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Walmart, CVS, UnitedHealth: Thinking Big



Kenneth Kaufman, Chair
Kaufman, Hall & Associates, LLC

On March 29, news emerged that Walmart, the nation's largest company, was in [early stage talks](#) to acquire Humana, the nation's 4th largest health insurer. Less than four months previously, on December 3, 2017, CVS Health, the nation's largest pharmacy chain, [announced](#) plans to acquire Aetna, the nation's 3rd largest health insurer. The same week as the CVS/Aetna announcement, UnitedHealth, the nation's largest health insurer, announced plans to increase its [physician complement](#) to 47,000—the largest in the country—with the [acquisition](#) of DaVita Medical Group.

The scale of these alignments may be extraordinary, and the new business models may be novel, but we had better get used to them. These are the emerging giants in a new healthcare ecosystem—one in which the role of hospitals and health systems is yet to be determined.

The New Ecosystem

The players in the emerging healthcare ecosystem are huge. UnitedHealth's [2017 revenue](#) was \$201 billion. CVS and Aetna's [combined revenue](#) would be more than \$240 billion. Walmart and Humana's [combined revenue](#) would be more than \$550 billion. This level of reserve and associated cash flow automatically gives these companies relevance and multiple strategic options in the U.S. healthcare system.

These organizations have a large, national footprint. UnitedHealth has [50 million](#) medical members across the country; its Optum health services subsidiary has a [provider presence](#) in 30 markets with a goal of expanding to 75 markets from New York to California. [CVS has](#) almost 10,000 stores in 49 states, 62 million loyalty program members, and 94 million pharmacy benefit management plan members. Its new partner, Aetna, has more than [22 million](#) beneficiaries. Walmart has [5,000 stores](#) in the United States, and about 140 million in-store and online [customers per week](#). Walmart's potential partner, Humana, has more than [14 million](#) members.

These organizations enjoy engaged consumers and troves of data. The organizations' scale gives them an opportunity to influence the health and healthcare of an extraordinary number of people on a daily basis. This scale also provides access to massive amounts of data that can be used to understand individuals' health, purchasing, and utilization, and to create tailored programs to improve health and lower total costs. This scale also can give these organizations a competitive advantage over traditional health systems in brand recognition and regularity of consumer interactions.

These organizations are thinking big. CVS will likely build on its 1,100 Minute Clinics and its efforts to manage chronic conditions through digital tools and medication, turning its stores into health centers. Having a payer capability would align incentives and allow CVS/Aetna to create large-scale products designed to lower healthcare costs—products that will be especially appealing to large employers. UnitedHealth/Optum and Walmart/Humana either have or could have similar business models, using relative strengths of each organization.

These combinations are aiming to solve a big business problem: growth. The unpredictability of the future U.S. healthcare system makes it unwise for a company to be trapped in one line of business, which could be rapidly upended depending on what changes occur in the industry. These companies understand that the way to maintain relevance in this environment is to have the ability to pull as many levers as possible to influence both the health of individuals and the total cost of that healthcare.

These combinations also provide an avenue for increasing revenues and shareholder value—something that becomes harder as an organization gets larger. The \$3 trillion U.S. health system, for all its complexities, offers rich potential business opportunities, especially for companies able to touch as many sources of spending as possible.

Hospitals in the New Ecosystem

What these new combinations do not have is hospitals. In all likelihood, these new entrants believe that:

- The costs, complexity, and diminishing volume of inpatient care make that line of business unattractive
- They can carve off portions of outpatient care currently offered by hospital-based health systems
- They can influence hospital costs through negotiating leverage

- Their outpatient, digital, pharmacy, insurance, and data capabilities will provide enough points of influence to reduce total healthcare costs at a large scale without owning hospitals

The strategic path of these new entrants appears to be toward commoditizing hospitals, which would be a very bad place indeed for hospitals to be.

This will not happen tomorrow. UnitedHealth/Optum is a force to be reckoned with in some markets, but is still developing its presence elsewhere. The CVS/Aetna combination is still awaiting regulatory approval. And Walmart's conversations with Humana are preliminary. However, the size, track record, and strategic direction of these new competitors should cause concern for legacy health systems about their future role.

Hospitals and health systems retain key ingredients to being essential in the new ecosystem. Hospitals have deep, long-term, trusted relationships with the people and employers in their communities. They have access to critical data about patients' health and healthcare utilization. They have a long history with commercial and government payers, and extensive expertise in navigating the complexities of the health system. And they provide essential care to those people with the greatest day-to-day health challenges.

However, hospitals and health systems have to build on these strengths in ways that are both new and innovative. They will need far greater size and scale in order to be viewed as a viable player and partner to these new competitors—locally, regionally, and nationally. They will need to bring their consumer relationships into the Internet age with intuitive digital connectivity and far more convenience in face-to-face interactions. They will need a heightened focus on analytics to transform their data into actionable information. And they will need to demonstrate measurable, sustainable improvements in cost structure.

At the time the CVS-Aetna acquisition was announced, CVS Health CEO Larry Merlo [said](#) the two companies would “create a new healthcare platform that can be easier to use, less expensive for consumers, and really create a new front door to healthcare in our country.” This is big thinking by a company that has the size and scale to achieve such big goals.

Hospitals and health systems will need to think bigger and think differently in order to remain relevant in this fast-developing healthcare ecosystem.

Your comments are welcome. I can be reached at kkaufman@kaufmanhall.com.