Corporate Entrants Find Challenges in Health Care

Walmart cites lack of profitability, escalating costs and challenging reimbursement

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On April 30, 2024, retail giant Walmart announced their closure of Walmart Health, a network of 51 health centers that provided "primary and urgent care, labs, x-ray and diagnostics, behavioral health, dental, optometry and hearing services."[1] Walmart cited the lack of profitability, escalating costs of operation, and challenging environment for reimbursement as the reasons behind Walmart Health's unsustainability.[1] This article discusses Walmart's closures, the other corporate entrants struggling in the health care market, and what these challenges indicate for the primary care space.

Due to political impasses and systemic problems, the federal government is often incapable of making quick, meaningful improvements to the health care industry. Increasingly high costs, large deductibles, health care workforce shortages, and delays in treatment and obtaining medication plague the U.S. health care delivery system.[2] Instead of waiting on regulatory reform, large corporate entities such as Walmart have aimed to disrupt the health care industry through streamlining health care delivery (and associated costs) and capitalizing on technological advancements. While this "corporatization of medicine" has grown significantly over the last two decades,[3] these newer entrants to the primary care market have been forced to realize that traditional business strategies may not be successful given the various nuances unique to health care.

In November 2011, it was leaked to the press that Walmart intended to become the "largest provider of primary health care services in the nation."[3,4] While Walmart recanted parts of its claim as "overwritten and incorrect," the number of clinics owned by retailers such as Walmart has increased significantly over the past 15 years.[3] Walmart has been a long-time player in the health care market, with footholds most notably in pharmacies and retail clinics.[5] In 2014, Walmart implemented its "Healthcare Begins Here" initiative, which provided consumers with free health screenings, access to immunizations, and assistance with the (then new) Affordable Care Act (ACA) health insurance exchanges.[6] At that time, Walmart seemingly doubled down on its 2011 claim by announcing its ambitious intentions "to be the number one health care provider in the industry."[5]

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The next iteration of Walmart's health care delivery quest—Walmart Health—launched in 2019. The retail giant opened more than 25 Walmart Health centers across the South and announced in early 2023 its plans to open an additional 75 centers by the end of 2024.[7,8] Walmart also made a number of complementary acquisitions during this timeframe, including: (1) FloCare (a health-technology business) in July 2019; (2) CareZone (a prescription management startup) in June 2020; and (3) MeMD (a telehealth provider) in May 2021.[9] Through this transactional activity, Walmart sought to increase health care access and promote better health outcomes by rendering health care services to patients where they are—in Walmart stores—and by providing transparent and affordable pricing for health care services.[10]

However, nearly five years later, Walmart did an about-face, announcing in April 2024 that it would shut down Walmart Health, closing all clinics by June 28, 2024, and sell off its telehealth business.[11,12,13] While Walmart ambitiously grew

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their presence in the health care industry, issues of profitability, escalating costs, and challenging reimbursement ultimately led to the company shifting their strategy.[1] Going forward, Walmart's focus will be on their 4,600 pharmacies and 3,000 vision centers that are already located in-store, and not on primary care.[14] Walmart aims to expand the clinical capabilities of the services their pharmacies provide; their pharmacies already largely offer the clinical services that Walmart Health clinics provided, such as treatment and testing for respiratory illnesses.[14]

Walgreens

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Walgreens Scales Back

The surprising closure of Walmart Health's clinics comes as other corporate health care disrupters are similarly struggling to sustainably operate in the primary care space.[8] Walgreens, a chain of retail pharmacy stores, entered the primary care space over a decade ago with plans to expand health care services to include patient treatment and diagnosis, and capitalize on concerns at the time about cost and a physician shortage.[15] Through its 2021 acquisition of primary care network VillageMD for $5.2 billion, Walgreens aimed to transform its pharmacies into health care destinations, providing patients a one-stop-shop for checkups and filling prescriptions.[16] Walgreens also made a number of additional strategic acquisitions to bolster its health care offerings, including: (1) Shields Health Solutions (specialty pharmacy company) in September 2021 for $2.3 billion; (2) CareCentrix (a home care company) in October 2021 for $722 million; and (3) Summit Health-CityMD (an urgent care clinic group) in November 2022 for $8.9 billion.[9] However, less than three years after these acquisitions, Walgreens reported a loss of nearly $6 billion, which was largely attributed to the loss in value in VillageMD.[17] Instead of continuing to expand, Walgreens is in the midst of scaling back their VillageMD clinic footprint, shutting nearly 160 of the 200 clinics that were adjacent to the pharmacy chain's stores.[8,18,19] In fact, the *Wall Street Journal* reported on June 27 that Walgreens plans to reduce its majority ownership stake in VillageMD; Walgreens was also reportedly considering a sale of Shields Health Solutions, although it has since backed off that statement.[19,20] The retail pharmacy has been criticized for failing to capitalize on its significant investments and has attributed its struggles in part to "slower-than-expected trends in patient panel growth and multi-specialty productivity and recent changes in Medicare reimbursement models."[21]

Amazon Experiences Losses

Amazon, which has widely publicized its intention to disrupt the health care industry, has also not been immune to these difficulties in the health care market.[22] Amazon acquired PillPack (an online pharmacy) in June 2018 for $753 million,[23] and subsequently expanded its pharmaceutical footprint through its November 2020 launch of Amazon Pharmacy, providing transparent drug pricing and free, unlimited deliveries of medications to customers in 45 states.[22] The service has since expanded to all 50 states, and in 2023, Amazon commenced RxPass, a low-cost, generic drug subscription service targeting those with common, chronic conditions. [22] Beyond the pharmaceutical sector, in what has been characterized as its "potentially most significant move" in the health care space, Amazon acquired primary care network One Medical—and its 836,000 associated members and 221 medical offices across 27 markets—in July 2022 for $3.9 billion.[22]

amazon

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However, less than two years post-acquisition, One Medical reported operating losses of nearly $500 million, worse than the losses reported by the company prior to Amazon's acquisition.[24] In an effort to cut nearly $100 million in costs, Amazon (similar to the other corporate entities discussed above) is closing corporate offices and laying off One Medical staff.[24] Additionally seniors receiving care from One Medical have reportedly expressed frustration since the company's acquisition, citing shorter appointments and disappearing offerings.[24] One Medical is not Amazon's only struggling health care venture: Haven, a health care-specific joint venture with JPMorgan Chase and Berkshire Hathaway, was disbanded less than three years after its 2018 launch; Amazon Care, an Amazon-launched virtual health clinic, lasted only a couple of years; and, most recently, Amazon Clinic's telehealth was nixed after only 19 months in operation (and consolidated into One Medical).[22,25] Despite recent difficulties, Amazon asserts

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that it "continues to see strong growth and positive feedback from One Medical members, and will continue investing to provide high-quality care to more people."[24]

Failure to Deliver

Despite big plans and hubristic promises, the large corporate entities that have sought to disrupt U.S. health care generally, and the primary care space specifically, have been largely unable to deliver. One industry analyst noted that "primary care is often a loss leader for larger health systems but serves a critical role as a feeder of patients and customers for specialty care and procedures. Without those higher revenue opportunities, retailers must achieve high levels of adoption and volume to unlock profitability."[8] Another analyst summarized that "the news [regarding Walmart Health] is a significant setback for retail health players, some of whom are now realizing that delivering retail-driven primary care may not be economically viable and certainly isn't causing the disruption in local health care markets that many predicted."[8] In fact, Craig Garthwaite, a strategy professor at Northwestern University, noted that in medicine, economies of scale cannot be built by driving down costs of items such as purchasing and advertising to charge lower prices and gain market share. In fact, the largest expenses are provider wages, which are not scalable, as providers can only work so many hours per day.[26]

As succinctly summed up by the president and chief executive officer of the Primary Care Collaborative: "Walmart's recent announcement only confirms what every primary care clinician across the country already knows: we have a system that doesn't support the ongoing trusted primary care relationships that deliver better outcomes, create better patient experiences and enhance affordability."[8]

References available at slmms.org under Medical News.

OBITUARIES

Roger L. Mell, MD

Roger L. Mell, MD, an orthopedic surgeon, died April 14, 2024, at the age of 91.

Born in Bonne Terre, Mo., Dr. Mell earned his undergraduate degree in electrical engineering from the University of Missouri-Columbia. He then served as a pilot in the U.S. Air Force, attaining the rank of first lieutenant. After working for three years as an electrical engineer in Louisiana, he entered medical school at Washington University, graduating in 1965. He completed internship and residency at Barnes Hospital and St. Luke's Hospital. Serving in private practice, Dr. Mell was affiliated with St. Luke's Hospital and served as chief of orthopedic surgery there from 1980 to 2005. He was president of the Southern Medical Association and the St. Luke's Hospital medical staff. Dr. Mell joined the St. Louis Metropolitan Medical Society in 1970.

Dr. Mell passed away two weeks after his beloved wife, Joan. SLMMS extends its condolences to their four children, Mike, David, Julie and Peter; seven grandchildren; and one great-grandchild.

Kenneth R. Smith, Jr., MD

Kenneth Smith, Jr., MD, a neurosurgeon, died May 16, 2024, at the age of 91.

Dr. Smith was born in Greenville, Illinois. He attended Greenville College from 1950 to 1953, when he left to accept a full scholarship at Washington University School of Medicine, graduating in 1957. He then served a residency at Johns Hopkins Medical Center along with residencies in general surgery and neurosurgery at Barnes Hospital. He held fellowships in neuroanatomy at Washington University and Oxford University. He established the Department of Neurosurgery at Saint Louis University and served as chair until his retirement in 2002. He joined the St. Louis Metropolitan Medical Society in 1966 and was SLMMS president in 1983. He was a lifelong advocate for the needs of the poor, traveling across Missouri and Illinois to treat patients in free clinics until his death. He made medical mission trips to Nairobi and helped established neurosurgery residency programs in five East African countries.

SLMMS extends its condolences to his wife Marjorie, their children, Sue Kennedy, Sally Smith, Kenneth R. Smith III, Nancy Smith, Carol Houghton and Patricia Watwood; 12 grandchildren; and nine great-grandchildren. He was predeceased by their daughter Joanne Clark.