How Industry Convergence Is Reshaping The Future Of Healthcare And Retail

By James Alt and Gregory Park

At a glance, the differences between running a healthcare organization and a retail business are obvious. Healthcare is one of the most regulated industries, where organizations contend with tremendous risk and significant failure costs. Retail has a lower barrier to entry, with brands vying for consumers' discretionary dollars and keeping a constant focus on maintaining profitability.

A closer look at the transformation underway in each industry reveals that their paths are converging.z

Market forces are disrupting long-held business models of retailers and healthcare organizations alike. Retail store closures announced in 2017 totaled more than 100 million square feet, with brands shrinking physical footprints as consumer behavior shifts to online shopping and more experiential spending. In healthcare, ongoing mergers and acquisitions, including active vertical consolidation, the increasing impact of technology in healthcare and continued strong private equity investment are

upending the landscape. Healthcare organizations also find themselves adjusting to a consumer base, rather than patient base, that increasingly seeks care outside of the four walls of the hospital and into outpatient, retail or home settings.

Healthcare and retail leaders are at critical turning points, confronting a shared set of obstacles: to enhance their brands, grow revenue, deliver what consumers want (where they want) and embrace technology to operate more effectively. Taking advantage of this common ground by pursuing transformation together could prepare both sides for the future.

A History of Cross-Industry Collaboration

Innovation and market consolidation trends are bridging the gaps between sectors as disparate as technology, automotive manufacturing and financial services. To an extent, healthcare and retail have been intertwined for years. In the chain's heyday, Sears department stores offered optical and dental services. Target stores have featured in-store pharmacies for over a decade, a service line CVS Health acquired in 2015 and has evolved into clinics to serve consumers' basic care needs.

This history of industry partnerships is entering a new era. In late 2017, CVS Health announced its intent to acquire Aetna, a development that could push healthcare farther from the traditional physician's office or emergency room and into a retail environment. Walmart's speculated acquisition of Humana, announced a few months after the CVS Health-Aetna deal, stands to have similar implications.

Pressure to enhance revenue and capitalize on the growing demand for care is pushing healthcare leaders to improve market penetration and access. While merging with other hospitals and health systems expands institutions' consumer base, aligning with a retail brand creates an opportunity to meet consumers where they already are. In retail, executives are tasked with reviving their brick-and-mortar footholds, exploring new ways to attract and keep consumers in the store (particularly as the mall model comes under siege).

The increasing convergence between healthcare and retail highlight how well suited they are to address each other's core business challenges.

A Vision for Healthcare and Retail's Joint Future

Past alliances between retail and healthcare organizations are proofs of concept for bolder collaboration. Future partnerships have the potential to further innovate both industries by:

- **Moving from malls to ecosystems:** As malls suffer from vacancies and endangered anchor tenants, non-retail businesses are moving in. But from a healthcare perspective, the common mall structure — cavernous buildings surrounded by sprawling parking lots — presents an inconvenience for someone who's ill or elderly.

  Healthcare leaders and investors may find a better fit with real estate developers that are shifting focus from malls to comprehensive lifestyle centers. Ecosystems like Platform LA in Los Angeles and Easton Town Center in Columbus, Ohio, pair retail and restaurants with

offices, museum experiences, residences and community green space. Wellness centers, clinics and specialty care providers could find that these mixed-use properties provide the steady, diverse foot traffic retail-only malls no longer can.

- **Elevating healthcare's on-site retail options:** Hospitals and health systems have left immense retail opportunity untapped for decades. A visit to most hospitals turns up the usual suspects: gift and card shops, florists and bookstores. From a healthcare operator perspective, embedding a more diverse mix of retailers (maternity apparel, fitness brands, toy stores, etc.) creates a more complete experience for not only consumers receiving care, but also their family, friends and hospital staff.

  For the growing list of retailers facing financial distress, healthcare settings provide a captive audience and a chance to pilot new store formats and experiences. Brands seeking to shrink their store footprint (and its associated costs), for instance, might test a pop-up or kiosk on medical campuses.

Four Considerations for Uniting Healthcare and Retail

Bringing healthcare into a retail scenario and vice versa isn't a simple plug-and-play exercise. In both instances, leadership teams and investors must think through the various factors needed for a successful shift, including:

- **Business model adjustments:** Health system leaders contemplating new on-site retail options will need to adapt their operating models, ensuring they're equipped to act as landlords. Conversely, translating healthcare to a retail environment requires teams to think through how to manage the consumer experience, care delivery, staffing and technology in smaller standalone facilities. Retail executives must be ready to answer similar questions about

inventory, product selection and labor needs when moving into healthcare venues.

- **Capital investment:** Developing innovative retail experiences in a traditional hospital building — or specialized clinics in former store locations — demands funding to redesign existing space accordingly. Retail and healthcare leaders should carefully determine the projected brand and financial return on investment of any location before committing to extensive build-outs.

- **Product-service compatibility:** For healthcare and retail convergence to succeed, there should be alignment between the products and services organizations offer, along with the audiences they target. Pairing sports rehabilitation clinics within or adjacent to sporting goods retailers, for instance, creates more value than embedding geriatric care in a college town's local shopping center.

- **Residual impact of collaboration:** Beyond strengthening revenue and capturing new audiences, collaboration can bring intangible benefits. Strategic alliances differentiate your brand not only in consumers' eyes, but also to other organizations. Health systems and retailers with a reputation for being progressive could attract additional alliances with technology companies eager to transform both industries.

Disruption doesn't defer to strict industryboundaries — business leaders' transformation plans shouldn't either. Healthcare and retail organizations that embrace their common ground can establish a stronger foundation for continued growth and a profitable future.

Key Takeaways

To capitalize on the opportunity healthcare and retail convergence presents, leaders and investors should:

Think differently.

Look for commonalities between healthcare and retail, and make a case for how your organization would benefit from joint transformation.

Plan differently.

Map your current and future customers' needs against your organization's brand and capabilities to identify complementary partnerships.

Act differently.

Build flexible business models that let your organization translate its products and services to new settings and make strategic investments that bring bold alliances to fruition.

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