

EXPLORING THE HEALTHCARE STRATEGY OF SUPERMARKET OPERATORS

— FUTURE PROSPECTS BASED ON THE LATEST TRENDS IN THE US, UK, AND JAPAN —

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SUMMARY

- Supermarket operators are entering the healthcare business, especially in developed countries, and the shift from providing “products (goods)” to “services (experiences)” is accelerating. A similar trend is expected in ASEAN and other countries with a growing middle class.
- Entry into the healthcare business by a company from a different industry is not easy. To ensure business continuity and growth, the newcomer needs to understand the local health insurance system and have a clear idea of the role it will play in the healthcare ecosystem.
- The entry of newcomers from other industries into the healthcare business puts pressure on existing businesses. Competition is expected to intensify as even Amazon has entered the healthcare business. The key to success will be to build a service that is chosen by health-conscious consumers, offering values such as affordability, transparency, convenience and trust.

The healthcare expansion strategies of major supermarket operators are gaining traction. In the US, where the trend is more advanced than in other countries, supermarket operators focused their healthcare strategies on the pharmacy business and are expanding their clinic operations and health promotion services, putting pressure on existing pharmacy chains and clinics (supermarket pharmacies account for approximately 9% of prescription drug sales in the drugstore market¹, according to the US Drug Channels Institute). Entering the healthcare business from a different industry is not easy. To ensure the sustainability and growth of the business, it is important to understand the health insurance system in each country and clarify the role in the local healthcare system.

This report analyzes the current situation in the US, UK, and Japan, which have different healthcare systems, and discusses the challenges and future prospects through case studies.

¹ [Drug Channels Institute website](#), (total combined share for Walmart, Kroger, and Albertsons based on data in the chart for “Largest 15 U.S. Pharmacies, By Total Prescription Revenues, 2022”)

1. US

1-1. Aggressive strategies in the huge US healthcare market

Private health insurance expenditures² in the US amount to US\$1.2 trillion annually, and public health insurance expenditures³ exceed US\$1.6 trillion⁴. In partnership with pharmaceutical companies, supermarkets are taking on the challenge of selling private label drugs⁵ and operating specialty pharmacies (i.e., those that focus on high cost, high touch medication therapy such as rheumatoid arthritis drugs and anticancer drugs), using the in-store pharmacy business as an entry point into the huge healthcare market. In addition, US supermarket operators have entered the field of medical services, such as operating in-store clinics and providing telehealth services, and preventive fields such as nutrition counseling services. In recent years, consumer dissatisfaction has been growing due to the rising costs and lack of transparency in healthcare expenses and medication prices. To address these issues, measures have been implemented to regulate fixed medical costs and to enhance transparency in drug pricing.

1-2. Examples: Walmart and Kroger

Walmart, the world's leading supermarket retail chain⁶, operates nearly 4,600⁷ pharmacies under the brand Walmart Pharmacy (ranked fifth in the drugstore industry with a 4.4% share of prescription revenues⁸). It also had opened 55 in-store clinics called Walmart Health Centers since 2019⁹, and had been expanding its operations by giving attention to regional characteristics, obtained through analyses of medically underpopulated areas, data collaboration with local hospitals, and other efforts. However, Walmart Health has announced its withdrawal in April 2024. In its health promotion services, the company has introduced an app (developed by Shifter Solutions) for recommending foods that match an individual's preferences to provide free dietary guidance from registered dietitians.

Kroger, the second largest in the industry¹⁰, is the supermarket that focuses the most on healthcare business in the US. It operates a total of over 2,200 in-store pharmacies¹¹ -Kroger Pharmacy (ranked sixth in the drugstore industry with a 3.1% share of prescription revenues¹²). Kroger operated specialty pharmacies (ranked sixth in the specialty pharmacy market with a 2% share of prescription revenues from specialty drugs¹³), but it sold its specialty pharmacy business in March 2024. It also operates The Little Clinic in-store clinics (225 facilities¹⁴). In December 2023, it partnered with the primary care physician network -Better Health Group to provide value-based care for the elderly. They also have a partnership with Prime Therapeutics, which provides information on market prices and price fluctuations of pharmaceuticals, emphasizing price transparency. In their health

² The leading private health insurance companies in the US include UnitedHealth Group, Anthem, Centene, and Humana, and approximately 65% of the US population is enrolled in a plan with a major health insurer (as of 2022).

³ Public health insurance includes Medicare (for the elderly and disabled), Medicaid (for low-income people), and CHIP (for children of low-income families), and approximately 36% of the US population had coverage under public health insurance programs (as of 2022).

⁴ Based on Figure 1. Health Consumption Expenditures by Type and Source, 2022, from the US Congressional Report "US Health Care Coverage and Spending."

⁵ In 2021, Walmart released a private label insulin product (manufactured by pharmaceutical company Novo Nordisk)

⁶ National Retail Federation's website (2022 data)

⁷ Walmart's website (accessed May 22, 2024)

⁸ Drug Channels Institute's website (Largest 15 U.S. Pharmacies, By Total Prescription Revenues, 2022)

⁹ There were 55 Walmart Health Center facilities as of March 15, 2024 (see Walmart website). In addition to internal medicine services, the centers also offer ophthalmology, dental and other services, and are equipped with a full range of medical equipment, including diagnostic imaging equipment.

¹⁰ All supermarket industry rankings mentioned in section 1-2 are based on data on the National Retail Federation's website (March 15, 2024)

¹¹ The Kroger Co.'s website (accessed February 27, 2024)

¹² Drug Channels Institute's website (Largest 15 U.S. Pharmacies, By Total Prescription Revenues, 2022)

¹³ Drug Channels Institute's website (Prescription Revenues and Market Share from Specialty Pharmaceuticals, by Company, 2022)

¹⁴ The Kroger Co.'s website (accessed February 27, 2024)

promotion services, they offer personalized nutrition services based on the concept of "Food as Medicine (disease prevention and management through diet)¹⁵" promoted by the US government through their customer app OptUP (an app that uses smartphones to scan food labels and score their nutritional value) (Figure 1).

Figure 1: Nutrition rating system app OptUp™ offered by Kroger



Source: Kroger website
OptUp – Healthy Eating & Nutrition App - Kroger
(Accessed May 20, 2024)

Target, the third largest retail in the industry, has partnered with healthcare company Kaiser Permanente¹⁶ to operate in-store Target Clinics (34 facilities)¹⁷. Fourth-ranked Albertsons operates not only its pharmacy business, Albertsons Pharmacy (ranked ninth in the drugstore industry with a 1.2% share of prescription revenues)¹⁸, but also offers comprehensive telehealth services and nutritional counseling through its customer app Sincerely Health. (At the time of writing, Kroger was planning to acquire Albertsons) (Figure 2).

Figure 2: Healthcare business strategies of US supermarket operators (As of April 2024)

Company	Medical insurance partner	Medical service		Prescription drugs			Health maintenance & disease prevention services	
		In-store clinic	Telehealth	In-store pharmacy	Mail order	Specialty pharmacy	Nutrition, exercise, sleep, apps, etc.	
US	Walmart	<ul style="list-style-type: none"> • UnitedHealth • Humana • Anthem • Cigna • Others 	Walmart has announced the closure of its Walmart Health Centers and its virtual health care services. (April 30, 2024).	<ul style="list-style-type: none"> • Nearly 4,600 pharmacies • Ranked 5th with a 4.4% share of prescription revenues 	Introduced automated dispensing technology at Walmart Central Fill pharmacies	<ul style="list-style-type: none"> • Walmart Specialty Pharmacy • Ranked 13th with a 1% share of prescription revenues from specialty drugs 	<ul style="list-style-type: none"> • Partnering with Optum to provide preventive health services for the elderly (2022) • Concluded licensing agreement with Shifter Solutions (nutrition field) • Adopted Epic's electronic medical record system 	
	Kroger	<ul style="list-style-type: none"> • Anthem Blue Cross • Centene • Medical Mutual • Others 	<ul style="list-style-type: none"> • The Little Clinic (225 facilities, on-site nutritionist) • Participating in clinical trials 	Providing nutritional guidance services in addition to internal medicine services	<ul style="list-style-type: none"> • 2,200 pharmacies • Ranked 6th with a 3.1% share of prescription revenues 	Offering mail order prescription services	<ul style="list-style-type: none"> • Kroger announced that it has entered into a definitive agreement to sell its specialty pharmacy business to CarelonRx, a subsidiary of Elevance Health. (March 18, 2024) 	<ul style="list-style-type: none"> • Providing OptUP, a nutritional scoring app (developed by Kroger's data science team at subsidiary 84.51¹⁹) • Promoting "Food as Medicine" initiatives • Partnering with Performance Kitchen (healthy meal delivery service), Better Health Group (elderly care), Soda Health (social determinants of health (SDoH) data)
	Target	—	<ul style="list-style-type: none"> • Target Clinic (34 facilities, partnership with Kaiser Permanente) • Trying to incorporate CVS Health's MinuteClinics into network 	Formed partnership with online medical treatment services company CirrusMD	<ul style="list-style-type: none"> • Incorporated CVS Health's 1,800 pharmacies • According to various reports (as of January 2024), dozens of CVS pharmacies inside Target stores are scheduled to close 	Services provided by CVS Health	Services provided by CVS Health	—
	Albertsons	<ul style="list-style-type: none"> • Aetna • Humana • UnitedHealth • Centene • Others 	—	Offered through the Sincerely Health app for customers	<ul style="list-style-type: none"> • 1,727 pharmacies • Ranked 9th with a 1.2% share of prescription revenues 	Offering mail order prescription services	Specialty Care Pharmacy	<ul style="list-style-type: none"> • Offering the Sincerely Health app featuring the technology of the Swiss company dacadoo • Consolidated services for activity data-based health guidance, online pharmacy, telehealth, and nutritional guidance • Partnering with Soda Health (SDoH data usage)

Source: Compiled by MGSSI based on information available on the websites of each company and Drug Channels Institute (<https://www.drugchannels.net/2023/03/the-top-15-us-pharmacies-of-2022-market.html>), and interviews conducted by the author

¹⁵ The initiative is called Food as Medicine or Food is Medicine. Specifically, the approach involves healthcare providers prescribing food and, in some cases, social services for the poor.

¹⁶ Kaiser Permanente is a health maintenance organization (HMO), a private, non-profit organization that functions as both payer (health insurer) and provider (health service provider).

¹⁷ [Target Clinic's website](#) (accessed February 27, 2024)

¹⁸ [Drug Channels Institute's website](#) (Largest 15 U.S. Pharmacies, By Total Prescription Revenues, 2022)

1-3. Challenges and future prospects

The challenge lies in addressing the lack of understanding among supermarket employees about customers' illnesses and health, the shortage of healthcare professionals such as pharmacists, and the ability to effectively communicate the benefits of unique healthcare services offered by supermarkets (such as affordability, transparency, convenience, and trust) to consumers.

Looking ahead, supermarkets are expected to act as gatekeepers to consumer health by leveraging customer data, digital technology, and logistics networks. CVS Health, an existing drugstore chain that competes with these supermarket operators, vertically integrates profitable businesses such as health insurance and pharmacy benefit manager (PBM) in addition to operating pharmacies and in-store clinics. Amazon's expansion into the healthcare sector, with the opening of pharmacies and clinics, is likely to prompt other companies in the retail industry to intensify their efforts to retain customers.

2. UK

2-1. Focus on disease prevention to reduce wasteful spending on taxes

In the UK, healthcare is financed by taxes, and the National Health Service (NHS) provides essential medical services. The public are very aware of how tax money is spent, and supermarkets are making efforts to provide preventive services and nutrition counseling services to reduce healthcare costs covered by the NHS. These strategies have increased the number of customers and generated additional revenue. Some supermarkets also have in-store pharmacies, but Boots UK, the leading pharmacy chain with 2,100 stores¹⁹, dominates the market with overwhelming strength.

2-2. Examples: Tesco and Asda

Tesco, the leading supermarket in the industry, operates Tesco Pharmacy (370 locations²⁰) within its stores. In collaboration with the British Diabetic Association and the British Heart Foundation, pharmacists provide risk assessments and nutrition counseling for diabetes and heart disease. In addition, to increase the sales percentage of healthy foods, the company is working to reduce salt content in products through the reformulation²¹ of foods.

Asda is differentiating itself from competing supermarkets through the operation of its in-store pharmacy Asda Pharmacy (255 locations²²), a partnership with the leading telehealth company ZAVA (2021), and the expansion of its Live Better product line²³ with healthy food labeling (the company is aiming for 1,200 products by the end

Figure 3: Examples of Asda's Live Better products (carrots, high-protein low-fat ground turkey, fat free yogurt)



Source: Asda's online shop, <https://www.asda.com/> (Accessed May 20, 2024)

¹⁹ Boots UK's website (accessed March 6, 2024)

²⁰ Tesco's annual report (accessed February 27, 2024)

²¹ Food reformulation is the process of reviewing the ingredients and materials in a food product (e.g., salt, sugar, etc.) and improving them to make them more sustainable and healthier.

²² Asda's website (accessed February 27, 2024)

²³ Live Better products contain reduced fat, salt, and sugar based on the science of nutrition, meet nutritional standards set for each food (e.g., high fiber for bread), comply with The Eatwell Guide of dietary guidelines, and satisfy other requirements.

of 2024; Figures 3 and 4).

Figure 4: Healthcare business strategies of UK supermarket operators

Company	Medical insurance	Medical service			Prescription drugs			Health maintenance & disease prevention services
		In-store clinic	Online medical treatment	Examination & diagnosis	In-store pharmacy	Mail order	Specialty pharmacy	Nutrition, exercise, sleep, apps, etc.
UK	Tesco	—	Providing services for employees through a partnership with YuLife	Pharmacists conduct blood pressure monitoring, diabetes screening, etc.	<ul style="list-style-type: none"> • 370 pharmacies (2022) • Partnerships with the British Diabetic Association and the British Heart Foundation 	Providing prescription drug home delivery services	—	<ul style="list-style-type: none"> • Aiming to increase sales percentage of healthy foods to 65% by 2025, reducing salt, fat, and sugar content in foods through product reformulation • Pharmacies providing risk assessment and nutritional guidance for diabetes and heart disease
	Asda	—	Formed alliance with ZAVA, an online medical service company	<ul style="list-style-type: none"> • Pharmacists conduct blood pressure monitoring, etc. • Some testing is outsourced to The Doctors Laboratory 	255 pharmacies (2020)	Providing prescription drug home delivery services	—	<ul style="list-style-type: none"> • Displaying the Live Better icon on healthier choice products • Released The Health Menu, a new range of meal products designed for immune, heart, bone, muscle, skin, and gut health, as well as other health benefits

Source: Compiled by MGSSI based on information available on the websites of each company and interviews conducted by the author

2-2. Challenges and future prospects

The challenge is whether supermarkets can continuously encourage consumers to change their behavior through the above initiatives, and how to ensure the cost-effectiveness of their services.

Looking ahead, supermarkets accessible to a wide range of people can contribute to addressing societal issues such as increasing healthcare costs by promoting healthy eating habits. Although it may take time to prove the effectiveness of these services, there is potential for monetization if preventive services become eligible for health insurance coverage in the future.

3. JAPAN

3-1. Opportunities in the pharmacy business are limited within the frameworks of the national health system

Japanese supermarkets are highly interested in the pharmacy business and services for the elderly. However, they often lack the expertise to collaborate with local medical associations and healthcare institutions, which is a strength of pharmacy and caregiving businesses. This is an area where existing dedicated pharmacy operators and nursing care providers have a clear advantage. Under the national health insurance system, there are limited opportunities for creating new services, so the emphasis is on strengthening the connection with customers through healthcare businesses.

3-2. Examples: Aeon and Ito-Yokado

Japanese retail giant, Aeon, which is the largest in the country, operates approximately 26,024 Aeon pharmacies. In October 2023, Aeon, together with Kakehashi, an IT service company for pharmacies, and Otsuka Pharmaceutical, launched a project for "Healthcare Services by Pharmacists Utilizing Health Information" to enable pharmacists to play a role in health promotion and disease prevention. Furthermore, in February 2024, Welcia Holdings (the industry leader in the drugstore sector under Aeon) announced a capital and business alliance with Tsuruha Holdings (the industry's second-largest) in order to strive for growth as the

number one global company in Asia²⁴. In the area of services for the elderly, Aeon operates MySCUE, a web-based community platform for caregivers.

Ito-Yokado focuses on services for the elderly, such as offering health promotion in cooperation with local governments and training its staff as dementia supporters (the company has 11,800 dementia supporters, who represent approximately 40% of Ito-Yokado’s total employees²⁵). In addition, it sells caregiving products at its “Anshin Support Shops” (91 locations²⁶), which are staffed by personnel with specialized knowledge in caregiving (Figure 5).

Figure 5: Healthcare business strategies of Japanese supermarket operators

	Company	Medical insurance	Medical service	Prescription drugs		Health maintenance & disease prevention services
			In-store clinic	Pharmacy	Prescription drug home delivery service	Nutrition, exercise, sleep, apps, etc.
Japan	Aeon	Selling private medical insurance "Ashita wo Sasaeru Aeon no Hoken" and private nursing care insurance	Associated medical mall (tenants)	<ul style="list-style-type: none"> • Aeon Pharmacy (approximately 260 pharmacies of Aeon-affiliated Welcia Holdings) • Welcia Holdings and Tsuruha Holdings announced capital and business alliance • Providing online guidance for taking medications (curon service) 	Providing prescription drug home delivery services	<ul style="list-style-type: none"> • Aeon Pharmacy, together with Kakehashi, a provider of IT services for dispensing pharmacies, and Otsuka Pharmaceutical launched a pilot project for a "healthcare service provided through pharmacists' use of health information" at 18 pharmacies in Tokyo (November 2023) • Operating MySCUE, a web-based community platform for caregivers
	Ito-Yokado	—	Associated medical mall (tenants)	OTC drug sales or tenant pharmacies	—	<ul style="list-style-type: none"> • Promoting good health for the elderly in cooperation with local governments • Training dementia supporters (the company currently has 11,800 dementia supporters, who represent approximately 40% of its total employee pool) • Selling nursing care products at Anshin Support Shops (91 locations)

Source: Compiled by MGSSI based on information available on the websites of each company

3-3. Challenges and future prospects

The challenges in Japan include the lack of clarity on how the above initiatives fit into the local healthcare system, insufficient expertise specific to the healthcare business, and difficulty in securing healthcare professionals.

In the future, it is important for supermarkets to adopt a mindset that transcends the boundaries between the retail and healthcare sectors, and take a proactive approach to regional healthcare. Further collaboration with non-insurance service providers and initiatives that encourage sustained consumption by health-conscious consumers are also expected. Looking ahead, further collaboration between supermarkets and providers of services not covered by the national insurance scheme is likely, as well as initiatives to encourage further consumption by “health conscious consumers.” In addition, supermarket operators will need to develop a mindset for moving another step closer to medical and nursing care services. In the ASEAN region, where the supermarket market is projected to grow, Japanese companies are expected to develop new markets by introducing advanced logistics and high-quality private label products that they have cultivated first in the domestic market.

4. IN CONCLUSION

In the US, supermarkets are making moves to establish their presence in the large healthcare market. They are employing data and digital technology to engage with consumers from prevention to treatment and to drive consumer behavior. In the UK and Japan, many approaches primarily rely on services covered by national health insurance to encourage behavioral change in consumers.

²⁴ [Aeon Co. press release](#) (accessed March 15, 2024)

²⁵ [Ito-Yokado’s website](#) (accessed March 15, 2024)

²⁶ [Seven & i Holdings website](#) (accessed February 27, 2024)

In ASEAN countries, the supermarket market is projected to grow in tandem with the expansion of the middle-class population. In light of these developments, supermarket operators are likely to pursue opportunities in the healthcare business. It is desirable to enter the healthcare business after a thorough understanding of the healthcare systems in each country and a clear delineation of one's position within the local healthcare ecosystem.

Entering the healthcare business represents a shift from providing “products (goods)” to “services (experiences).” While it allows for increased revenue and the exploration of new customer segments beyond food and healthy meals, operating pharmacies and clinics can be costly²⁷. In addition, a long-term commitment to business continuity is required, as it is important to develop expertise in areas such as working with medical associations, hospitals, and health insurance companies.

Entry into the healthcare market by businesses in different industries has the potential to expand the healthcare market. Existing players such as medical institutions and pharmaceutical companies are expected to monitor these trends and promote corporate partnerships and data collaboration.

In the future, the retail industry is expected to face intensified competition as supermarkets, pharmacy and drugstore chains, and e-commerce giants such as Amazon continue to enter the healthcare business. The key to success will be to provide values such as affordability, transparency, convenience, and trust, and to build services of choice for consumers who want to be and stay healthy.

²⁷ According to interviews conducted by the author, one example of an in-store clinic in the US costs \$3 million per year to operate. In general, supermarkets do not have a strong financial base to invest in healthcare businesses, and some companies have ended up exiting.