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ESG Now Podcast

"The Retail's Doctor Will See You Now"

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Gabriela de la ...: Hello and welcome to the weekly edition of ESG Now, the show that explores how the environment, our society and corporate governance affects and are affected by our economy. I'm Gabriela de la Serna, your host for today's episode. On today's show, we're going to be talking about how big retailers in the US, like Amazon or Walmart, are entering the healthcare space. Their goal is to make seeing a doctor or getting a prescription as pain-free as getting a package delivered from Amazon. We'll be discussing why this trend has emerged, what the opportunities and risks are for retailers and what this could all mean for traditional healthcare providers and investors.

So let's jump right in.

It's October, and for me in the UK, that means that the relative list of a London summer is over and flu season has officially started. And once I get around to having a flu jab or seeing a doctor, if I forget to, it'll be free thanks to the NHS. But for those US colleagues of mine and their compatriots, something as simple as a flu shot can mean navigating a complex and expensive healthcare sector. Now around 26.4 million Americans don't have health insurance. And even for those that do usually tied to an employer, there can be a lot of anxiety when it comes to healthcare.

Even if you're on insurance deductibles, which is essentially what's not covered by your provider, tend to go up each year. Being insured is expensive and not being insured can mean financial ruin. In America, there is always a discussion around how best to get affordable and reliable healthcare because the system continues to leave people without options. Usually people look to their governments to provide better insurance coverage for its people, which it has attempted in various ways in the past. But according to my colleague and guest today, Namita Nayar, there is a new entrant into the healthcare space that many don't associate with healthcare.

They are the big retailers, the Amazon, the Walmarts, that are taking advantage of this insurance gap and trying to get everyone to get their flu jabs at one of their new health service locations.

Namita Nayar: So retailers see an opportunity to address gaps in traditional healthcare. So this would mean things like improving access to affordable and mainly basic healthcare services. The retailers are trying to look at diversification for revenue streams and expanding their market presence. So what they would like to do is essentially engage with their customers. So they already have a built-in customer base, and they'd like to use their extensive network of stores and customer relationships and provide a broader range of health and wellness offerings than they had been giving until now.

So things like in-store clinics or pharmacy services and health-related products, which can help them enhance customer loyalty and also drive foot traffic to their stores. So this would mean that this sort of deeper level of engagement and the provision of integrated health solutions across the spectrum ranging from primary care, home healthcare, virtual care, in addition to the traditional things like pharmacies and drug dispensing.

Gabriela de la ...: Okay. Let's look at the pros of this model first and then get into the cons that can arise. Now, if you need to get your kids' new rash checked, but you don't have health insurance or you have one with a very high deductible, you have plenty of options available. You could either go to your nearest Walgreens health clinic, which is probably a short drive away, or you can have virtual appointment. Then to pick up your prescriptions, you can either get your medication delivered to your home or pick it up during your weekly grocery shopping. Sounds great, huh?

According to Harvard data, retail clinics are 30 to 40% cheaper than a doctor's office visit and 80% cheaper than an emergency room visit. So there's definitely a price incentive here. But then I was also curious in finding out whether cost is the main appeal of these new service providers and essentially whether they're limited to only attracting new customers that are price conscious. So I asked Namita to tell me more about how retailers are trying to position themselves to gain a competitive advantage over traditional players.

Namita Nayar: So if you were to look at traditional providers and the retail healthcare providers, most traditional providers have a very fixed setting. So they would be operating a clinic or a hospital that gives comprehensive medical care, such as including things like surgeries or advanced diagnostics. While your retail provider would be very conveniently located in something like a retail store or shopping centers, and you would see them emphasizing a very convenient access to basic healthcare services and products.

And as I mentioned a little about it earlier, while traditional providers have a very wide spectrum of medical services that they give, so things like primary care and specialty treatment for which you wouldn't require referrals and all, and also long-term care. But the retail providers usually focus on these routine healthcare services. So it would be something like a health screening maybe, the treatment of minor illnesses and limited scope of offerings in terms of diagnostics. Another area where we would be seeing a contrast would be in terms of the expertise.

So the traditional providers would typically be staffed by very highly trained and specialized healthcare professionals, both medical and paramedical. While retail providers, they do have trained healthcare staff, but the services, because the services are typically very limited, the amount of medical specialization that you will see in the staff will also be consequently not as expansive as you would see for a traditional player. Other areas where you might see some differences, and this might be really this is especially relevant to the American market, is that traditional providers, they typically work with health insurance plans, but they have really complex building processes.

And retail providers, while they do accept a range of insurance plans, they might offer much more transparency in terms of payment and pricing of the services, especially for self-pay patients. Traditional providers might have longer wait times, especially for non-urgent care, while retail providers would primarily be offering walk-in services, which emphasizes the convenience aspect of the provision of care. And this would also include things like extended hours. So for example, something that would appeal a lot to working populations.

Gabriela de la ...: Right. So it's not only about price, it's about convenience and service too, because these retailers are looking to provide highly specialized services. That means they have more flexibility on location, workforce and even how they interface with insurance companies. Okay. Those were the positives. Now let's get to some of the risks that these new players will encounter as they enter the healthcare sector. First of all, service quality is key in the sense that companies can't cut corners when delivering healthcare services.

A practitioner missing out diagnosis or a patient not receiving the right treatment could trigger a malpractice lawsuit and regulatory investigations, which obviously isn't good news for a company. Second, we have the workforce side of things. Healthcare is a labor-intensive business, which particularly in the US is known for scarcity of both medical and paramedical workers. According to the Association of American Medical Colleges, the US is projected to face a shortage of 124,000 physicians by 2034 as demand surpasses supply.

Companies then will need to closely monitor staff to mitigate worker burnout, which is a common problem in the industry. And as more staff is needed, retailers will need to ensure that the new staff is adequately trained and that also they maintain the credentials and licenses they need in order to operate. And then third, there's also the risk from managing more sensitive data. Healthcare providers will typically collect PHI, which stands for protected health information, which is essentially any healthcare information that used alone or in combination can reveal a patient's identity.

This can be anything from medical history, blood type, mental health conditions and so on, essentially the sort of stuff you would want to keep close to your chest. So it's understandable that retailers will face increased scrutiny over their privacy and data security practices as they start collecting and handling this type of data. As Namita told me, we also expect regulators to increase their oversight in this area. So retailers are going to have to navigate all of these three risks. Remember, that's one, service quality, two, staffing, and three, privacy and data security.

And although she was dying to tell me about all of them, I know your time is precious, so I negotiated Namita down to just one. You're welcome, by the way. The one risk that she will be watching very, very closely, which is service quality.

Namita Nayar: So retail healthcare primarily looks at the reduction of costs, which in turn they would like to pass on to their customers. But there might be an issue of cutting costs to such an extent that the service quality is affected. And also there might be an emphasis on more profitable or higher margin services in contrast to comprehensive healthcare that might mean needed for a patient. Also, the companies would have to maintain adequate staffing ratios to ensure that the patient care that is given is appropriate.

But in the event of cutting costs, would that be an area where they're willing to compromise? That's another question that has to be answered. We've already seen some instances of criticism leveled against companies like Amazon, which were alleged prioritizing the costs and getting better margins in layer of providing the optimum care or even comprehensive patient care.

Gabriela de la ...: What Amazon was specifically doing in this situation was that it allegedly did not refer patients experiencing mental health crisis in the appropriate manner. And when interviewed, its workers told the Washington Post that Amazon was prioritizing efficiency over patients quality of care. So the Amazon example highlights that for retailers, this is really a balancing act between cost-effectiveness and service quality. And that is key when trying to understand why would a regular customer not make the change and start using a retailer services right away if these are so much more accessible, convenient, and affordable.

It might be that retailers and traditional players partner together and establish onsite clinics where a traditional healthcare company sets up a clinic inside a Walmart store, let's say, and the traditional company can leverage the reach of big retail and the convenience of big retail while these retail companies can use the existing infrastructure traditional healthcare companies have to serve patients that need a more advanced set of care. What will be interesting is watching what investors do in these situations where exposure to retail could soon mean exposure to healthcare.

I ask Namita.

Namita Nayar: The diversification opportunities with the entry of retail into healthcare, this might allow investors to spread their portfolios across different sectors basically as a sort of risk mitigation mechanism. And there is a vast growth potential for retail health care services. So the retail sector's consumer-centric focus, prioritizing patient experience and convenience, these could be attractive investment factors. However, investors still need to be mindful of the regulatory challenges, the reimbursement uncertainties, and the fact that it's a very difficult sector to crack.

So this could significantly affect the profitability and success of these retail healthcare ventures. There's a lot of growing competition among these retail players. There is a possibility of consolidation or partnerships with traditional healthcare providers. And such things need to be monitored even more closely. And there's a lot of potential for technological innovation in this space. And this is, again, something that could lead to investment opportunities in areas like healthcare technology, for example. And investors are evaluating the long-term viability.

Not all retail sectors, retail players have what it takes to succeed in something as complex and highly regulated as the healthcare sector.

Gabriela de la ...: So as Namita told me, this is an evolving space that may keep attracting new players. And while we need to wait and see which companies manage to consolidate their position, how they manage their service quality and staffing are good success indicators, we can also expect regulatory scrutiny to increase over this nascent business model, particularly around the management of personal data. But in the meantime, I now have a reason to be slightly jealous of US colleagues who now can put laundry detergent, soda, and your next batch of antibiotics all on the same shopping list.

And that is it for this week. A massive thanks to Namita for her take on the news with an ESG twist and thanks to you for tuning in and sticking around. Don't forget to rate and review us, and if you enjoy listening to us every Friday, go ahead and click the subscribe button. Thanks again and we'll catch you next week.

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