

CHANNEL SHIFTING:

OMINOUS BLACK FRIDAY TRENDS FOR
HEALTH SYSTEMS

DAVID W. JOHNSON

Market Corner Commentary
for December 8, 2016





The results are in. The National Retail Federation (NRF) just released their [survey results](#) for post-Thanksgiving shopping. The numbers were strong. 154 million consumers shopped this holiday weekend, up 2% from 2015 and up 15% from 2014.

Embedded within the consumer sales figures are worrisome trends for facility-centric health systems. Consumers are increasingly comfortable shopping for products and services on-line. Moreover, they're driven to find the best deals and not limited by geography. When customers do visit stores, they increasingly expect perks or unique experiences.

WHAT'S HAPPENING TO BLACK FRIDAY?

Gone were the huge crowds of eager shoppers pushing through store doors in the pre-morning darkness. Numbers of Thanksgiving Day and early-morning Black Friday shoppers plummeted.

More Black Friday consumers shopped on-line (44%) than in stores (40%). Adobe Digital estimates Black Friday on-line sales skyrocketed to \$3.34 billion, up 21.6% from 2015. Adding fuel to this on-line shopping fire, Adobe further estimates that "Cyber Monday" sales hit a record \$3.39 billion.

NRF President and CEO Matthew Shay observed, "It was a strong weekend for retailers, but an even better weekend for consumers, who took advantage of some really incredible deals. In fact, over one-third of shoppers said 100% of their purchases were on sale."

This is not good news for store-based retailers. Consumers no longer feel they must beat the crowds for the best deals. This has forced retailers to host events, offer perks and/or slash prices to get customers into their stores. Promotions can increase in-store traffic and sales, but often diminish profitability.

Retail sales are homogenizing and democratizing simultaneously. Consumers can find what they want at very competitive prices irrespective of location. Moreover, retail stores find it difficult to differentiate their products. The same PlayStation 4 game console (a hot item this holiday season) is available in multiple Omaha, Oakland Oklahoma City stores and on-line stores.

Consequently, retailers must work harder to attract shoppers. A recent Coldwell Banker Commercial survey found that 74% of consumers say that they need unique shopping experiences to lure them into stores. The report notes that "shoppers want stores to be a hub for convenience and entertainment where experiential retail meets blended retail."

As shoppers explore new on-line purchasing "channels," store-based retailers find themselves at competitive disadvantage. Their "channel" to customers is higher cost, less flexible and less convenient.

HEALTHCARE'S COMMODITY CONUNDRUM

On-line and in-store retailers sell commoditized products. Price, shopping convenience and customer experience drive consumers' purchasing decisions. High-volume, low-margin retailers gain market share. Efficient cost management determines whether individual retailers post profits or losses.

Selling commodity-like products is a tough business. Legendary investor Warren Buffet makes this abundantly clear when he observed, "Stocks of companies selling commodity-like products should come with a warning label: Competition may prove hazardous to human wealth."

Few health systems are prepared to compete in true retail healthcare environments. Centralized reimbursement formularies incentivize providers to obscure prices, optimize revenues and largely ignore customer needs.

Customer experiences within health systems generally range from mediocre to awful. Healthcare executives have not developed the instincts, tools and customer-friendly cultures necessary to win retail business.

continue on next page >>



HEALTHCARE'S COMMODITY CONUNDRUM CONT...

Longer term, health systems cannot avoid retail competition. The clear majority of the treatments they offer are routine. They are easily replicable. This makes health systems vulnerable to efficient customer-friendly competitors.

Great customer service and efficient cost management are essential to long-term success in retailing. Across industries, standardization enhances quality, improve outcomes and lower costs. Constant performance improvement and customer-focus are prerequisites for success.

Yet most providers tolerate unacceptable performance variation, avoid rigorous performance monitoring and resist demands for greater transparency. Fee-for-service reimbursement has shielded providers from retail competitors. Too many providers are complacent and dependent upon premium pricing for routine services even as treatment prices become more transparent.

Making matters worse, health systems are asset heavy. They provide services in highly centralized, cumbersome and expensive facilities. Customers come to them, not the reverse. Too many health systems equate their facilities with their identities. They fail to realize that their ultimate value resides in brand, culture and customer experience.

The marketplace is not waiting for health systems to transform themselves. Consumers are becoming more discerning purchasers of healthcare services. New types of customer-centric companies are emerging to provide second opinions, deliver convenient primary care services, offer high-volume surgical procedures, grade provider performance and coordinate care transitions.

With better price, outcome and service information, consumers will apply their well-honed purchasing instincts to buying healthcare products and services. They will push healthcare providers to offer more "value": lower prices; greater convenience; personalized services; second opinions and more amenities.

Winning health systems will respond not only by delivering higher-value care, but also by catering directly to consumer preferences. It's not enough to cure illness and mend injuries. Providers must satisfy emotional as well as physical needs. They must make patients/customers "feel" special to win their business.



THE ROCKY ROAD AHEAD

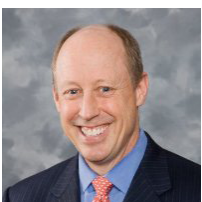
To date, healthcare has largely avoided the digital disruption roiling other industries. That only means incumbents have farther to fall once they encounter customer-friendly competition and web-enabled consumerism.

In The Road Ahead Bill Gates remarked, "We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don't let yourself be lulled into inaction."

This is sage advice to health system executives. Retailers are learning the hard way that facilities can limit strategic and reduce competitiveness. The pace of change is accelerating across all industries, including healthcare. Imagine how different and customer-friendly healthcare purchasing decisions will be in 10 years.

The clock is ticking. Gates once noted that "success is a lousy teacher. It seduces smart people into thinking they can't lose." Healthcare executives cannot afford overconfidence. No healthcare system is too big or too essential to fail. Winning health systems will adapt service delivery to meet customers' wants, needs and demands.

It's time for health systems to change their delivery channels before consumers do it for them.



DAVID JOHNSON is the CEO of 4sight Health, a boutique healthcare advisory firm. Dave wakes up every morning trying to fix America's broken healthcare system. He is a frequent writer and speaker on market-driven healthcare reform. His expertise encompasses health policy, academic medicine, economics, statistics, behavioral finance, disruptive innovation, organizational change and complexity theory. Dave's book, Market vs. Medicine: America's Epic Fight for Better, Affordable Healthcare, is available for purchase on www.4sighthealth.com