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Retail clinics pivot amid profit pressures, exiting healthcare services

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The Buzz This Week

Last week, Walmart announced that it will shutter all 51 of its health centers across five states and will discontinue telehealth services. The retail giant launched Walmart Health in 2019, offering such clinical services as primary care, labs, and basic imaging. The move marks a dramatic turnaround from last year's announcement of plans to open an additional 75 locations.

The company noted financial pressures and a lack of profitability made it unsustainable to operate the business. Walmart has not yet announced a specific timeline of closures but will within the year.

Walmart's announcement comes after other retailers have closed or scaled back clinical operations. Last fall, Walgreens stated it would close 60 underperforming VillageMD primary care locations. Walgreens revised that number to 160 in late March of 2024 after a nearly \$6 billion net loss in the second quarter.

Amazon's One Medical continues its primary care growth plan and is inking new health system and employer partnerships. However, Amazon shared in February that it would cut hundreds of jobs across its healthcare units. Amazon's purchase of One Medical came after the retailer shut down its struggling primary care business Amazon Care in 2022 and dissolved Haven, a joint venture Amazon, Berkshire Hathaway, and JPMorgan Chase created to disrupt healthcare.

CVS is maintaining its primary care growth strategy, with plans for Oak Street Health to open 50 to 60 clinics in the coming year. But it will close dozens of pharmacies located in Target stores.

Why It Matters

As we've previously noted, retailers saw an opportunity to leverage their geographic and virtual footprint to provide convenient access and lower-cost primary care. They have been aggressively expanding in an attempt to disrupt the primary care market. However, numerous hurdles have prevented execution from

aligning with their strategic visions.

Much like health systems, retail providers are facing staffing shortages, administrative burdens, and reimbursement increases that are not commensurate with inflation and rising business cost. A spokesperson for Walmart noted, “Healthcare is expensive to run. We were finding that the increased labor and operating costs environment, like with reimbursement, both public and private, made it difficult (to run the business) and obvious we had to close.”

Historically, primary care has been a loss leader rather than a profit driver for traditional health systems. Without higher-margin clinical care opportunities, retail clinics either need to achieve significant volume or a substantial downstream increase in retail sales to be profitable. Walmart was unable to meet its required metrics to maintain profitable operations.

Retail closures are particularly significant for rural America. Many of Walmart’s stores and future locations were planned for rural locations and in healthcare deserts across the US. The coming decade will see a shortage of between 17,800 and 48,000 primary care doctors, according to the Association of American Medical Colleges (AAMC). The shortage will hit rural America especially hard. It is not clear who will fill that gap.

Retail clinics that deliver on the relationship aspect of primary care have seen more success thus far. Oak Street Health exclusively serves older adults and has expertise in that population’s needs. Although technology-driven, One Medical assigns a specific primary care provider to each patient and partners with traditional health systems for acute and complex care.

But retail offerings that lead to many one-off interactions with different healthcare providers create a very fragmented care experience. Sara Vaezy, Executive Vice President and Chief Strategy and Digital Officer at Providence, noted, “The most effective long-term strategy in healthcare is incumbent healthcare organizations collaborating with tech companies, digital health startups, big chain retailers, and other players. These partnerships can help to provide care continuity for patients.” Combining the strengths of traditional providers’ clinical expertise and retailers’ technology and convenience can create innovative solutions that address the growing demand for primary care services.

The failure of multiple otherwise successful giants to “disrupt” healthcare has reinforced a point traditional providers know well: Providing quality healthcare is hard. While Walmart and other retail clinics may not have been the silver bullet to low-cost primary care, an accessible and convenient primary care option is still imperative—especially for underserved populations.

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