyst for growth, retail health providers forecasted high organic growth, given other market trends (e.g., a shift toward lower-acuity care settings, long wait times, physician practice closures and staffing shortages). However, as the supply of retail health offerings increased, demand did not materialize.

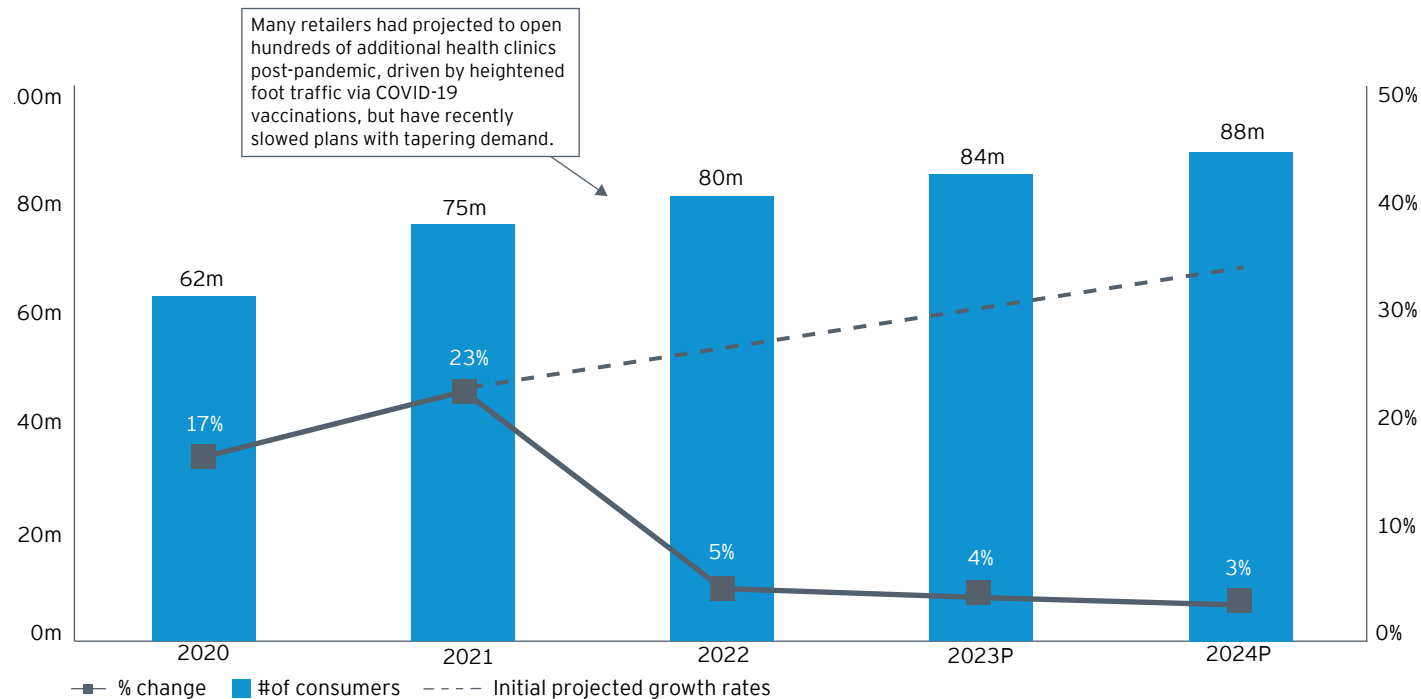
This lower-than-expected demand resulted from a reliance on a traditional health care business model rather than a retail business model. Many retail health providers scaled too quickly without the consistency, integration of offerings and price

transparency described above. In essence, consumers faced the same complex, inconvenient, inconsistent and expensive experiences, so they were not enticed to make the switch from traditional health care.

We believe that, if retail health companies leverage the business model outlined above while accounting for the specific demands of health care, they will see greater success. Private equity firms have long employed these business model characteristics to scale fragmented outpatient points of care and transform underperforming assets into national networks. As other stakeholders - namely health care payers, pharmacies and retailers with clinical assets - develop retail health strategies, they will need to focus on these same characteristics.

Expectations vs. Reality: Retail Health Clinic Utilization³ 2020-2024P

Retail health clinic utilization saw the largest increase among all alternative sites of care between 2020-2021 ...



³ Figure does not capture all retail health consumers as defined due to limited data, and numbers underestimate the total retail health market; figure only shows adults aged 18+ who visited retail health clinics in-person at least once during the calendar year. Source: eMarketer, Fair Health 2023 Report on Alternative Sites of Care Utilization; Insider Intelligence, EY-Parthenon analysis.

... but growth rates are expected to slow down, especially as the pandemic catalyst becomes a thing of the past

What should organizations investing in retail health consider?

The health care industry is hyper-localized and -personalized, which results in variability and elevated costs. As consumers shoulder a larger share of health care costs - premiums for employer-sponsored family health coverage have jumped 55% since 2007 - they demand deeper insights into how they can optimize their health care dollars.⁴ With more of their own money on the line, greater decision-making power and higher service expectations, consumers will reward organizations that meet their demands for convenience, transparency and affordability without sacrificing quality and outcomes.

While the future of retail health holds exciting prospects, retail health providers should be poised to meet the unanswered challenges of today. This will require a thorough assessment of their current business model, a clear and cohesive strategy, and a future state operating model design that addresses the five core elements of a true retail health business model. These elements may be achieved through organic growth, but they will

most likely require M&A, including partnerships, to truly deliver on consumer needs and expectations. Companies that are successful in this will see top-line growth and margin expansion, while their consumers will mutually benefit through better experience and outcomes.

In developing a retail health business model, companies should ask themselves:

- ▶ How is our current business model addressing the five core characteristics needed to win?
- ▶ How can we create an integrated portfolio of services and products? Should we build, buy or partner?
- ▶ How can we use data better to understand the complexity of patient behavior and meet needs for consistency and convenience?
- ▶ How can we align or integrate offerings to incentivize both a profitable and healthy patient journey?

⁴ Source: Peterson-KFF Health System Tracker; EY-Parthenon analysis



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US SCORE no. 22372-241US
2401-4411262
ED None

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