Walmart Health's Demise: Emblematic of the Nation's Primary Care Conundrum

Market Corner Commentary
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By David W. Johnson

Walmart's announcement on April 30 that it was pulling the plug on Walmart Health stunned the healthcare ecosystem. [1] Few saw it coming.

Launched amid much fanfare in 2019, Walmart Health has operated 51 health centers in five states, with a robust virtual care platform. Walmart's news release noted that "the challenging reimbursement environment and escalating operating costs create a lack of profitability that make the care business unsustainable for us at this time." Despite its legendary supply-chain capabilities, expansive market presence and sizable consumer demand for affordable primary care services, Walmart couldn't make its business model work in healthcare.

Just two weeks earlier with much less fanfare, and in stark contrast to Walmart, the big health insurer Elevance announced it was doubling-down on primary care. On April 15, Elevance issued a news release detailing a new strategic partnership with the private-equity firm Clayton, Dubilier & Rice (CD&R) to "accelerate innovation in primary care delivery, enhance the healthcare experience and improve health outcomes." [2]

What gives? Why is Elevance expanding its primary care footprint when the retail behemoth Walmart believes investing in primary care is unprofitable? The answer lies at the heart of the debate over the future of U.S. healthcare. As a nation, the United States overinvests in healthcare delivery while underinvesting in preventive care and health promotion.

Enlightened healthcare companies, like Elevance, are attacking this imbalance aggressively.

Elevance isn't alone. Other large health insurers — including UnitedHealthcare, CVS/Aetna and Humana — and some large health systems (e.g., AdventHealth, Corewell Health and Intermountain Healthcare) are investing in primary care services to support what I refer to as 3D-WPH, shorthand for "democratized and decentralized distribution of whole-person health."

3D-WPH is the disruptive innovation that is rewiring U.S. healthcare to improve outcomes, lower costs, personalize care delivery and promote community wellbeing. It is an unstoppable force.

TRANSACTIONAL VERSUS INTEGRATED PRIMARY CARE

Across multiple retail product and service categories — including groceries, clothing, electronics, financial services, generic drugs and vision care — Walmart applies ruthless efficiency management to increase consumer selection and lower prices. Consistent with the company's mission of helping its customers to "save money and live better," Walmart Health provided routine, standalone primary care services at low, transparent prices. Despite scale and superior logistics, Walmart could not deliver these routine care services profitably.

Here's the problem with applying Walmart's retailing expertise to healthcare: While exceptional primary care services are rarely profitable in their own right, they can reduce total care costs by limiting the need for subsequent acute care services. Preventive care works. Companies that invest in primary care can benefit by reducing total cost of care.

Unfortunately, few providers and payers practice this integrated approach to care delivery. Most providers rely on their primary care networks to refer patients for profitable specialty care services. Most payers use their primary care networks to deny access to these same specialty care services.

This competition between using primary care networks as referral and denial machines dramatically increases the intermediary costs of U.S. healthcare delivery. Patients get lost as these titanic payer-provider battles unfold, even as costs continue to rise, and health status continues to decline.

WHOLE-PERSON HEALTH WORKS

A growing number of payers and providers, however, are recalibrating their business models to lower total care costs by integrating primary care services into a whole-person health delivery model. In its news release, Elevance described its strategic partnership with CD&R as follows:

> ***The strategic partnership's advanced primary care models take a whole-health approach to address the physical, social and behavioral health of every person. The foundation of the new advanced primary care offering will be stronger patient-provider relationships supported by data-driven insights, care coordination and referral management, and integrated health coaching. It will also leverage realigned incentives through value-based care agreements that enable care providers, assist individuals in leading healthier lives, and make care more affordable.***

"We know that when primary care providers are resourced and empowered, they guide consumers through some of life's most vulnerable moments, while helping people to take control of their own health," said Bryony Winn, president of health solutions at Elevance Health, in the news release. "By bringing a new model of advanced primary care to markets across the country, our partnership with CD&R will create a win-win for consumers and care providers alike."

Whole health personalizes and integrates care delivery. I would suggest that transactional and fragmented primary care service provision cannot compete with 3D-WPH.

For all its strengths, Walmart Health is not positioned to advance whole-person health. Primary care service provision without connection to whole-person health is a recipe for financial disaster. Walmart Health's demise confirms this market reality.

Moreover, whole-person health is not rocket science. The Veterans Health Administration (VA) has practiced 3D-WPH for more than 15 years. [3] It achieves better outcomes at two-thirds the per capita cost of Medicare with a much sicker population. [4]

Countries with nationalized health systems practice whole-person health expansively. With one-third the per capita income and one-fifth the per capita healthcare expenditure, Portugal has a life expectancy that is more than five years longer than it is in the United States. [5] Portugal achieves better population health metrics than the United States by operating community health networks throughout the country that combine primary care and public health services.

The VA, Portugal and numerous other organizations and countries prove the thesis that investing in primary care lowers total care costs and improves health outcomes. The evidence supporting this thesis is both compelling and incontrovertible.

SOLVING HEALTHCARE'S PRIMARY CARE CONUNDRUM

Economists refer to a circumstance when individuals overuse scarce public goods as a tragedy of the commons.

Public grazing fields highlight the challenge posed by such a circumstance. [6] It is in the financial interest of individual ranchers to overgraze their herd on a public grazing field. Overgrazing by all, however, would obliterate the grazing field, which is against the public's interest.

Societies address these "tragedies" by establishing and enforcing rules to govern public goods.

U.S. healthcare, however, reverses this type of economic tragedy. Advanced primary care services represent a public good. All acknowledge the benefits and societal returns, yet few providers and payers invest in advanced primary care services. Providers don't invest because it leads to lower treatment volumes. Payers don't invest because primary care's higher costs trigger higher premiums, prompting their members to switch plans.

We can't solve the primary care conundrum until we enable both providers and payers to benefit from investments in advanced primary care services. Fragmented, transactional medicine, even when delivered efficiently, is not cost-effective. Walmart Health discovered this economic reality the hard way and exited the business.

By contrast, Elevance is reorganizing itself to overcome healthcare's reverse tragedy of the commons. They are betting that offering advanced primary care services within integrated delivery networks will both lower costs and improve health outcomes. Healthcare's future belongs to the companies, like Elevance, that are striving to solve the industry's primary care conundrum.

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SOURCES

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