

Part II: Retail in a Health Care Setting

In Part I of this report, we explored the factors driving the increased presence of health care in retail properties. There is another angle to the growing and fast-evolving retail aspect of health care real estate. In this edition, we study the location of retail facilities in medical settings, with a focus on hospitals.

Within hospitals, retail facilities primarily involve food service and gift shops. In this report, we will examine the rationale for this focus and the nature and requirements of these types of retail. We'll start by looking at retailer and health system strategies and conclude with a case study of Northwestern Memorial Hospital in Chicago, which is at the cutting edge of successfully incorporating retail in a hospital setting.

Retailers: Uncovering Opportunities in Health Care Settings

Health systems are becoming increasingly aware of the opportunities and gains that incorporating a retail element into their properties offer.

“The majority of hospitals are tremendously underserved when it comes to retail infrastructure,” said Kathy Lin, managing partner of KHL Retail LLC and a specialist in the field. Though comprehensive data is not available, retail inventory in hospitals is growing as an increasing number of health systems recognize the benefits of incorporating non-medical retail into their public spaces and make it an integral part of forward-planning and new construction.

Despite more stringent public health requirements than in a traditional high-street setting, food service retailers are realizing the untapped potential that hospital locations offer. Successful strategies satisfy three crucial drivers:

 **Profitability**

 **Pricing**

 **Design**

In terms of profitability, hospitals offer the advantage of a captive customer base. Many hospital workers are unable to leave the facility during their shifts, and visitors are often inclined to stay nearby the patients they are there to see. Many hospitals also boast longer operating hours and larger catchment areas than other types of businesses, which can help drive more demand.

Pricing is critical for food service retailers in hospitals, as they serve hospital workers with relatively modest incomes, in addition to visitors. As well as affordability, dining options should mostly be healthy and nutritious to tie in with health care systems' strategies of promoting healthy lifestyles.

With respect to design, familiarity is a key component of the successful in-hospital retail experience. Hospital visits can be quite stressful, so the greater the degree of normalcy and comfort the better. Familiar national chains, such as Starbucks or Sbarro, can contribute to fostering such an environment but the inclusion of a niche, local operator can also help visitors feel “at home.”



**Image courtesy of Christopher Barrett and Northwestern Memorial HealthCare*

Health System Operators: Creating the Right Retail Mix

For most health system operators, there are two approaches to food service retail: selecting a range of individual retail operators or working with a one-stop-shop provider that includes food services within a wider program.

Sodexo is one of the leading providers in the latter field, operating a retail dining service in the U.S. called “Fresh Inspirations.” Sodexo’s stated aim is “to offer a refreshing dining experience through a cheerful environment specially designed to energize the consumer.” This includes the provision of zoned seating where families or staff can gather for a meal plus areas for a quiet break from the stresses of care giving.

In terms of individual retailers, there are several clear leaders within the categories of in-hospital food service, as well as gift shop and pharmacy. In the U.S., food service retail in hospital locations is dominated by three operators: Starbucks, Au Bon Pain and Panera Bread.

Starbucks is a ubiquitous name that offers immediate familiarity. Au Bon Pain and Panera Bread are nationally established chains that sit well within the parameters of affordable pricing and health-conscious dining. Au Bon Pain provides a good example of the attraction of hospital locations and the fact that ownership structures can vary within the same brand. Almost 30% of Au Bon Pain’s cafés in the U.S. are situated in hospital locations. Across Au Bon Pain’s 62 sites, half are franchised.

A full-service food operation including tables and seating can take up to 3,500 square feet. As such, older properties that do not have space designed and designated for retail use may need to get creative. Kiosks (typically around 250 square feet) can be a good strategy, as well as unstaffed options provided through micro-market vending operations. Compass Group USA provides self-service micro-markets through its Avenue C brand in 4,500 U.S. locations — principally in airports but hospitals are also an important location. These are “open” 24/7, thereby matching hospital operations and staff needs.

Lori’s Gifts, based in Carrollton, TX, is the industry leader in the operation of hospital gift shops with 345 locations nationally. Lori’s markets turnkey gift shops, directly managing staffing, buying, accounting, operations and a customer loyalty program. In addition to their physical locations, the company runs an online patient gift service covering 8,000 U.S. hospitals.

Walgreens and CVS Caremark are leading the growth of another in-hospital retail option. These are small stores — typically around 750 square feet in size — focused almost solely on prescription services and, in some instances, the sale of over-the-counter medications.

All of these factors should be considered in planning for local implementation, but health systems can explore a wide array of options for their specific facility layout and customer demand.

Northwestern Memorial Hospital: Innovative Solutions for Staff, Visitors and the Community

Northwestern Memorial Hospital (Northwestern) is a 6-million-square-foot health care, research and academic campus located across a series of linked buildings in downtown Chicago.

The complex includes 894 hospital beds and 2 million square feet of outpatient care facilities, as well as a neighboring children's hospital. The campus also incorporates 70,000 square feet of retail space.

Gina Weldy, vice president of real estate with Northwestern Memorial HealthCare, comments that, "the retail real estate strategy is centered on the needs of three key customers: patients and visitors, hospital employees and the local neighborhood."

This strategy translates into five central concepts that guide the hospital's retail real estate decisions:

- › Offering fresh and healthy dining options
- › Providing dining options at a price point that considers employee income levels
- › Generating a local and familiar feel by including Chicago-centric operators
- › Promoting a feeling of comfort, recognizing that hospital visits often occur at difficult times
- › Enhancing and interacting with the local neighborhood

Northwestern's retail properties operate on a literal two-tier approach to reach employees, visitors and the surrounding neighborhood through street-level access and second-story, internal access. As a result, the neighborhood has benefitted from new amenities, plus more street lighting and a greater feeling of safety.

The complex includes more than 20 food service retailers with a mixture of national names — such as Au Bon Pain, Corner Bakery and Subway — and renowned Chicago names, such as Protein Bar, Saigon Sisters and Stan's Donuts.

Northwestern's flagship restaurant, Beatrix, covers 10,500 square feet. Beatrix is a well-known local chain in Chicago and part of the Lettuce Entertain You nationwide family of restaurants. As Gina Weldy explains, "Street-level diners at Beatrix may not even realize that the restaurant is also linked to a hospital." Beatrix offers a mixture of healthy dining and comfort food — the latter in response to the stress that hospital visits can create. This is enhanced by the inclusion of familiar national fast-food service retailers that are open 24/7, including Starbucks.

Within the hospital, Walgreens has a 10,000-square-foot, two-story operation. The ground level offers the normal range of goods associated with the brand, while the upper floor provides prescription facilities, consultation services and over-the-counter medicines.

Northwestern also has a wide range of non-food retailers that go beyond the standard gift shop, such as a bookstore, florist and a convenience store.

Summary and Outlook

- › Hospitals are increasingly incorporating non-medical retail uses in their facilities, but the majority have been slow to adopt this relatively new paradigm.
- › There is significant potential for health care providers to outsource their retail functions and thereby focus their efforts and resources on their core missions.
- › There are three key considerations for successful strategies for retail provision in hospitals: pricing, profitability and design.
- › The right retail mix can go beyond serving hospital staff and visitors to benefit the community at large.

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