

**Deloitte.**

# Retail Clinics

*Facts, Trends and Implications*

Produced by the  
Deloitte Center for  
Health Solutions



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# Challenging the Health Care Status Quo



The term “retail clinic” may sound a bit strange to the ears of American health care consumers. It connotes a non-traditional setting for obtaining primary care services – not a physician’s office where a patient signs in and waits. A retail clinic is different. And because it is different, it could have a profound impact on local health care delivery systems.

More than 800 retail clinics were in operation at the end of 2007. They are well-received by patients, covered by health plans, and perceived as being somewhat threatening by local doctors and hospitals, who see their potential to siphon-off business.

This paper is one in a series of profiles by the Deloitte Center for Health Solutions, part of Deloitte LLP, about “disruptive innovations” in health care. *The Medical Home: Disruptive Innovation for a New Primary Care Model* profiled a new payment method for primary care practices that focuses on results for coordination of care. *Connected Care: Technology-enabled Care at Home* presented two applications of in-home technologies that reduce unnecessary visits and hospitalizations and improve care. *Medical Tourism: Consumers in Search of Value* analyzes the growing trend of medical tourism, focusing on both inbound and outbound segments. All of these innovations reflect a fundamental challenge to the health care status quo. And, similar to retail clinics, each is widely acclaimed by consumers seeking better care, greater access and lower costs.

Disruptive innovations tend to follow two routes: Either they are assimilated into the status quo, or they fall by the wayside because they lack a sustainable business case. Deloitte believes that the medical home, connected care, medical tourism and retail clinics are sticky trends, not fads. And Deloitte believes them to be disruptive – they challenge the status quo.

Retail clinics’ impact on the U.S. health care system will be felt almost immediately. Their prowess in consumer marketing and ability to sell-through self-care devices and care management services is potentially game-changing.

Retail clinics are a trend that’s here to stay. They are a disruptive innovation worthy of note to health plans, providers and policy makers because consumers have already embraced the concept. Their potential is profound; their growth untapped.

A handwritten signature in black ink, appearing to read "Paul H. Keckley". The signature is fluid and cursive, with a long, sweeping tail that extends downwards and to the right.

Paul H. Keckley, Ph.D.  
Executive Director  
Deloitte Center for Health Solutions

NOTE: *The Medical Home: Disruptive Innovation for a New Primary Care Model* is available at [www.deloitte.com/us/medicalhome](http://www.deloitte.com/us/medicalhome).

*Connected Care: Technology-enabled Care at Home* is available at [www.deloitte.com/us/connectedcareathome](http://www.deloitte.com/us/connectedcareathome).

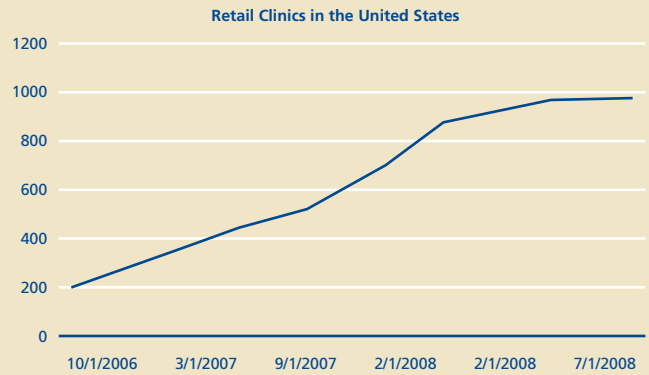
*Medical Tourism: Consumers in Search of Value* is available at [www.deloitte.com/us/medicaltourism](http://www.deloitte.com/us/medicaltourism).

## Retail Clinics: Accelerating Growth, Untapped Potential

The growth of retail clinics has been accelerating. As seen in Figure 1, more than 400 retail clinics opened across the United States in the year ending June 2008, pushing the current total to 971. Wal-Mart recently announced signed letters of intent to work with local hospital systems and RediClinics to open co-branded, walk-in clinics in 200 Wal-Mart Supercenters, and to partner directly with St. Vincent Health System to open four co-branded clinics in Little Rock, Arkansas. "The Clinic at Wal-Mart" co-branding is the first step toward a planned 400 clinics by 2010.



Figure 1: Retail Clinic Growth



Total Clinics:	971
Total Number of States:	34
Total Number of Operators:	40

Merchant Medicine, July 10, 2008

Acquisitions of clinic operators by established retail pharmacy organizations have been driving the growth of this disruptive innovation. In July 2006, CVS/Caremark acquired MinuteClinic and its 83 clinics. Since then, retail clinic growth has exploded. As of June 2008, MinuteClinic had 512 to 520 clinics,<sup>1</sup> and the company's long-term forecasts are calling for 2,500. Walgreen acquired Take Care Health Systems in May 2007, and doubled operations in the fourth quarter of the same year: From October to December, Take Care grew from 60 clinics to 130; it had 178 total clinics as of June 2008 (Figure 2) and has plans to open in excess of 200 additional clinics in 2008.<sup>2</sup>

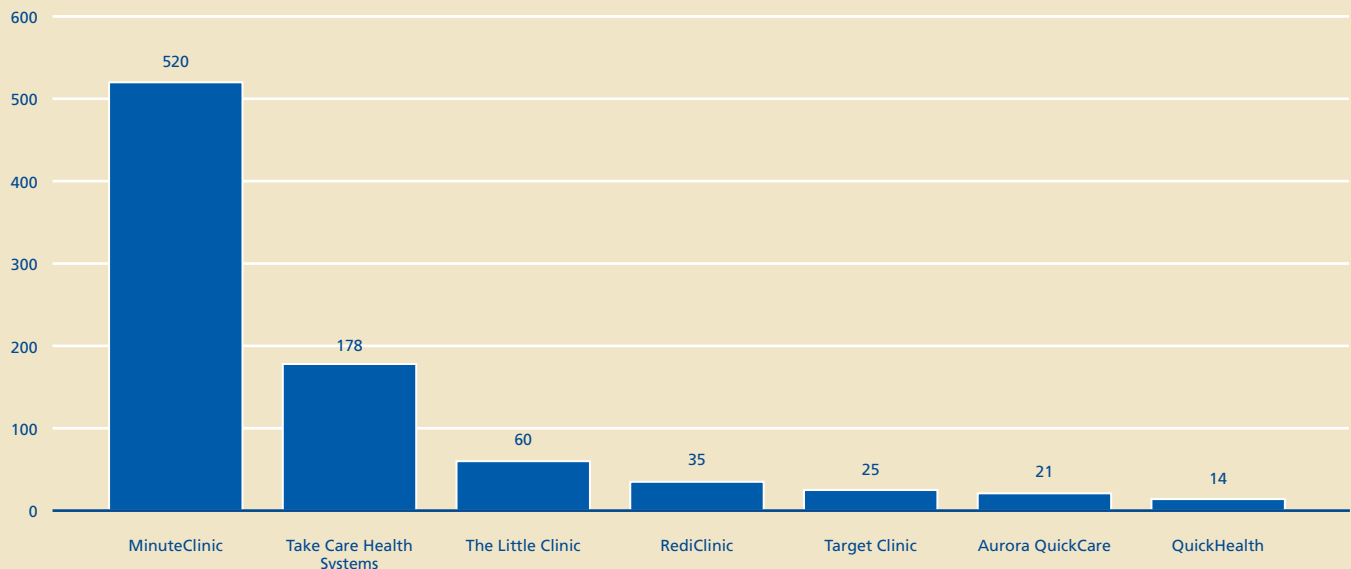
The growth of retail clinics illustrates how important it is for clinic operators to establish alliances with a retail "host": Colorado-based SmartCare Health Clinics and Revolution Health-backed RediClinics have both faced financial issues that are partially due to a lack of retail partnerships. SmartCare has now closed and RediClinic has also experienced a short-term decline; it had 51 clinics in operation in October 2007, but only 35 as of June 2008. The recent announcement of RediClinic's partnership with Wal-Mart signifies that operators are realizing the importance of a host to help drive consumer visits.

Overall, the retail clinic market is beginning to show signs of maturity, with the largest operator slowing growth and smaller operators exiting the market. MinuteClinic has lowered growth expectations for 2008: It now expects to open only 100 new clinics in 2008 instead of its previously forecasted 200. A number of smaller operators have exited the market as well, including the earlier-noted SmartCare Health Clinics as well as Corner Care Clinic and Checkups USA.

<sup>1</sup> Ranges for clinic counts are due to methodologic differences between Merchant Medicine and the Convenient Care Association (CCA).

<sup>2</sup> Ibid

Figure 2: Clinics Open as of June 2008



Convenient Care Association, June 2008

Why the boom in retail clinics? Almost half of all health care consumers are receptive to the concept. They do not appear concerned about safety issues or staffing by advanced nurse practitioners, and they like the convenience. Deloitte's *2008 Survey of Health Care Consumers* reported:

- Sixteen percent of consumers have used a walk-in clinic located in a pharmacy, shopping center, store, or other retail setting, and 34 percent report they might do so in the future.
- Forty-four percent of consumers say they would be comfortable with the accuracy, safety, and quality of care offered in a retail clinic that is staffed by a nurse practitioner.
- Slightly more (45 percent) say they would be comfortable if the nurse practitioner uses a computer-based system that enables him/her to access electronic patient records, check for drug and allergic interactions, confirm treatment recommendations, etc.
- Nearly half (48 percent) of consumers say they would be comfortable if the nurse practitioner is affiliated with a doctor's office.
- Medicare enrollees are also receptive, with 36 percent indicating they are open to using a retail clinic (11 percent have done so already).
- Similar findings were noted in the uninsured population, with 17 percent reporting they have used retail clinics.

Retail clinics are a disruptive innovation in primary care delivery because they provide services outside the traditional setting of a medical practice. The retail clinic concept trends away from a conventional model of primary care delivery and, as such, is viewed as competitive by local primary care practitioners.

This paper answers four key questions:

- What are retail clinics, and how are they different from traditional primary care delivery?
- What are the current trends in the growth of retail clinics and their use, and what are the characteristics of their users?
- What forces will drive or impact retail clinics going forward?
- How will retail clinics affect key stakeholders in the health care system?

## The Retail Clinic: Distinct Features, Unique Value Proposition

The retail clinic concept is still evolving. However, in its current form, it can be distinguished from traditional primary care in its setting, access, method of care delivery, technology use, and scope of services provided.

### Characteristics of Retail Clinics

Retail clinics are generally found in “big-box” discount stores such as Wal-Mart or Target, grocery stores such as Publix or H-E-B, or in retail pharmacies such as CVS or Walgreen. They operate within as little as a hundred square feet of retail space in the store. The clinics typically are open seven days a week with hours running into the late evening. Care is primarily delivered by nurse practitioners with assistance from proprietary technology designed to help diagnose and treat non-serious medical conditions. There are no paper medical records; all data are captured by the nurse practitioner in the patient’s electronic medical record (EMR), which populates care algorithms to direct the nurse in providing care.



### Scope of Services Offered by Retail Clinics

Generally, services are limited to treatment of a set of common medical ailments. Some clinic operators also offer a suite of preventive care, including physicals and diagnostic screening. Figure 3 lists the most common ailments treated by the major retail clinic operators.

Figure 3: Common Medical Conditions Treated at Retail Clinics

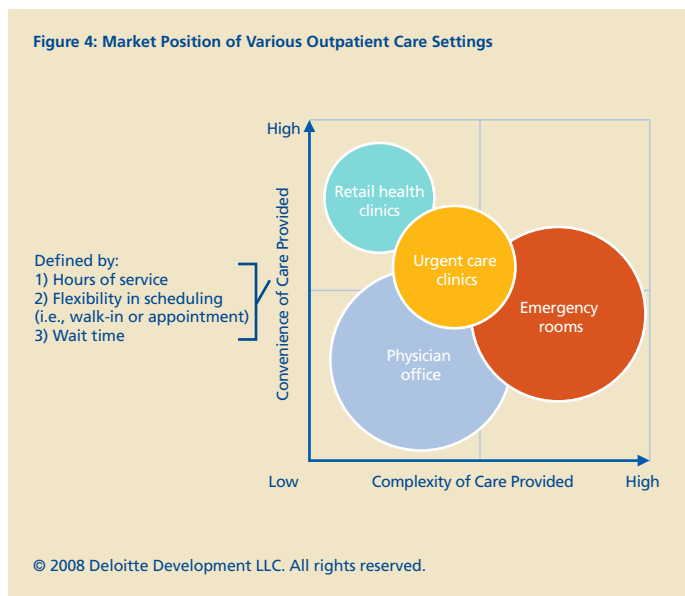
Service Category	Example of Medical Conditions
Respiratory Illnesses	<ul style="list-style-type: none"> <li>• Colds</li> <li>• Sinus infections</li> <li>• Strep throat</li> <li>• Sore throat</li> <li>• Bronchitis</li> <li>• Mononucleosis</li> </ul>
Head, Ear and Eye Conditions	<ul style="list-style-type: none"> <li>• Headaches</li> <li>• Earaches</li> <li>• Pink eye</li> <li>• Styes</li> </ul>
Skin Conditions	<ul style="list-style-type: none"> <li>• Poison ivy</li> <li>• Rashes</li> <li>• Skin infections</li> <li>• Sunburn</li> <li>• Acne</li> <li>• Warts</li> </ul>
Stomach, Digestive and Urinary Conditions	<ul style="list-style-type: none"> <li>• Nausea</li> <li>• Vomiting</li> <li>• Diarrhea</li> <li>• Urinary tract infections</li> </ul>
Immunizations	<ul style="list-style-type: none"> <li>• Flu</li> <li>• Tetanus</li> <li>• Diphtheria</li> <li>• Meningitis</li> <li>• Hepatitis</li> <li>• MMR</li> </ul>

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The scope of services offered by retail clinics is far more limited than what can be provided in a traditional primary care setting. Primary care physicians are well-versed in diagnosing a wide variety of conditions and referring patients for treatment by specialists. They deliver virtually all preventive care and, in some cases, provide routine treatment of serious chronic diseases such as asthma and diabetes. Retail clinics, in contrast, do not treat chronic diseases or attempt to diagnose serious medical conditions. Any condition which the clinic is not explicitly designed to treat will be referred to the appropriate care provider. Retail clinics maintain networks with local physicians and hospitals to refer any potentially emergent or unusual conditions.

## Outpatient Environment is Ripe for This Disruptive Innovation

Today's health care system allows multiple entry points for consumers. Outpatient care has been evolving, with standalone ambulatory surgical centers splitting from traditional hospitals to handle less serious day procedures; urgent care clinics emerging as low-acuity emergency rooms; and, most recently, retail clinics opening to treat basic medical conditions and provide certain routine preventive care in place of a traditional primary care setting. Overlap among the various sites providing outpatient services can make it difficult for consumers to identify the most appropriate point of entry (Figure 4).



The traditional U.S. primary care infrastructure model has been in need of improvement for a number of years. A general shortage of primary care doctors, as well as concerns about inconvenience, safety/quality of care, and the relatively high cost of traditional primary care delivery locations, have created opportunities for new market entrants.



Inconvenience has primarily manifested itself as excessive time spent waiting: Whether it is waiting for an appointment to be scheduled, waiting for physician offices to open, or waiting in the office to see the physician, consumers increasingly are becoming frustrated with long wait times. Barely more than half of the time (52 percent) do individuals always receive an appointment as soon as they want; only 23 percent of the time after they make it into a physician's office are they always seen within 15 minutes.<sup>3</sup> This situation occurs in emergency rooms as well, where patients presenting themselves with non-urgent conditions wait for over an hour to be seen.<sup>4</sup> Patients are not happy about their time being wasted – long waiting times correlate with low patient satisfaction.<sup>5</sup>

Retail clinics offer superior convenience by curing the ills and the frustrations of waiting patients (i.e., no appointments needed, evening and weekend operating hours, and 15-minute-or-less wait times) and by situating themselves in convenient locations (big-box discount stores, grocery stores and pharmacies) that already are visited by consumers multiple times per week. This type of access can also help to address the general shortage of primary care providers, as retail clinics can handle less-complex care.

<sup>3</sup> Agency for Healthcare Research and Quality, Consumer Assessment of Health Plan Satisfaction, [https://www.caahps.ahrq.gov/content/nabd/Chartbook/2006\\_CAHPS\\_HealthPlanChartbook.pdf](https://www.caahps.ahrq.gov/content/nabd/Chartbook/2006_CAHPS_HealthPlanChartbook.pdf)

<sup>4</sup> Centers for Disease Control and Prevention, National Hospital Ambulatory Medical Care Survey: 2004 Emergency Department Summary, <http://www.cdc.gov/nchs/data/ad/ad372.pdf>

<sup>5</sup> BMC Health Services Research, <http://www.pubmedcentral.nih.gov/picrender.fcgi?artid=1810532&blobtype=pdf>

## Retail Clinics' Value Proposition

The services provided by retail clinics compete directly with the low-acuity and non-urgent care traditionally delivered in physician office settings or urgent care clinics. This type of low-end market entry is typical of disruptive innovators. Retail clinics have not only embraced the low-end market, they also have developed an entirely new service delivery model based on convenience.

Consumers who have a choice between a quick, convenient health care experience in a retail setting or the long wait times associated with physician offices, urgent care clinics and emergency rooms are likely to choose a retail clinic (Figure 5). This choice is made even easier due to the relatively low availability of primary care physicians for non-emergency conditions during weekends and evenings. Previously, the only option available was to visit an urgent care clinic or an emergency room – clearly not preferable for most consumers when seeking care for a minor medical condition. The fact that a retail clinic's services cost less is an additional incentive for consumers that will also be embraced by their insurers, helping to drive further utilization.

Figure 5: Retail Clinics' Convenience Important to Consumers

Satisfaction regarding clinic care is growing. Convenience is becoming a more important criteria, suggesting an increasing opportunity for pharmacy retailers.

### Satisfaction with Retail-Based Clinics

		Very/ Somewhat Satisfied (NET)	Very Satisfied (%)	Somewhat Satisfied (%)	Not at All/ Not Very Satisfied (NET)	Not Very Satisfied (%)	Not At All Satisfied (%)	Not Sure
Quality of Care	2005	89	46	44	6	5	1	4
	2007	90	52	38	3	1	1	7
Cost	2005	80	42	37	12	12	*	8
	2007	80	52	28	8	4	4	12
Convenience	2005	92	61	31	2	2	-	6
	2007	83	63	21	4	2	1	13
Having Qualified Staff to Provide Care	2005	88	50	38	7	7	*	
	2007	85	53	32	4	3	2	11

Note: Percentages may not add up to 100 percent due to rounding. Results represent online survey of 2,441 U.S. Adults, ages 18 and older conducted by Harris Interactive between March 20 and 22, 2007. Base: Used Onsite health clinic (n=112)

Harris Interactive

McGlynn has reported that patients receive appropriate care 55 percent of the time.<sup>6</sup> Wennberg reports that up to 30 percent of admissions are unnecessary.<sup>7</sup> Retail clinic nurse practitioners armed with EMRs can mitigate concerns about safety/quality of care by leveraging physician-derived, computerized clinical-decision-support algorithms to extend their scope of practice with evidence-based medicine. These nurse practitioners can act as frontline health system sentinels by using clinical data to monitor emerging quality and safety issues.

The costs of services provided by retail clinics range from \$50-\$75, with the great majority priced at \$59.<sup>8</sup> Compared to a physician's office visit, which can cost from \$55-\$250, treatments provided at retail clinics offer

considerable potential savings. When compared to the same treatments at an urgent care clinic or emergency room, the potential savings are even greater. The cost for a retail clinic physical, at \$25-\$49, can also yield savings. At a physician's office, physicals can cost anywhere from \$50-\$200. The difference in cost for immunizations between retail clinics and physician office settings is negligible.

Similar to the medical home, medical tourism and technology-enabled connected care innovations profiled in other Deloitte Center for Health Solutions publications, retail clinics are disrupting existing models of primary care (Figure 6) by shifting care to physical locations outside primary care's traditional clinical settings.

**Figure 6: Retail Clinics as a Disruptive Force in Primary Care**

Characteristic	Retail Clinic	Primary Care Practice
Site	Retail outlets (e.g., pharmacies, big-box discount stores and grocery stores)	Physicians' offices and hospital emergency departments
Current Focus of Care	Acute, non-serious conditions	Chronic, acute and preventive
Appointment Scheduling	Walk-in	Depends on physician's availability
Diagnosis or Treatment Pathway	Immediate, in less than 15 minutes	Defined by physician or health professional availability
Labor Input	Nurse practitioner or physician assistant	Physicians
Costs per Encounter	\$50-\$75, with the majority of services priced at \$59	\$55-\$250
Technology Input	Portable diagnostic equipment and electronic medical records	Fragmented. Minimal electronic medical record adoption in physician practices

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<sup>6</sup> *New England Journal of Medicine*, <http://content.nejm.org/cgi/content/abstract/348/26/2635>

<sup>7</sup> "Geography and the Debate Over Medicare Reform," *Health Affairs*: W96-W114. Web Exclusive, February 13, 2002

<sup>8</sup> Clinic operator web sites: <http://minuteclinic.com/en/USA/Treatment-and-Cost.aspx>; <http://www.takecarehealth.com/treat.htm>; <http://www.redclinic.com/services/services.asp>

## How Will Retail Clinics Evolve?

Retail clinics currently are experiencing explosive growth and moderately increasing demand for their services. Growth expectations over the next few years are high, but achievable, given the current environment.

The quest to attain financial viability and generate a profitable number of visits will continue to drive the retail clinic industry into new segments and different business models. Significant opportunities lie ahead for this industry by aggressively entering new markets, disrupting traditional health care financing schemes, and providing assistance to the public health sector.

### Expanding Scope of Care

The growth of a disruptive innovation depends, in part, on continually pushing it into new markets with potentially higher profitability while also limiting the segments of incumbents. Most retail clinic operators currently operate within a very narrow band of services. Expanding into routine (i.e., treatment which follows standard pathways), preventive and chronic care could open up significant markets in terms of overall visits.

Expanding into preventive and chronic care would not only create a new source of visits for clinic operators, it would also expand consumer access to these types of care. Consumers may be more likely to get their annual physical or other routine, preventive diagnostic testing when these services are so easily accessible. The impact on overall disease prevention and detection through increased access is potentially significant.

Service expansion could also positively impact the care of individuals with chronic diseases. The effectiveness of chronic disease management depends on frequent patient touchpoints. Some health plans are turning to customer service representatives (CSRs) to deliver certain components of disease management programs. Due to the nature of their job, these CSRs often have more contact with a member than a disease management nurse. Similarly, consumers frequently visit their local grocery stores, pharmacies and discount stores, which can facilitate quick, convenient access to chronic disease management services. (Retail clinics already have the nurses and foundations of the technology infrastructure needed to support the delivery of disease management programs).

The retail clinic concept did not take long to jump from for-profit clinic operators to integrated delivery systems and companies not traditionally affiliated with health care services. A number of integrated delivery systems have begun to develop their own retail clinic models. Also, retail giants are setting up their own clinics. These retail giants like Target can be market changers. Additionally, discount stores could follow the retail giants' lead into the clinic space if the discounters can create similar partnerships with local health providers and established clinic operators, as the retail giants have. This type

of aggressive market entry by multiple discount stores could cause consumers to view retail clinics as leaning more toward the "retail" aspect of operations and less toward the medical "clinic." Such a shift in consumer sentiment could erode trust in private-label operators. Discount stores will need to carefully balance significant growth with maintaining credibility as providers of high-quality health care services.

### Leveraging New Financing Vehicles

The two largest retail clinic operators, MinuteClinic and Take Care Health Systems, are in the unique position of being owned by combined retail pharmacy/pharmaceutical benefit management (PBM) corporations. CVS's Caremark PBM and the Walgreen Health Initiatives PBM represent significant market share in both spaces.

These two corporations effectively own nationwide networks of care delivery centers that will drive specific types of pharmaceutical purchasing. By expanding their services beyond low-acuity and non-urgent conditions, they could gain control of additional care segments, primarily aspects of preventive and chronic care. As discussed earlier, a move into chronic disease management would be a natural next step. Such expansion would create single entities that control retail and mail-order pharmacy dispensing, which represent significant aspects of primary care and chronic disease management services. This package of medication and care could be bundled, directly contracted and sold in blocks to health insurance companies or employers, effectively disintermediating physicians (beyond oversight) out of certain segments of care. This type of financing would benefit both the retail clinic corporations and the purchasers: Retail clinics would enjoy steady customers with high prescription-drug-attach rates, and purchasers would benefit from lower medical expenditures (though potentially increased drug spend).

### Assisting Public Health

The opportunity for retail clinics to assist public health could be via an expansion into military and indigent care, to augment the Veterans Health Administration (VHA) and Medicaid's efforts to extend access to primary care services. VHA is already familiar with nationwide networks of technologically-integrated care and would be a natural entrant in the retail clinic market. State Medicaid organizations could also augment their safety net by building alliances with retail health providers to channel more frontline care away from Emergency Departments.

A nationwide network of technologically-integrated primary care centers is a highly desired data repository for epidemiological surveillance. Large retail clinic operators are in an excellent position to support public health initiatives with the tremendous data collection they routinely perform each day. Indeed, MinuteClinic already has approached the Centers for Disease Control and Prevention (CDC) to determine how they can best utilize the data.<sup>9</sup>

<sup>9</sup> *Star Tribune*, <http://www.startribune.com/business/11828511.html>

**Current Consumer Demand for Services and Profile of Retail Clinic Users**

Based solely upon the types of conditions currently treated at retail clinics, the growth opportunity for operators is significant. Overall consumer demand for these services is high: In 2005, low-acuity and non-urgent visits comprised over 10 percent of all physician office visits and nearly 14 percent of emergency room visits.<sup>10</sup>

In 2005 (the latest year for which data is available), there were nearly 99 million physician office visits for conditions which could be considered low-acuity; i.e., those where the primary reason care was sought was for coughing, throat symptoms, nasal congestion, eye examinations, skin rashes, earaches or ear infections.<sup>11</sup> Also in 2005 (the latest year for which data is available), there were over 16 million emergency room visits classified as non-urgent; i.e., those for which no treatment was necessary for at least two hours upon presentation.<sup>12</sup> The number of non-urgent emergency room visits is up over 38 percent from 2000,<sup>13</sup> highlighting the need for additional service locations.

Retail clinics are well-positioned to grab an increasing share of low-acuity cases. While polling data on consumer use of retail clinics varies from year to year and polling sources and conclusions are not easily drawn, it is likely that the greatly increased number of retail clinics is driving demand. Harris found that seven percent of households had used a retail clinic in 2005.<sup>14</sup> Forrester Research found that number to be three percent in mid-2006<sup>15</sup> and an early 2007 Harris poll put the figure at five percent.<sup>16</sup> The Deloitte Center for Health Solutions' 2008 Survey of Health Care Consumers found that 16 percent of those polled had visited a retail clinic. Not surprisingly, retail clinic use appears to have risen dramatically over the course of 2007; more consumers are being exposed to retail clinics as openings climb. The same Deloitte Center for Health Solutions survey found that 34 percent of those polled would be willing to use a retail clinic.

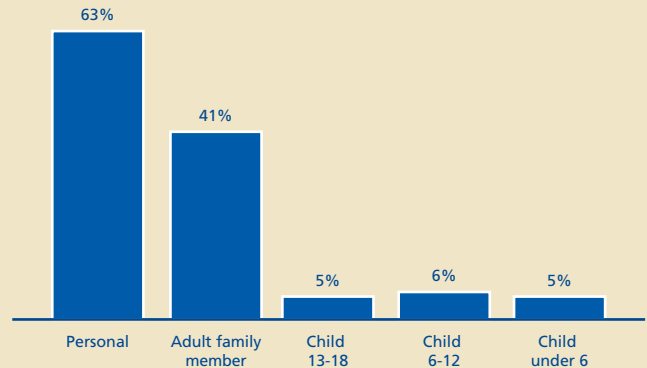
Forrester Research has reported extensively on the demographics of retail clinic users, finding that they are younger but do not differ greatly in health status from individuals who have not used retail clinics. Forrester found that 63 percent of retail clinic users were taking a prescription drug. Forrester Research also found that 84 percent of individuals using retail clinics had been diagnosed with a disease or medical condition. These rates of drug usage and sickness were similar to non-users of retail clinics.<sup>17</sup> Figures 7 and 8 provide more details about retail clinic users.

**Figure 7: Retail Clinic User Demographics**

• Equal split between male and female
• 40 percent are non-white (vs. 18 percent for non-users)
• 28 percent have less than \$40,000 household income (vs. 16 percent for non-users)
• 30 percent are between the ages of 19-30 (vs. 17 percent for non-users)
• 28 percent do not have a primary physician (vs. 15 percent for non-users)
• 12 percent are uninsured (vs. 6 percent for non-users)

Market Strategies: "MinuteClinic – The Evolving Face of Consumerism in Healthcare," October 23, 2007

**Figure 8: Users of Retail Clinics**



Market Strategies: "MinuteClinic – The Evolving Face of Consumerism in Healthcare," October 23, 2007

<sup>10</sup> Imputed from Centers for Disease Control and Prevention reports cited in footnotes 8 and 9

<sup>11</sup> Centers for Disease Control and Prevention, National Hospital Ambulatory Medical Care Survey: 2005 Summary, <http://www.cdc.gov/nchs/data/ad/ad387.pdf>

<sup>12</sup> Centers for Disease Control and Prevention, National Hospital Ambulatory Medical Care Survey: 2005 Emergency Department Summary, <http://www.cdc.gov/nchs/data/ad/ad386.pdf>

<sup>13</sup> Centers for Disease Control and Prevention, National Hospital Ambulatory Medical Care Survey: 2000 Emergency Department Summary, <http://www.cdc.gov/nchs/data/ad/ad326.pdf>

<sup>14</sup> Harris Interactive, <http://www.harrisinteractive.com/news/allnewsbydate.asp?NewsID=983>

<sup>15</sup> Forrester Research, <http://www.forrester.com/Research/Document/0,7211,41216,00.html>

<sup>16</sup> Harris Interactive, <http://www.harrisinteractive.com/news/allnewsbydate.asp?NewsID=1201>

<sup>17</sup> Forrester Research, <http://www.forrester.com/Research/Document/0,7211,41216,00.html>

## Growth Drivers and Impediments

There are a number of factors that can either drive or disrupt the growth of retail clinics and the demand for their services. Consumer satisfaction, quality of care and regulatory concerns, consumer cost-sharing for retail clinic services, and the financial viability of the retail clinic model will likely impact growth trends.

### Consumer Satisfaction

Data from the early 2007 Harris poll found that consumers are satisfied overall with retail clinics. Satisfaction was measured in four areas: cost (80 percent satisfied), convenience (83 percent), having qualified staff to provide care (85 percent) and quality of care (90 percent).<sup>18</sup> Somewhat surprisingly, the only area experiencing a large decrease in satisfaction from 2005 to 2007 was convenience, which had a satisfaction rate of 92 percent in 2005 but declined to 83 percent in 2007.<sup>19</sup> This may be a troubling trend, as Forrester Research has found convenience to be the primary reason that consumers are using retail clinics.<sup>20</sup>

### Quality of Care and Regulatory Concerns

In addition to convenience, retail clinic operators are heavily focused on quality of care, suggesting their marketing research has found it to be a significant concern among consumers. Forrester Research found that only 24 percent of retail clinic users actually believe the clinic offered the same quality as other health care options.<sup>21</sup> Apparently, quality has not been the main driver for the pioneer users of retail clinics, but it likely will play a key role in increasing overall consumer demand going forward.

Retail clinics and industry trade groups appear to be quite committed to establishing quality as a focus. MinuteClinic was the first operator to become certified by The Joint Commission, an accreditation body for health care organizations.<sup>22</sup> CCA has gone beyond guidelines; adopting 10 standards centered on maintaining relationships with physicians, emergency rooms and hospitals; the use of technology; data collection; and infection control. Major operators such as MinuteClinic, Take Care Health Systems and RediClinic have agreed to principles outlined by the American Association of Family Physicians.<sup>23</sup>

As clinic operators sought to spread the message to consumers that they are a safe alternative to traditional primary care settings, the American Medical Association (AMA) initially attacked the safety and quality of retail clinics. At its June 2007 House of Delegates meeting in Chicago, the AMA stated that a lack of regulation could be creating health risks.<sup>24</sup> However, neither the AMA nor its state affiliates have presented empirical evidence demonstrating sub-par quality among retail clinics. In fact, the *American Journal of Medical Quality* recently published a study examining quality of care related to treatment of strep throat. The study evaluated over 57,000 MinuteClinic visits for adherence to guidelines related to antibiotic prescriptions. The results showed that adherence was in excess of 99 percent.<sup>25</sup> The study, co-authored by MinuteClinic employees, was a clear attempt to disprove two key myths: first, that the quality of care at a clinic is sub-par; second, that affiliation (or in this case, ownership) with retail pharmacies may create adverse incentives to over-prescribe medications.

Despite a lack of evidence of sub-par quality, the AMA and its state affiliates have been lobbying to increase regulation of retail clinics. Their influence has already been felt: In Massachusetts, clinic openings were delayed by an initial application rejection, reform of the application process, and multiple hearings. Eventually, the Commonwealth allowed the opening of limited-service clinics but opposition still remains from the City of Boston itself.<sup>26</sup> In Georgia, increased supervision is required for clinic nurses writing prescriptions. Finally, in Florida, primary care physicians are barred from supervising more than five physician-staffed offices.<sup>27</sup>

These policy issues are causing some states to look to the Federal Trade Commission (FTC) for guidance. Massachusetts and Illinois both sought comment on new statutes specifically designed for retail health clinics. Particularly commenting on an Illinois House Bill (HB 5372), the FTC addressed a key concern related to quality that had been raised by the AMA and its state affiliates: physician supervision. The FTC found that strict limitations on supervision could be considered anti-competitive.<sup>28</sup>

In addition, the FTC issued comment on other aspects of the regulation, including limitations on retail clinic advertising, differential cost-sharing, and co-location of retail clinics inside stores which sell alcohol and tobacco, factors which may influence quality of care. The FTC commented that strict limitation in these aspects could be considered anti-competitive, as well.<sup>29</sup> The FTC's comments are a significant win for the retail clinic industry and a blow to the AMA and its state-level affiliates.

<sup>18</sup> Harris Interactive, <http://www.harrisinteractive.com/news/allnewsbydate.asp?NewsID=1201>

<sup>19</sup> Ibid

<sup>20</sup> Forrester Research, <http://www.forrester.com/Research/Document/0,7211,41216,00.html>

<sup>21</sup> Ibid

<sup>22</sup> CVS Caremark Corporation, <http://investor.cvs.com/phoenix.zhtml?c=99533&p=irol-newsArticle&ID=907392>

<sup>23</sup> American Academy of Family Physicians, <http://www.aafp.org/online/en/home/press/aafpnewsreleases/20070201releases/20070201clinicattributes.html>

<sup>24</sup> *The Chicago Tribune*, AMA Takes on Retail Clinics, June 25, 2007

<sup>25</sup> "Quality of Care in the Retail Health Care Setting Using National Clinical Guidelines for Acute Pharyngitis," Vol. 22, *American Journal of Medical Quality*, No. 6, 457-462 (2007)

<sup>26</sup> *The Boston Globe*, [http://www.boston.com/business/healthcare/articles/2008/01/11/menino\\_decries\\_clinics\\_in\\_retailers/](http://www.boston.com/business/healthcare/articles/2008/01/11/menino_decries_clinics_in_retailers/)

<sup>27</sup> "AMA's Backing to Boost Retailer Health Clinics," *The Washington Times*, December 22, 2007

<sup>28</sup> Federal Trade Commission, <http://www.ftc.gov/os/2008/06/V080013letter.pdf>

<sup>29</sup> Ibid

More recently, the AMA has broken with some of its state-level affiliates, embracing retail clinics that have agreed to deliver only a limited scope of care.<sup>30</sup> It will take time to see if state-level medical groups, some of which are opposed to the expansion of retail clinics, will back down from their current positions and join the AMA in a more softened stance.

While the FTC comment will prove useful in preventing over-regulation, the negative sentiment that some state-level groups are attempting to create among consumers, along with the regulatory tie-ups they can generate with their significant lobbying power, could potentially have a negative impact on the growth of retail clinics. The AMA's initial campaigning also may have caused long-term damage in terms of overall consumer acceptance of the retail clinic model.

### Consumer Cost-Sharing for Retail Clinic Services

Along with satisfaction and quality issues, the portion of treatment cost borne by the consumer could be a concern for clinic operators. While the retail clinic model began with cash-only payment models, all of the major operators are now accepting insurance from the majority of large carriers, including UnitedHealthcare, Aetna, CIGNA, Humana and Medicare.<sup>31</sup> Retail clinic operators also have negotiated contracts with large regional carriers.

While the early 2007 Harris poll showed that only 54 percent of insured individuals who visited a retail clinic had some or all of their costs covered by insurance,<sup>32</sup> that percentage is likely to increase as more partnerships are publicized. Use of retail clinics also is likely to rise as consumers become more aware of reimbursement policies which require only small co-payments to visit the clinics. Some insurers, such as Blue Cross Blue Shield of Minnesota, are waiving co-payments altogether to further drive demand.<sup>33</sup> The AMA has lobbied to outlaw the practice of differential cost-sharing between retail clinics and traditional primary care settings, citing quality and conflict-of-interest concerns as the primary reasons.<sup>34</sup> As mentioned earlier, the FTC's opinion is that limiting an insurer's ability to utilize differential cost-sharing could be considered anti-competitive.

### Financial Viability

Retail clinics create some of their cost advantage through the use of less-expensive labor inputs, primarily nurse practitioners, and in certain cases, physician assistants. Combined with hygiene exemptions and the minimal square footage required for their operations, retail clinics can easily provide routine health care services for a lower cost than any traditional primary care setting.

While these advantages can create pricing pressure, the overall profitability of retail clinics will depend on relatively high demand for services. In 2006, fixed costs for a retail clinic operating with 450 square feet of space were estimated at \$600,000 per year.<sup>35</sup> With most services costing approximately \$59, a retail clinic would need to see more than 10,000 patients per year to cover its fixed costs. The break-even point would also have to cover variable costs associated with each visit, primarily lab tests and supplies. Since low-cost, portable testing equipment is widely available, variable costs for a retail clinic have been estimated at only 15 percent of overall costs.<sup>36</sup> Given total fixed and variable costs, most clinics would need to see 200-230 patients per week to turn a profit.

Details surrounding most retail clinic operators' financials are scarce. Rather than answer the question of which companies are currently profitable, this paper attempts to project how many financially viable clinics could be supported under current demand and what the overall prospects for growth may look like.

As stated earlier, there were approximately 800 retail clinics in operation at the end of 2007. In addition, it was previously estimated that 115 million visits occur each year to physician offices and emergency rooms for low-acuity and non-urgent conditions. Using 11,000 visits per clinic per year as the break-even point across fixed and variable costs, current demand for retail clinic services would have to exceed 8.8 million visits, or between seven and eight percent of overall demand for those types of services, for across-the-industry profitability. It is unlikely that current retail clinic usage is that high, but it is quickly moving in the correct direction.

Market leader MinuteClinic can be used to test the assumption that current demand is not enough to generate industry profitability. Since MinuteClinic's explosive growth in 2007 occurred primarily in the second half of the year, the average operating months per retail clinic for 2007 can safely be assumed at approximately six months. (In the first two quarters of 2007, MinuteClinic grew by less than 100 clinics. In the last two quarters, it grew by almost 300 clinics, with nearly 200 coming online in the 4<sup>th</sup> quarter alone, for a grand total of 473 clinics at the end of December.) Across all 473 clinics, that equated to 2,838 operating months. At 915 visits per month as the benchmark, nearly 2.6 million visits would have been needed for profitability. By MinuteClinic's own mid-2007 estimate, it was expecting one million total visits for 2007.<sup>37</sup> Significant variation to the underlying assumptions surrounding fixed costs or break-even visit requirements would have to be made to assume overall profitability for MinuteClinic operations in 2007.

<sup>30</sup> "AMA's Backing to Boost Retailer Health Clinics," *The Washington Times*, December 22, 2007

<sup>31</sup> Clinic operator web sites: <http://www.minuteclinic.com/en/USA/Insurance.aspx>; <http://takecarehealth.com/RegionListTemp.html>; <http://www.rediclinic.com/insurance.asp>

<sup>32</sup> Harris Interactive, <http://www.harrisinteractive.com/news/allnewsbydate.asp?NewsID=1201>

<sup>33</sup> CBS News, <http://www.cbsnews.com/stories/2007/08/11/health/main3158978.shtml>

<sup>34</sup> American Medical Association, <http://www.ama-assn.org/ama/pub/category/17723.html>

<sup>35</sup> California Health Care Foundation, <http://www.chcf.org/topics/view.cfm?itemID=123218>

<sup>36</sup> Ibid

<sup>37</sup> *Managed Healthcare Executive*, <http://www.managedhealthcareexecutive.com/mhe/article/articleDetail.jsp?id=439158>

CCA has estimated that 5,000 retail clinics could be in operation by the end of the decade.<sup>38</sup> For that type of growth to be immediately profitable, it would require approximately 55 million visits, which by 2010 would equate to just under 50 percent market share if clinics continue to operate in the low-acuity and non-urgent bands of care. A number of factors could support this growth, including the AMA reducing its opposition and insurers continuing to support reimbursement and drive membership toward this lower-cost care option.

It is not necessary for all clinic operators to generate a profit on the retail clinic alone for them to find value in the model. Those clinics owned by corporations that also control pharmaceutical dispensing could profit by attracting new customers to their prescription drug counters. CVS Caremark, Walgreen and Target could all devise business models around profiting from dispensing fees; in a case where a consumer came to the store specifically to seek care, any items they purchase while in the store provides additional value.

Retail hosts such as Wal-Mart and Publix may be willing to lower their leasing costs for retail clinics if they notice increased attach rates to prescription drugs or other items. Wal-Mart and Publix have proved savvy when it comes to keeping consumers in their store via health care mechanisms; both showed aggressive moves in pharmaceutical pricing in an effort to attract and retain shoppers.

## How Will Current Industry Stakeholders Adapt?

The growth of retail clinics, as part of an overall consumerism movement, will have far-reaching consequences for all sectors of the U.S. health care system. There is little doubt that industry stakeholders including health plans, employers, policy makers, hospitals and medical groups will be impacted.

### Health Plans

Insurers are quickly discovering that the use of retail clinics can create savings not only through steerage from emergency rooms but also from shifting treatment of minor medical conditions away from physician offices and urgent care clinics. As noted earlier, a number of insurers have decided to waive co-payments in an attempt to shift demand to retail clinics. This is likely based on their cost experience – a study by HealthPartners, an insurer operating primarily in Minnesota, found that a visit to a retail clinic was, on average, \$18 cheaper than a visit to a traditional primary care setting.<sup>39</sup>

As health insurers attempt to shift demand from higher-cost outpatient settings such as physician offices, urgent care clinics and emergency rooms to lower-cost retail clinics, they should be careful to avoid generating additional, un-forecasted demand for health care services. Pairing the convenience of retail clinics with zero cost-sharing could potentially offset a portion of the medical spend savings realized by higher consumer use of lower-cost care. Health plans should delicately balance their desire to encourage member understanding of new care options against the possibility of members seeking unnecessary care.

### Employers

Employers are in a bind. Employee health benefit costs continue to increase faster than inflation. Companies face a talent crunch as baby boomers retire. Increasing global competition requires a healthy and productive workforce to forestall loss of market share. To remain competitive, employers need to offer cost-effective benefits that can help them attract and retain employees, and keep employees healthy.

Employers are receptive to disruptive innovations such as retail clinics if they provide quality care for less cost. Employers can take advantage of retail clinics' potential savings by promoting new benefit designs that encourage employees to use the clinics versus more costly care alternatives.

Retail clinics' convenience also could help to improve employee health and productivity. Employees could stop by the clinic before or after work or during their lunch hour instead of taking time off. Parents would be able to take their child to the clinic for a quick referral instead of waiting for an open slot at the pediatrician's office. Retail clinics also could become an extension of employer occupational health clinics. Overall employee attendance might increase, thanks to the peace of mind employees would gain from having seen a clinician, rather than worrying about whether or not they should make a physician's office appointment.

### Policy Makers

Federal, state and local policy makers continue to face tighter budgets as they try to balance health care cost, access, and quality for their neediest constituents. This situation is becoming even more challenging as governments face budget cuts due to a slowing economy and see their tax base erode as a result of fallout from the subprime mortgage lending crisis.

<sup>38</sup> Ibid

<sup>39</sup> USA Today, [http://www.usatoday.com/money/industries/health/2006-08-24-walk-in-clinic-usat\\_x.htm](http://www.usatoday.com/money/industries/health/2006-08-24-walk-in-clinic-usat_x.htm)

Leveraging a convenient, less-expensive primary care setting at stores in local communities could increase constituents' access to health care services while also helping to clear the Emergency Department of inappropriate and more costly utilization. Additionally, retail clinics' paperless operation could help policy makers push for clinicians to adopt EMRs, which are needed to support an e-health infrastructure. A robust e-health information network could provide government agencies with electronic surveillance of emerging health threats and support pandemic preparedness; offer richer clinical metrics for pay-for-performance programs and evidence-based medicine; and detect gaps in care delivery to address safety and quality issues.

### Hospitals

Physicians are not the only providers whose operations are being disrupted by retail clinics. Hospitals are being impacted, as well. A number of large health care systems have established their own retail health care companies to take advantage of this emerging care model and to expand the continuum of care and control referrals to their own physicians, surgical centers, diagnostic facilities, emergency rooms and hospitals. The Mayo Clinic recently opened its first retail clinic in Minnesota to compete with quickly expanding MinuteClinic. Other examples of retail clinics operated by large health care systems include Sutter Express Care, part of Sutter Health in Northern California; Geisinger CareWorks, part of Geisinger Health System in Central Pennsylvania; AtlantiCare HealthRite, part of AtlantiCare in New Jersey; and Aurora QuickCare, part of Aurora Health Care in Wisconsin.

The recognizable community brand held by most integrated health systems should allow them to quickly compete with the major for-profit retail clinic operators. Additionally, getting the clinics up and running is becoming easier for health systems: Indiana's Memorial Health Systems has operated clinics for nearly two years and has agreed to help another health system establish its retail clinics.<sup>40</sup> A turnkey model is also being developed by AtlantiCare, which is engaged in discussions to assist health systems establish retail clinics.<sup>41</sup>

### Medical Groups

With only 10 percent of retail clinic visits resulting in a referral,<sup>42</sup> it is clear that the use of retail clinics is diverting patients away from outpatient settings such as physician offices, urgent care clinics and emergency rooms. Health care providers, therefore, likely will experience the most significant disruptions from the emergence of retail clinics.



Traditional primary care will continue to have a virtual monopoly on a number of services that retail clinics do not offer; however, for overlapping services, retail clinics are likely to dominate if they can alleviate concerns about quality. Already, some U.S. physician groups are responding with increased hours of operation and a renewed focus on customer service. Similarly, physicians in Britain, through the National Health Service, are embracing the convenience that retail clinics provide: Government doctors have begun to provide care at a Manchester grocery store during evenings and weekends. The pilot, called "Doctors in Store," is expected to roll out to additional sites if it proves successful.<sup>43</sup>

While physicians should be able to compete with retail clinics in the area of convenience, lowering their costs to the levels of retail clinics will be difficult. Without competitive pricing, it is likely that insurers will attempt to shift service delivery of minor health conditions to retail clinics. Urgent care clinics as well as physician offices should be concerned about the direct impact competition will have on daily patient volume. Both will have to adopt more consumer-oriented metrics and create differentiation through their ability to provide high-quality care. Additionally, as consumers increase their visits to retail clinics, the use of information technology – particularly electronic health records available via the web and electronic prescribing – will become the expected norm for all providers.

<sup>40</sup> *Hospitals & Health Networks*, [http://www.hhnmag.com/hhnmag\\_app/jsp/articledisplay.jsp?dcrpath=HHNMAG/Article/data/05MAY2007/070515HHN\\_Online\\_Finarelli&domain=HHNMAG](http://www.hhnmag.com/hhnmag_app/jsp/articledisplay.jsp?dcrpath=HHNMAG/Article/data/05MAY2007/070515HHN_Online_Finarelli&domain=HHNMAG)

<sup>41</sup> *The Journal of Healthcare Contracting*, <http://www.jhconline.com/article-janfeb2007-touchpoint.asp>

<sup>42</sup> *USA Today*, [http://www.usatoday.com/money/industries/health/2006-08-24-walk-in-clinic-usat\\_x.htm](http://www.usatoday.com/money/industries/health/2006-08-24-walk-in-clinic-usat_x.htm)

<sup>43</sup> *The New York Times*, <http://www.nytimes.com/2008/03/03/business/worldbusiness/03docs.htm>

## Stakeholder Responses

Increased consumer use of retail clinics creates opportunities and challenges for all participants in the health care system. Each stakeholder must consider how to respond strategically and operationally to this new market competitor (Figure 9).

**Figure 9: Possible Stakeholder Considerations in Response to Retail Clinics**

Health Plans	<ul style="list-style-type: none"> <li>Plans might promote the use of retail clinics using attractive co-payments and deductibles</li> <li>The inclusion of retail clinics in networks might threaten community-based medical practitioners and hospitals; outreach by plans could ease tensions</li> <li>Enrollee satisfaction might increase by including retail clinics in plan coverage</li> <li>Health plans might partner with local providers to offer enhanced preventive and primary care services via retail clinics</li> </ul>
Employers	<ul style="list-style-type: none"> <li>Employers might promote the use of retail clinics to reduce absenteeism and emergency room use</li> <li>Employee wellness programs and disease management services could be provided through contracted retail clinics</li> <li>Employers might add retail clinics as an outreach of their occupational health organization</li> </ul>
Policy Makers	<ul style="list-style-type: none"> <li>Policy makers might promote retail clinics for broader health care access to various populations</li> <li>Policy makers could build sentinel event tracking systems and pandemic preparedness programs in partnership with retail clinics</li> <li>Legislative support expanding the scope of practice for nurse practitioners who provide clinical services in retail clinics, along with liability protection for physicians who serve as medical directors, could be considered as retail clinics expand to lower-income communities</li> </ul>
Hospitals	<ul style="list-style-type: none"> <li>Profit margins might be squeezed as Emergency Department and Urgent Care patient mix changes due to the loss of low-complexity (and profitable) patients</li> <li>Retail clinics might be branded under a community hospital's name</li> <li>New network relationships with retail clinics might cause friction with traditional physician referring networks</li> <li>Hospitals might engage in a joint venture with community-based providers to develop retail clinics</li> <li>Primary care programs might be at risk for losing residency accreditation due to less ambulatory experience. Teaching hospitals will need to rotate residents through retail clinics to maintain outpatient training</li> <li>Hospitals could leverage retail clinics for primary care services, including corporate wellness and disease management programs</li> <li>A focal point for physician-hospital integration might be development of a competitive retail clinic system in the community</li> </ul>
Medical Groups	<ul style="list-style-type: none"> <li>Traditional treatment of minor conditions might be threatened</li> <li>Physicians might be left with low-margin, chronically ill patients as retail clinics skim off high-value, low-complexity patients</li> <li>If retail clinics diversify their care offering into more severe or chronic care, PCPs and clinics might be in a more adversarial role as they compete for patients</li> <li>Competition for clinical extenders might increase, driving up labor costs for nurse practitioners and physician assistants and eroding practice margins</li> </ul>

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## Final Thoughts

When work on this paper began in late 2007, retail clinics appeared to be a question mark rather than a definitive statement in health care. In less than six months, however, the number of clinics has practically doubled, the AMA has altered its position on their viability, and one company has established market dominance. This activity speaks to the rapid evolution of the retail clinic model and to the industry's recognition that retail clinics are not a fad – they are a disruptive innovation with a sustainable value proposition (price, quality, service) that is welcomed by consumers. Stated simply, retail clinics are an important and growing part of the U.S. primary care delivery system.

The low number of referrals by retail clinic personnel suggests that care provision by nurse practitioners or physician assistants in retail settings rather than by physicians in offices, urgent care clinics or emergency rooms is a viable option for delivery of certain aspects of health care. The impact of this trend is potentially significant: lower cost to all participants, increased access to primary care, and a possible remedy to the primary care physician shortage. Because these issues are some of the most troublesome facing the U.S. health care system, the fact that the retail clinic model can reduce their pressure speaks to its potential as a disruptive innovation.

Change is disruptive when it challenges accepted assumptions about the way “things” should be. Perceptions about how “primary care” should be delivered harken back to the image of TV's Marcus Welby – a father figure for whom no patient was a distraction and no medical problem too small. Those days are gone. In their place, health care innovators are finding new ways to deliver basic primary care services via retail clinics.

Retail clinics are not a fad; they are a trend being driven by consumers who seek more value from the health system. Retail clinics' growing success reflects a value proposition accepted by proponents (and, increasingly, some competitors): Health care can be convenient, safe, reasonably priced and achieve high levels of customer satisfaction.



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