Walmart Health didn't test the opportunity in rural underserved markets

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Summary

What lessons can be drawn from Walmart's precipitous shut down of its attempt to launch primary care, dental and behavioral health services? The Walmart Health management team (after some 'dialing in') was composed of savvy healthcare insiders; this team had the benefit of learnings from Walmart's four prior attempts to launch clinics inside supercenters; and Walmart invested quite a bit of money in the effort. Collectively, however, these advantages were not enough for success.

We think Walmart Health's key mistake was to target markets with high disposable income, which, unfortunately for the strategy, were also markets with relatively saturated care supply. The value proposition of convenient access situated behind the groceries, paper towels and kitchen utensils was insufficiently compelling when more traditional (and trusted) care delivery models were readily available. An apparent final tweak in strategy towards health plan contracting and focusing on markets with denser populations came too little too late.

Walmart has plenty of stores in rural markets desperately underserved with health care resources. Walmart could have launched in any of those and, while perhaps not making a lot of money, would likely have gotten down the visits-per-day ramp curve faster, created a more sustainable business and, perhaps, constructed a platform for a national model. That strategy is yet to be tested and we hope some other geographically distributed, foot-traffic-intensive business will consider it.

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Introduction

The world is already pretty rich in Walmart Health post-mortems.

There are two primary theories on 'cause of death' we've come across:

1. Clinic economics caught in the scissors of flat reimbursement and rapidly rising staff costs
2. Scaling far too slow to make a convincing case of sustained materiality to Walmart's vast operations.

Either strike us as entirely convincing and both may have played their part in generating Walmart Health's reported $230M in losses up to 2023.[1]

But there may be more to learn from the autopsy.

One contribution we would like to make is to assess Walmart's market selection. The ubiquity of supercenters allowed Walmart wide latitude on where to place clinics. Walmart Health's market selection strategy had a fatal flaw. Analyzing where they built (47) or announced (15) clinics[2] can therefore sharpen the lessons from Walmart Heath's failure for any geographically distributed, foot-traffic-intensive business considering 'disrupting' primary care.

We compared communities where Walmart stood up clinics inside a supercenter against other communities which had supercenters but no clinics. We did the comparison on a state-by-state basis to maximize local comparability. We focused on the three states where Walmart Health invested the most - Georgia (17 clinics), Florida (23 clinics) and Texas (7 launched and 15 announced clinics for a total of 22).[3]

There appear to be two key heuristics to how Walmart Health selected supercenters in which to stand up clinics:

Heuristic 1: Focus on more populated and generally wealthier markets

Walmart Health located clinics in counties that were 5-6x denser in population, had 30% more income per capita and were significantly less rural (0.7 more urban on a 1-9 scale) than other counties in each state where Walmart had stores (see table 1).

Walmart Health's markets had better insurance coverage (both more of it in aggregate and a greater share of commercial). Unsurprisingly therefore, these counties are relatively saturated with clinical supply (between 2-3x the PCPs, dentists and mental health professionals per capita vs. other counties with supercenters).

Difference between the average of counties with vs. the average of counties without clinics

	Georgia	Florida	Texas	Average[2]
Density (ratio of people per sq mile)	3.5	2.9	10.8	5.7
Ruralness (difference in average Urban/Rural scoring[3])	-0.9	-1.2	-0.1	-0.7
Income (ratio of average per capita income)	1.3	1.1	1.4	1.3
Primary care supply (ratio of avg PCPs per capita)	1.9	1.5	2.2	1.9
Dental care supply (ratio of avg dentists per capita)	2.0	1.3	2.3	1.8
Mental healthcare supply (ratio of prof. per capita)	3.4	2.4	2.7	2.9

Table 1: Comparison of demographics of markets where Walmart had clinics vs. not[1]

Heuristic 2: Within targeted counties, focus clinics in higher density micro-markets

Walmart Health seemed to add this heuristic to its strategy game later (perhaps driven by the leadership change a few years ago and shift towards payer contracting). In the initial Georgia and Florida, the micro-markets (defined using zip codes) with clinics pretty much looked like the rest of the county (but with a bit lower population density).

With the most recent clinic launches (Texas),[4] however, there has been a shift in the demographics of the micro-markets targeted for clinics relative to the rest of the county (see table 2). Here, Walmart Health focused its clinic sites on somewhat denser micro-markets with significantly lower incomes (88% of what residents in the other zip codes earn), a greater share of the population eligible for Medicaid (3%), and a lower share of people with commercial coverage (6% percentage points less).

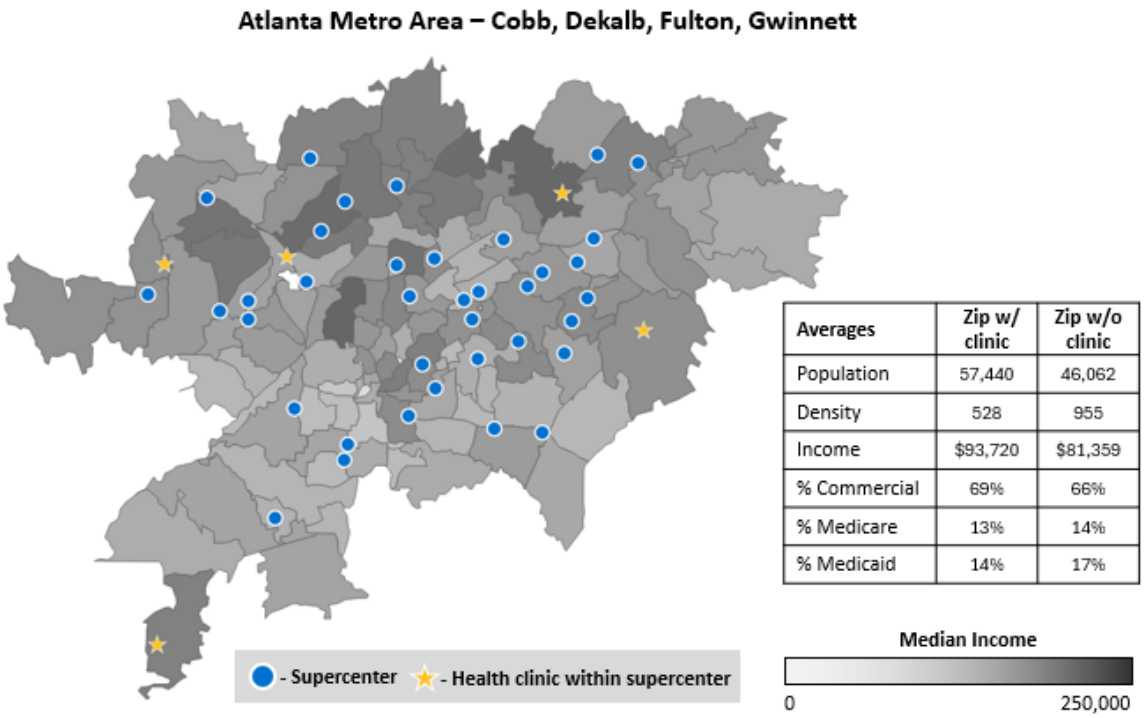
Difference between the average of zip codes with vs. the average of zip codes without clinics

	Georgia	Florida	Texas	Average[2]
Density (ratio of people per sq mile)	0.55	0.66	1.13	0.78
Income (ratio of average per capita income)	1.00	1.01	0.88	0.96
Poverty (difference in share of people below 138% FPL)	-1%	-1%	3%	0%
Insurance richness (difference in share of people with commercial coverage)	1%	1%	-6%	-1%

Table 2: Demographic comparison of micro-markets where Walmart had clinics vs. not[1]

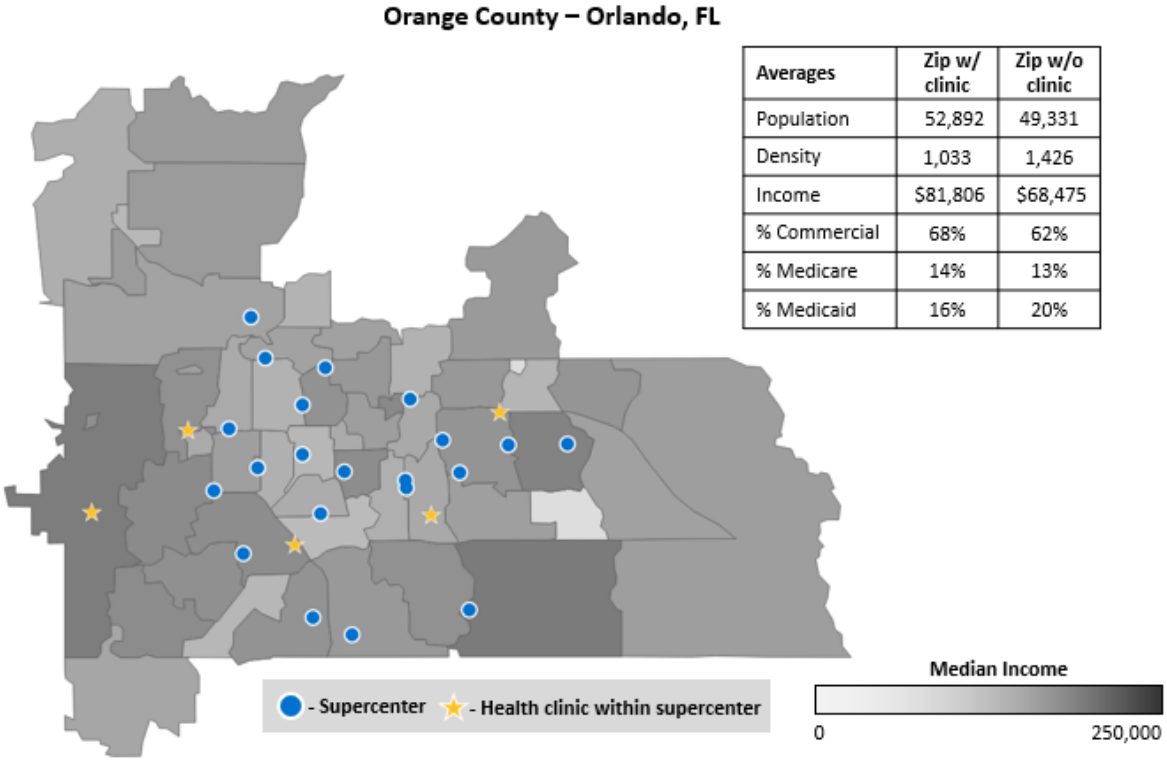
Look at the maps on the next pages and compare, for example, the clinic/supercenter vs. stand-alone supercenter networks in the Atlanta metro or Orange County FL vs. Fort Worth in Texas. What you will see is that in Atlanta and Orange, Walmart Health located its clinics in the wealthier periphery while in Texas, the clinics were more concentrated in the lower-income urban core.

The new approach taken in Texas suggests Walmart was hunting for ways to ramp patient volumes and an assumption that patients would be easier to attract in micro-markets where population was denser and perhaps could not afford incumbent care.[5]



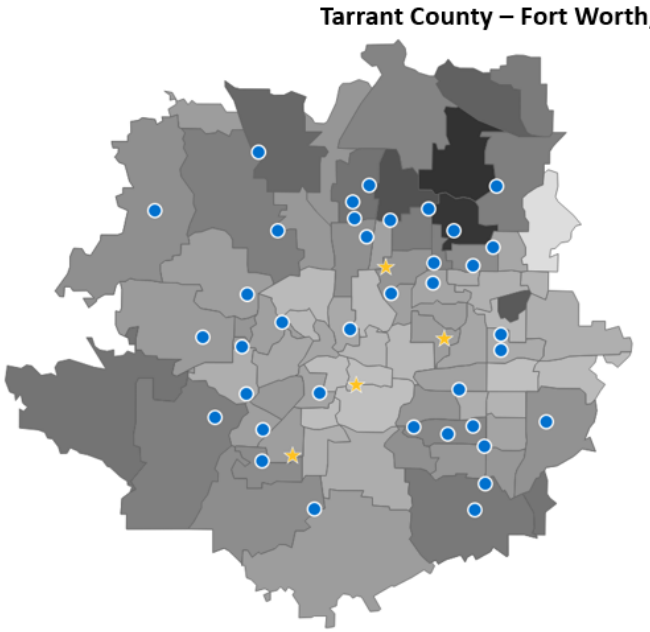
Averages	Zip w/ clinic	Zip w/o clinic
Population	57,440	46,062
Density	528	955
Income	$93,720	$81,359
% Commercial	69%	66%
% Medicare	13%	14%
% Medicaid	14%	17%

Figure 1: Atlanta Metro Area - Locations of supercenters and clinics



Averages	Zip w/ clinic	Zip w/o clinic
Population	52,892	49,331
Density	1,033	1,426
Income	$81,806	$68,475
% Commercial	68%	62%
% Medicare	14%	13%
% Medicaid	16%	20%

Figure 2: Orange County - Locations of supercenters and clinics



Averages	Zip w/ clinic	Zip w/o clinic
Population	33,452	42,565
Density	1,576	1,205
Income	$65,061	$91,112
% Commercial	55%	69%
% Medicare	14%	13%
% Medicaid	21%	12%

Figure 3: Tarrant County – Location of supercenters and clinics

Opportunity in underserved rural healthcare not yet tested

In applying these heuristics, Walmart avoided the markets with the greatest need. And that's not because there are no supercenters located in markets with poor local availability of care.

Let's explore an alternative scenario for Walmart Health. Let's target the same three states and the same number of clinics in each state. However, let's allocate clinics based on unfilled demand for primary care in each county.[6]

Using this heuristic, Walmart Health clinics would be up and running in 12 counties in Georgia with a total 900K residents, 15 in Florida with a total of 970K residents and 13 in Texas with a total of 880K residents. Almost none of the proposed county targets overlap with the ones where Walmart actually stood up clinics (see map below).

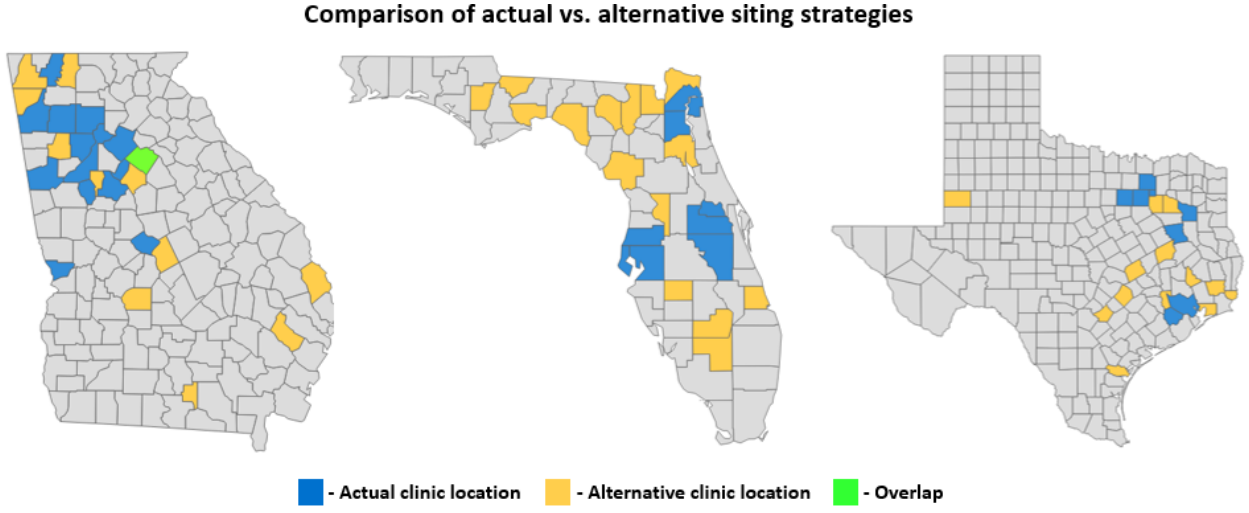


Figure 4: Counties with clinics under actual and alternative scenarios

Compared with where Walmart placed its clinic bets, these counties are significantly more rural (esp. Florida), lower per capita income in Georgia and Florida (about 20% lower) though a bit higher income per capita in Texas (10% higher). Most importantly, in these same counties, there are 70% fewer primary care providers, 60% fewer dentists and 70% fewer mental health professionals per capita relative to the ones that Walmart in fact targeted: in other words, markets in desperate need for more healthcare supply.

There may be good reasons why Walmart avoided looking at markets with a paucity of clinical competitors and a lot of underserved patients. The logic seems to have been to go after markets where the disposable income was high, commercial insurance was high and the prospects most likely for of people to prioritize convenience over tradition and be upsold and cross-sold on ancillary services.

But in doing so, Walmart Health demonstrated the difficulties of rapidly ramping a greenfield primary care operation housed in the same superstructure as the paper towels and garden furniture when there was plenty of traditional primary care alternatives and people with enough disposable resources to access them. Hardly novel.

And we have learned that the economic potential of a clinical delivery operations scaled to 62 clinics, 185 PCPs, 77 dentists, and 14 behavioral health therapists[7] can't capture the attention of the executives running an operation with over 10K retail locations globally, $643B in revenues and $27B in operating income and incredibly short attention spans.[8] Ho hum.

On the other hand, the hypothesis that a nationally scaled distribution and foot-traffic-consolidating infrastructure could create a highly efficient, sustainable clinical delivery model for rural markets with rapidly disappearing traditional care options remains untested. (This is especially curious as recent migration trends out of urban cores and back to the country seem to be continuing past the Covid shock adding to the market potential in rural care.)[9] Let's hope in a few years when Walmart (inevitably) gives a sixth try at primary care a go, it will have at least one arm of its pilots testing this opportunity.

Endnotes

[1] According to reporting by Shelby Livingston in an Endpoints Health Tech newsletter (June 6, 2024).

[2] For the rest of this analysis, we will make no distinction between the clinics which were actually built and those that were announced. Our list of planned clinics comes from a Business Wire article (April 10, 2024).

[3] Walmart also had 1 clinic in Chicago and 3 clinics in Arkansas, but we did not look at these markets since the small footprint (Walmart has 190 supercenters in Illinois and 126 In Arkansas) suggests these were more experimental than strategic markets.

[4] With 7 clinics open and 15 planned when it was announced that Walmart Health was shutting down.

[5] Note: even if there is a lot of healthcare available in a market, many providers may not take Medicaid reducing the available for those with low incomes.

[6] Measured as the difference between the resident population on the one hand and the number of primary care providers multiplied by a generic but very large average panel size assumption (3,500 pts) on the other. The 3,500 panel size parameter is what HRSA uses to define primary care physician shortage areas. The difference is a rough estimate of the underserved population and dividing that difference by the same panel size assumption gives us an estimate of the number of PCPs required.
[7] Numbers based on individual people, not FTEs. All MDs, DOs, and APPs counted as PCPs.

[8] One indicator of a poor distraction vs. reward ratio for Walmart management: all seven mentions of Walmart Health in the 2023 10-K were all in the Risks disclosure section, citing such issues as adequacy of reimbursement, regulatory exposure, privacy and security. It is also worth noting that Optum Health earned $6.5B in operating income in 2023. That's a number that Walmart would certainly find material but you would have to reach Optum Health scale to get there.

[9] See USDA Economic Research Service "Net Migration Spurs Renewed Growth in Rural Areas of the United States" February 22, 2024.

Table details

Table 1

Sources: Area Health Resource files released by the HHS, Health Resources and Services Administration, Census, Walmart press releases and website, Recon analysis

[1] Analysis only includes counties where Walmart had at least one supercenter in the state. Also, analysis categorizes counties where Walmart announced a clinic (15 in Texas) as having a clinic.

[2] Simple average across the three states

[3] Counties are each assigned a score on the urban/rural continuum by the USDA Economic Research Service with 1 being most urban and 9 being most rural. We subtract the average score across counties with clinics vs. counties without clinics but with supercenters. A negative number indicates that counties with clinics were more urban than those without.

Table 2

Sources: Area Health Resource files released by the HHS, Health Resources and Services Administration, Census, Walmart press releases and website, Recon analysis

[1] Analysis only includes counties where Walmart had at least one supercenter in the state. Also, analysis categorizes counties where Walmart announced a clinic (15 in Texas) as having a clinic.

[2] Simple average across the three states

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