When Healthcare Organizations Become Landlords

BRINGING THE STORE-WITHIN-A-STORE MODEL TO HEALTHCARE

By John Bodine and Shane Goss

In the same way that big box stores offer nearly every type of generic product along with a few specialty items, hospitals look quite similar with most offering a wide array of services and little variation between them. Big box retailers are struggling financially like many healthcare organizations as they try to be all-things-to-all-people. Toys 'R' Us and hhgregg are going out of business and K-Mart and Sears continue to close stores. That said, Best Buy offers an example of how an organization can transform its business model to improve its performance and better serve its customers. Best Buy has overcome disruptive forces in the industry by implementing several strategies, one of which was adopting a "store-within-a-store" operating model. Their success with this model could be one that healthcare organizations follow.

The store-within-a-store operating model allows Best Buy to lease out space to specific brands, like Apple, Samsung and HP. These brands then make a profit off the sales of their products. In each of these cases, the brands offer high-quality products and great customer service. Best Buy no longer has to worry about inventory or training, plus they have a steady revenue stream from the lease agreement. The brands benefit by selling directly to consumers without needing to operate an entire store and consumers get a better experience by engaging with product experts as they make purchases, while still having the chance to buy other products available at Best Buy.

What a Store-Within-a-Store Looks Like in Healthcare

By taking note of Best Buy's transformation, healthcare organizations may find success leveraging this model. Just like Best Buy operates most of the departments within its stores but has strategically identified areas where third parties handle specific departments, hospitals could do the same. To do so, the management team must gain an understanding of how each service line is performing from a financial and quality perspective, as well as its importance to the larger strategic plan.

To understand the viability of a service line, assess how it is performing financially as well as how the quality ratings and patient satisfaction scores (from the Hospital Consumer Assessment of Healthcare Providers and Systems (HCAHPS) survey) and online reviews measure up.

To evaluate whether a service line should be operated using a store-within-a-store model, consider:

- How essential is this service line to the organization, especially as fee-for-service models of care are replaced by value-based payment models and keeping patients well becomes imperative?
- Does this service need to be provided as part of our mission to the community? If we exit the space, will patients still have access to care?
- Is the service truly accretive considering all costs and space committed?
- Do we have the right expertise to run this service or are we falling behind in the market?
- Do we provide the service at a sufficient level of quality?
- Is this service line an area we believe we can grow organically? How competitive is the market for recruiting top performing individuals into the organization?
- Do we have other uses for the capital invested in the service line?

This exercise helps delineate between service lines that are underperforming, but necessary to offer as part of a continuum of care, and those that may be offered operated by leasing out space to a specialty provider.

When Hospitals Follow the Lead of Best Buy

For healthcare organizations, the store-within-a-store model eliminates the need for an organization to operate every service line while still realizing the benefits of providing that service. Some of the benefits include:

- **A stronger consumer experience.** As consumers seek out care on their terms and demand more transparency organizations must differentiate themselves from the competition. Best-in-class care provided in a location that's easily accessible is critical for doing just that. This should increase patient satisfaction and loyalty.
- **Enhanced efficiency.** Specialty operators typically have systems that allow for improved efficiency compared to more comprehensive health systems. Further, such operators typically have national recruiting capabilities as well as onboarding/training processes specific to the service line.
- **Improved financial performance.** Utilizing a specialty operator to provide care in certain service lines can improve financial returns as the organization may eliminate a loss by turning over a poor-performing service line to an outside party.
- **Better patient management.** As organizations take on risk, managing patients and preventing readmissions is becoming critical to success. Making care as seamless as possible is a key component of this shift. This also creates a more holistic picture of health by housing a patient's data in their electronic health record (EHR), which is essential as data-driven decisions become more common. Many specialty operators can integrate such data with the hospital.
- **Scalable offerings.** Providers who excel in a given specialty can expand their offerings across multiple sites of care. This could allow for technology investments in that service line to be more affordable (due to the scale) or for highly specialized services to become more readily available without individual organizations needing to invest in them. This means organizations won't feel stretched to do everything, but instead focus on doing a few things exceptionally well.

Integrating a Store-Within-a-Store Model With Other Innovative Operating Models

Healthcare organizations need to think beyond just caring for patients when they're ill and increase the focus on keeping patients well as population health gains popularity. In doing so, they must consider how to ensure that patients receive consistent, cohesive care. This means that quality of services provided must be outstanding or they'll risk spending more on treating patients than necessary.

For organizations with struggling service lines, leasing out space to another entity isn't the only solution. Organizations can look at other options including:

- **Joint ventures.** These allow organizations to continue to have a stake in the success of a given service or offering and jointly share the profits (or losses). As an added benefit, there is often an upfront payment to the health system as the specialty provider buys into its share of the venture.
- **Service line sale.** Many specialty operators will acquire service lines from healthcare organizations. Many such firms price these transactions based on their expected level of performance under the buyer's more- efficient operating model, enhancing proceeds to the seller.
- **Service line led by outside physician.** Bring in a well-qualified and respected physician or group who can drive change and implement processes that have led to their success, as well as lend their reputation to improve the organization's brand image.

Putting all these operating models together could reshape how hospitals operate and provide high-quality care. For example, a hospital could operate high-performing services lines like oncology and pulmonology while leveraging nontraditional operating models for struggling services lines by creating a joint venture for outpatient rehabilitation, leasing its obstetrics/gynecology space to another organization and hiring a renowned physician to run the cardiac service line.

To create such a diverse portfolio, healthcare organizations must start by truly understanding the make-up of their organization, each service line's quality metrics and profitability and whether it's a core offering that brings in referrals. By taking an objective look at each aspect of the organization, hospitals and health systems can redesign their operations for a profitable, consumer-centric future.

Key Takeaways

To assess, identify and implement a store-within-a-store model in healthcare, organizations should:

Think differently.

Recognize that healthcare delivery is changing and as a result operating models must transform.

Plan differently.

Evaluate the performance of each of service line and assess whether nontraditional operating models would be beneficial for underperforming areas of the business.

Act differently.

Developing an operating model that aligns to the long-term strategy by balancing service lines run in house with nontraditional operating models.

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