A “More Perfect” Union – The Marriage Of Retail And Healthcare In The Age Of Amazon

Presented by
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Chief Knowledge Officer

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2018 NACDS TSE: Kantar Consulting’s Team at Booth #2447

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Amazon Agenda

1. Amazon as a retailer

2. Amazon as a healthcare provider
Let’s Start With Amazon The Retailer

Amazon Prime’s purchasing power in aggregate now 2nd largest economy in the world (behind China)

Percent of Households Who Are Prime Members
(among all primary HH shoppers)

In Perspective: Prime’s penetration in the U.S. exceeds:

- The percent of households that shop Target (29%)\(^1\)
- The total number of households in Germany (40.8m)\(^2\)
- 55% of US Product Searches now START on Amazon (vs 26% Google and 19% EVERYTHING ELSE)

Source: Kantar Consulting ShopperScape®, Kantar Consulting estimates and research
Kantar Consulting ShopperScape®, December 2016 | 2Statistisches Bundesamt
Why Is Amazon a Key Channel for Beauty & Personal Care?

Actively selling products on the site can be more beneficial than the alternative:

1. TO ELIMINATE GREY MARKET PRODUCTS

2. TO BETTER CONTROL THE CONVERSATION

3. TO ENSURE VISIBILITY

Source: Kantar Consulting, Amazon
Why Is Amazon a Key Channel for Health & Personal Care?

To beauty shoppers, Amazon is the Google of products

56% of all searches start on Amazon.

Source: Kantar Consulting
BRANDED STORES

Creating your own space to showcase and unify your portfolio in a seamless way

Source: Kantar Consulting, Amazon
MARKETING

Amazon is one of the most cost efficient marketing tools of today

Source: Kantar Consulting
Packaging

Diverse pack sizes help targeting broader searches/needs and keeps shoppers within the product ecosystem

Source: Kantar Consulting, Amazon
Actions to Consider

As a fairly unknown brand PurOrganica has made its serum a best selling item through the use of successful keywords, focused on product solutions rather than branded terms.
Hot off the PRESS – Gainesville Prototypes for Walgreens

*The Ratios Between These 5 Key Components Will Change In This Deconstructed World*

- Product
- Redistribution
- Experience
- Services
- Space
When In Doubt, Do What Sephora Does: “Sephoria”
Moving to MeCommerce: Do The “4PS” Become The “5Ss”

1. SCROLL
2. SUBSCRIBE
3. SAY
4. SHARE
5. SEARCH
Mobile: Implications

• The 5Ss are verbs, not nouns – marketing in the future is marketing in motion

• Marketing in mobile is about context not demographics

• Experience-centric brands and customer plans require integration across the streams – no big company is doing this particularly well today

• Your brands are experienced in a variety of non-controlled ecosystems – linkage and consistency critical

• The linkage between digital, shopper, customer, and media can and should be experience centered
“The List….Is Life”

Subscriptions And Ease Of Replenishment Turn Shopping Into Renewal…Terms You Will Hear A Lot More:

- Basket-level profitability
- Lifetime Shopper Value (LSV)
- Shopper Acquisition Cost (SAC)
- Repeat & Rebuy Rates (RRR)
### Perfect Category — Deliver more with less

<table>
<thead>
<tr>
<th>Make Your Best Better</th>
<th>Be Your Best More Often</th>
<th>Better Collaboration</th>
<th>Better Returns</th>
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<tbody>
<tr>
<td>- Recommendations fueled by retail and shopper insights</td>
<td>- Scale best practice consistently with optimized and automated processes</td>
<td></td>
<td>- Optimised assortment and space leading to enhanced brand and category performance</td>
</tr>
<tr>
<td>- Best in class applications enabling predictive analytics combined with dynamic data visualization</td>
<td>- Process applicable for all channels and markets</td>
<td>- Higher level of customer agreement to proposals delivered</td>
<td>- Enhanced on shelf availability &amp; in store compliance</td>
</tr>
<tr>
<td>- Store level recommendations that reflect shopper behavior</td>
<td>- Model operates in data rich and data sparse environments</td>
<td>- Faster sign off to recommendations</td>
<td>- Significant effort &amp; time savings</td>
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Perfect Category Platform — Integrating best-in class tools and technologies

- Portfolio Management
  - SKURAT
- Assortment & Space
  - RICHMIX8®
- Assisted Merchandising
  - AUTOMERCH
- Virtual Reality
  - VR INFINITY
- Image Recognition
  - PLANORAMA

Retail Intelligence Platform

**KANTAR RETAIL IQ**

- Analytics
  - Analysis & Reporting
  - Dashboards
  - Data logging

- Platform Services
  - User/Role Management
  - Workflow
  - Configuration

Data Layer

Enterprise Data Lake
What Does Amazon As A Simple Non-Rx Retailer Do To Healthcare?

• Continued competitive pressure on Walmart/Target in particular causing strategic refocus
• Walmart – continued exploration into healthcare
• Target – continued transition into a smaller footprint, more urban retailer
• Ease of finding specialized SKUs over time can put intense pressure on independent pharmacy and chain drug
• Amazon Moms do most of the caregiving in the US – a “Subscribe and Care” isn’t the type of solution Amazon’s likely to engineer but if they did could be transformational
Amazon Agenda

1. Amazon as a retailer

2. Amazon as a healthcare provider, distributor and marketplace
I hate the word disruption….disruption doesn’t matter. All that matters is does the customer prefer the new way of doing things to the old.

JEFF BEZOS
CHIEF EXECUTIVE OFFICER OF AMAZON
Key Word For Today: “Deconstruction”

Deconstruction insists not that truth is illusory but that it is institutional.

— Terry Eagleton —
One of the customers we’ve really learned about in the dental space, and in health care more broadly, is what we call “Mary the Millennial,” which is just a persona that we use to describe the new worker in health care. **What we hear from our customers and our suppliers alike is that it’s getting harder and harder to engage with Mary the Millennial through traditional channels,** and that Mary is expecting to be able to find what she wants in online channels, apps and on her mobile phone, and if she can’t find it there in a minute or less, she’s just going to choose something else. That’s very much a guiding principle for us: If we make Mary happy, the rest will take care of itself.
Tail Spend: The Trojan Horse In Distribution

Chris Holt, more broadly, on Amazon’s strategy...

One of the biggest areas has been what we call tail spend. Let me define that. If you look at a customer's purchasing, typically you'll see that 80% of their spend is with 20% of their suppliers and 20% of their spend is with 80% of their suppliers.

That 20%, we call that tail spend. What's interesting about that is almost universally across customers that we talk to, it's poorly managed.
Bringing more transparency

Certificate of Analysis

We validate each Amazon Elements supplement using thorough laboratory testing. Our quality standards were developed through a combination of state and federal guidelines as well as consultation with scientific research and analysis.

Potency

We verify the potency of our product after each production. The current result indicates the percentage of the ingredient in the product compared to what is listed on the label. Due to natural degradation in some ingredients over time, the potency of your product may be lower than what appears on the Certificate of Analysis.

Purity

To ensure our ingredients have not been adulterated, we test their identity and authenticity. We also perform tests to verify that ingredients are made without genetically modified organisms.

Integrity

We test the integrity of our raw ingredients and the finished product to ensure they meet our high quality standards. These standards were developed using a combination of state and federal guidelines as well as consultation with scientific research and analysis.

<table>
<thead>
<tr>
<th>TEST TYPE</th>
<th>TEST</th>
<th>RESULT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potency</td>
<td>Too weak</td>
<td>114%</td>
</tr>
</tbody>
</table>

Source: Kantar Consulting, retailer website
“Your Margin Is My Opportunity” - Bezos

Follow The Money To Find The Deconstruction

• This is a projection of the share and growth rates of EBITDA in the US healthcare system between now and 2020, and the single best chart McKinsey has ever produced 😊

• Two key players make almost half the money
  – Rx manufacturers, who have patent protection
  – Hospitals, who do not

• The entire insurance industry makes ½ the EBITDA of either of those, and pharmacy makes next to nothing
  – The medical device industry will make almost as much in EBITDA in 2020 as the insurance industry

• Service vendors are the fastest growing profit pool (apart from commercial insurance, forecast to recover EBITDA post ACA)

Projected changes in EBITDA across US healthcare industry, 2020

![Graph showing projected changes in EBITDA across various sectors of the healthcare industry.](image)

- The width of each column reflects the percentage of the healthcare industry's projected 2020 EBITDA ($623bn-$571bn) accounted for by each sector. We estimate that payers could have 10%; delivery systems, 50%; service vendors, 5%; and manufacturers and distributors, 35%. The height of each rectangle reflects the percentage of a given sector's EBITDA likely to be earned by each of the various stakeholders in 2020.

Source: Kantar Consulting

B2B: business to business; EBITDA: earnings before interest, taxes, depreciation, and amortization; PBM: pharmacy benefit manager.

Includes the individual market.

Sources: The data underlying this analysis came from a wide range of sources, including regulatory filings (e.g., SEC reports, 10-K filings), US Bureau of Labor Statistics, national surveys (e.g., American Hospital Association, Kaiser Family Foundation, US National Health Expenditures), publicly available information from CMS (e.g., Medicare cost reports), MedPAC reports, McKinsey Center for US Health System Reform, and external industry financial reports.

McKinsey & Company
High Deductible Insurance Deconstructed: MESA

Medical Episode Spending Allowances (MESA) An Intriguing Option for “A-B-C”

• Idea from the same think tank that created the bundled payments architecture that drives much of healthcare reimbursement today

• Inverts a typical high deductible plan and eliminates the deductible for significant conditions

• Bundles together condition based treatments and lets you choose based on quality and cost

• Allows networks of participating medical facilities to share in the rewards generated by more cost-effective care
  – These are networks that can benefit from Amazon’s B2B marketplace/sourcing skill to achieve a lower cost base and higher profits for them

Source: Kantar Consulting
Pharmacy Deconstructed: The Pillpack Acquisition

- 55% of American adults take at least one prescription regularly
- The average # taken is 4
- 40M adults take more than 5 prescriptions per day
- 50% of prescriptions have adherence issues
- The mix of Rx and OTC can/should be incredibly powerful
- 49 state licenses

Source: WebMD, Consumer Reports
Hospitals Deconstructed = Medical Malls?

- Converted mall space
- Built for purpose mixed use facilities between retail and healthcare
- Deconstructed hospitals, with historic departments acting as store fronts, run by both hospital networks and non-hospital healthcare providers

Source: Kantar Consulting
One of the least transparent pieces of the US healthcare system is emergency room payments.

Often component parts of the ER are not covered by your insurance even if the hospital is in network.

A massive potential cost savings is in better, more transparent management of these costs.
The principle behind MESA can be applied to a host of condition-based treatment packages assigned to networks of providers dedicated to achieving great outcomes and reducing waste/preventable complications.

The guy who ran this Healthways thing is now Walmart’s Chief Medical Officer (Sean Slovenski)…
Digital transformation: "Walmart has selected the full range of Microsoft cloud solutions, including Microsoft Azure and Microsoft 365 for enterprise-wide use to help standardize across the company’s family of brands. As part of the partnership, Walmart and Microsoft engineers will collaborate on the assessment, development, and support phase of moving hundreds of existing applications to cloud-native architectures. For example, to grow and enhance the online experience, the company will migrate a significant portion of walmart.com and samsclub.com to Azure, including its cloud-powered check-out enabling Walmart to grow with rising customer demand and reach more global markets than ever before."

Innovation: "There are also massive benefits to operating at scale as Walmart builds a global IoT platform on Azure – from connected HVAC and refrigeration units to reduce energy usage in thousands of U.S. stores or applying machine learning when routing thousands of trucks in the supply chain."

Changing how we work: "Walmart continues to foster a curious, collaborative, accountable, and agile culture to position the company for further growth. To do that, it’s critical to have tools that encourage those skills and traits. Through this partnership, Walmart is investing in its people with a phased rollout of Microsoft 365 providing associates with the productivity tools to foster a culture of collaboration, creativity and communication."
Amazon In Healthcare: A “Deconstructed” Insurance Proposition?

- Imagine a deconstructed health insurance company, where risk management, preventative, catastrophic, long-term, pharmacy, pre/post natal and specialist care are served up in different “Beakers”…
  - The “milk” (the high volume component of the user experience)
    - Amazon sitting as a marketplace and coordinator for incremental/preventive healthcare services linking together providers and demand in a more coordinated way
  - The “water” (the essential but ultimately unwanted and expensive for what it is part)
    - JPMorgan Chase providing a range of financial solutions to help you plan for elder care, maternity etc the same way that the 401K industry has helped people prepare for retirement,
  - The “coffee” (the small but expensive part)
    - Berkshire Hathaway applying reinsurance principles to act as the “buyer of choice” for expensive conditions (cardiac surgery, long-term/end of life care, NICU) to balance the extraordinary profits hospitals and long-term care facilities earn providing essential services to entities with limited bargaining power
  - So the consumer could end up with a very low-priced “Everyday health” plan that manages normal health and chronic conditions cost effectively, a “major purchases” plan for bigger expenses that has a “big ticket” reinsurer managing as many predictable, expensive conditions as possible (and who sells that capabilities to other insurers)

Source: Kantar Consulting
Consumers want simple and reliable digital interactions for routine transactions

59% of consumers expect their health digital experience to be more like retail

Healthcare consumers feel improvements are needed:
- Searching for a doctor/specialist (81%)
- Accessing my family’s health records (80%)
- Changing/making an appointment (79%)
- Accessing test results (76%)
- Paying my bill (75%)
- Filling a prescription (74%)

Higi is like a FICO score for personal health. The closer to 999, the better. (Mine was in the low 700s). The company has gamified it and added friends and family.

Source: NTT Data Services
Bringing more support communities into the patient journey

The Challenge seeks patient-centric solutions that reduce the friction of self-management, while also considering the needs of stakeholders (e.g., caregivers, healthcare providers, payers, etc.) and the broader healthcare system.

Sugarpod by Wellpepper was the 2017 winner. This comprehensive diabetes care plan solution provides tailored tasks based on patient preferences. It delivers patient experiences via SMS, email, Web, and a mobile application — and one day, through voice.
Amazon has acquired Body Labs, a company with a stated aim of creating true-to-life 3D body models to support various B2B software applications:

- Virtually trying on clothes
- Photorealistic avatars for gaming
- Uses cases for its “fat and all” 3D body modeling tech in health and fitness tracking
- More viable route for Amazon to scale viable body models to millions of consumers

Source: Kantar Consulting, TechCrunch
A-B-C CEO Atul Gawande’s Philosophy Summed Up In One Sentence…

Funny thing is, Franklin wasn’t talking about healthcare here, but fire safety…. 
the first thing you have to understand is that incremental care—regular, ongoing care as opposed to heroic, emergency care—is the greatest source of value in modern medicine.

Studies have established that having a regular source of medical care, from a doctor who knows you, has a powerful effect on your willingness to seek care for severe symptoms. This alone appears to be a significant contributor to lower death rates.

But the path of life isn’t one of steady health punctuated by brief crises. Most of us accumulate costly, often chronic health issues as we age. These issues can often be delayed, managed, and controlled if we have good health care—and can’t be if we don’t. Chronic illness has become commonplace, and we have been poorly prepared to deal with it. Much of what ails us requires a more patient kind of skill.

We have at least four kinds of information that matter to your health and well-being over time: information about the state of your internal systems (from your imaging and lab-test results, your genome sequencing); the state of your living conditions (your housing, community, economic, and environmental circumstances); the state of the care you receive (what your practitioners have done and how well they did it, what medications and other treatments they have provided); and the state of your behaviors (your patterns of sleep, exercise, stress, eating, sexual activity, adherence to treatments). The potential of this information is so enormous it is almost scary.

Source: Kantar Consulting
Your local grocer is…Geisinger healthcare?

Gawande a big proponent of this type of model

- Their community low-income patients — 12% of whom are diabetic/pre-diabetic
- Major obstacle is that patients feel like they can’t afford fresh food, so eat processed/prepared/fast food
- Began prescribing patients with high A1C levels $2,000 a year worth of fresh food
- Estimate every point A1C reduced equals $8,000 in saved healthcare cost
- Imagine Whole Foods distributing prescription organic groceries…
Local executives for hospitals and clinics and home-health agencies understand their growth rate and their market share; they know whether they are losing money or making money. They know that if their doctors bring in enough business—surgery, imaging, home-nursing referrals—they make money; and if they get the doctors to bring in more, they make more. But they have only the vaguest notion of whether the doctors are making their communities as healthy as they can, or whether they are more or less efficient than their counterparts elsewhere.

Source: Kantar Consulting
The 5 Key Deconstructions

- Hospitals – everything done in a hospital that does not need to be won’t be
- Condition Specific Care/Payment – assessing cost drivers as systems can change costs and outcomes
- Pharmacy – Pillpack’s integration of Rx, OTC and ease of use could be a staple of medication compliance and better health
- Primary Care – expect A-B-C to reinvent, deepen and tech enable the patient’s relationship with primary care
- Retail Integration – putting the “Care” in primary care through lifestyle, all which can be easily bought and selected via…Amazon
8 Key Words

- 5Ss
- Lists
- Baskets
- Tails
- Deconstruction
- Incremental
- Continuous
- Customer-Patients…
Are you best-in-class in customer centricity, strategy & execution?

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for over two dozen sessions covering
strategy, shopper & store.

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