The Downfall of Retail Health Clinics: Why the Model Failed and What’s Next

Retail health clinics, operated by major corporations like CVS Health, Walmart, and Walgreens, seemed likely to revolutionise primary care in the United States. Their appeal arose from convenience, affordability, and accessibility, particularly for basic medical services. By early 2024, there were 1,800 retail clinics nationwide, signalling growth and optimism for this care delivery model. However, the recent decisions by CVS Health, Walmart, and Walgreens to close hundreds of these clinics — with Walmart completely exiting the space — have cast doubt on the long-term viability of retail health clinics. What went wrong? What were the primary reasons for their failure, and what do retail companies need to do to succeed in the future?

Primary Care as a Core Business

One of the main reasons for the failure of retail health clinics is that most retailers did not view primary care as a core business. Walmart and Kroger, for example, are more concerned with being retail giants than healthcare providers. While Walgreens and CVS Health may like to imagine themselves as healthcare-focused companies, they remain largely tied to their roots as pharmacy chains. As a result, retail health clinics often served as loss leaders — services designed to attract customers to other, more profitable parts of the business rather than being prioritised as essential offerings.

For retail clinics to thrive, companies must elevate them to core business status. This would require substantial financial investment, innovative service offerings, and the patience to allow these clinics to mature into profitable entities. By making primary care central to their operations, retailers could transition into more complex and profitable care models. However, because retail clinics currently serve as a secondary or transactional service, the temptation to downsize when profitability is not immediate becomes a rational choice.

Geographic Limitations: Lack of Expansion into Rural and Suburban Areas

Another factor contributing to the failure of retail health clinics is their geographic limitation. Most of these clinics — 96% — are based in urban centres. While this may seem logical at first glance, it ignores a significant opportunity to serve rural and suburban populations, where demand for both basic and complex healthcare services is high.

Sparsely populated, rural areas are often underserved by healthcare providers, creating a reliable and consistent demand for services that retail clinics could meet. Similarly, many workers now spend a considerable amount of their weekdays in suburban areas due to the rise of hybrid work models. These areas are home to families and provide ample opportunities to grow the clinic model by incorporating virtual health tools and more comprehensive care offerings.

Expanding into rural and suburban areas could have provided retail health clinics with diversified revenue streams and opportunities to form partnerships with insurers and local healthcare systems. Focusing on these underserved markets might have helped retail clinics remain competitive and relevant, offering services beyond the typical urban convenience-focused care model.

The challenge of Complex Care and Higher Margins

Retail clinics largely offered episodic care — treatment for low-level acute conditions like sore throats or minor infections. However, this type of care does not generate high margins, making it difficult for these clinics to profit. To offset the low reimbursement rates for basic primary care, clinics must see a high volume of patients, which is challenging given the operational costs of brick-and-mortar facilities.

For retail clinics to remain viable, they must move beyond basic episodic care and offer more complex, higher-margin services such as chronic disease management. Chronic care requires a more relational approach, fostering patient loyalty and creating repeat business opportunities. However, this shift would require additional investments in staffing, infrastructure (such as labs), and physician expertise, all of which are costly. Retailers have hesitated to make these long-term investments, instead opting to stay focused on transactional, short-term care, limiting their growth potential.

Retail health clinics have failed because they were not treated as core business entities, were limited in their geographic scope, and did not provide the complex care necessary to generate higher profit margins. Additionally, staffing shortages and operational inefficiencies, such as long wait times and a lack of integration with other healthcare providers, undermined the patient experience and further contributed to their decline.

Retailers need to rethink their approach if they wish to remain in the primary care space. Collaboration with local healthcare providers, hospitals, and insurance companies could be a key strategy. For example, retail clinics could partner with primary care physicians to share patient data, see patients during off-hours, and provide add-on services such as behavioural health. Such partnerships could create a more integrated and efficient healthcare delivery system while reducing the operational burden on the clinics themselves.

Ultimately, the future success of retail health clinics will depend on retailers' willingness to make primary care a core part of their business, expand geographically to meet underserved populations and invest in more complex care offerings. Whether they are determined to make these changes remains to be seen, but without them, retail clinics may continue to struggle in the evolving healthcare landscape.

Source: **Harvard Business Review**

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Published on : Tue, 15 Oct 2024