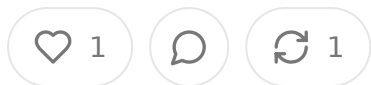


The pharmacy wars get interesting: what Cost Plus Drugs and Centerwell could build together

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ABSTRACT

Mark Cuban's Cost Plus Drug Company (MCCPDC) and Humana's CenterWell are reportedly exploring a partnership to tackle employer drug costs, creating what could be one of the more interesting combinations in healthcare's rapidly evolving pharmaceutical landscape. This essay examines the strategic rationale behind such a partnership, potential operational models they might pursue, and the implications for the broader healthcare market. The analysis draws on publicly available data about both organizations, patterns from recent pharmacy market consolidation, and the underlying economics that make this partnership particularly compelling. For angel investors, this partnership represents a case study in how vertical integration and transparent pricing models are reshaping healthcare delivery, potentially creating both direct investment opportunities and valuable pattern recognition for evaluating portfolio companies.

TABLE OF CONTENTS

The Players and Their Positioning

Why This Partnership Makes Strategic Sense Now

Potential Partnership Models and Structures

The Economics That Make This Work

Market Implications and Competitive Response

Investment Themes and Opportunities

Risks and Obstacles

What This Means for Healthcare Entrepreneurs

The Players and Their Positioning

Before we dive into speculation about what this partnership might look like, it helps to understand where both organizations sit in the current healthcare landscape and what assets they bring to the table. Cost Plus Drugs has become something of a darling in the pharmacy world by doing something genuinely novel, which is being transparent about their pricing. Their model is straightforward to the point of being almost naive: they take the actual acquisition cost of a drug, add a fifteen percent markup, add a pharmacy dispensing fee of either three or five dollars depending on whether it's generic or brand, and add shipping. That's it. No rebate games, no sales pricing, no formulary shenanigans. For a lot of medications, especially generic and specialty drugs, this results in prices that are seventy to ninety percent lower than what patients typically pay even with insurance.

The company started with a direct-to-consumer model in 2022 and quickly demonstrated that there was massive latent demand for this kind of pricing transparency. They've since expanded into the employer market through partnerships with PBMs and benefit consultants, but they're still relatively small compared to

major pharmacy chains. According to their own reporting, they're doing somewhere in the neighborhood of a few hundred million in annual revenue, which sounds impressive until you remember that CVS Health does over three hundred billion. They manufacture some of their own generics now, which gives them even better economics on high-volume products, and they've been gradually building out the capabilities to serve more complex patient populations.

CenterWell, on the other hand, is Humana's primary care and senior-focused service brand. This is where Humana has been consolidating its provider-facing assets, including their owned and operated senior-focused primary care centers, their home health services, their behavioral health capabilities, and importantly for this discussion, their pharmacy operations. Humana's pharmacy business is substantial, doing north of twenty-five billion in annual revenue through their PBM and specialty pharmacy operations. They serve both their own Medicare Advantage members and external clients. The CenterWell brand represents Humana's broader strategy of vertical integration, trying to control more of the care delivery and pharmacy supply chain to manage medical costs and improve outcomes for their predominantly senior population.

What makes CenterWell particularly interesting as a partner for Cost Plus is the footprint. Humana has around five million Medicare Advantage members and CenterWell operates several hundred primary care centers concentrated in markets with high MA penetration. These centers are designed to serve seniors who often have complex medication regimens, multiple chronic conditions, and high pharmacy costs. The centers are capitated, meaning CenterWell gets paid a fixed amount per member per month and then has to manage all the care within that budget. Pharmacy costs are a huge component of total cost of care for seniors, so any intervention that meaningfully reduces drug spend while maintaining adherence is incredibly valuable to the CenterWell economic model.

Why This Partnership Makes Strategic Sense Now

The timing of this partnership exploration is not accidental. Several macro trends in healthcare are converging to make a Cost Plus and CenterWell combination particularly compelling right now, and understanding these trends helps predict and shape the partnership might take.

First, employer pharmacy costs are spiraling out of control again despite years of PBM reform efforts. Even after all the scrutiny on rebates and spread pricing, employer pharmacy spend grew by around eight percent in 2023 and is projected to grow at a similar or higher rate in 2024 and 2025. A lot of this growth is being driven by GLP-1 medications for diabetes and obesity, which are incredibly expensive and increasingly popular, but there's also persistent inflation in specialty drug categories and brand drugs that face limited competition. Employers are desperate for alternatives to the traditional PBM model, and they're increasingly willing to experiment with new approaches if those approaches can demonstrate real savings.

Second, the regulatory environment around PBM practices is tightening. The FTC has been aggressive in investigating PBM business practices, several states have passed laws limiting PBM behaviors like spread pricing and clawbacks, and there's bipartisan interest in federal PBM reform. This creates uncertainty for traditional PBM business models and opens the door for alternative approaches that can credibly claim to be more transparent and aligned with patient and employer interests. Cost Plus's core value proposition is transparency, which positions them well in this environment.

Third, Medicare Advantage rates are under pressure. CMS has been less generous with rate increases than MA plans would like, and there's ongoing scrutiny of MA plans' coding practices and prior authorization behaviors. This means MA plans like Humana need to find real cost savings in their delivery system, not just coding optimization or utilization management. Pharmacy is one of the largest cost buckets in MA, and it's one where there's real opportunity for savings if you can cut through the complexity of the traditional pharmacy supply chain.

Fourth, the pharmacy landscape is consolidating rapidly but in ways that create opportunities for disruptors. CVS owns Aetna and Caremark. Cigna owns Express Scripts. UnitedHealth owns OptumRx. This vertical integration has created enormous

pharmacy conglomerates that control huge portions of the market, but it's also created resentment among employers and patients who feel like they're being squeezed by these integrated players. There's a genuine appetite in the market for alternatives that aren't part of these large conglomerates, especially if those alternatives can demonstrate better value.

Finally, the direct primary care and value-based care movements have created infrastructure that makes partnerships like this more feasible. CenterWell's primary care centers are operating under capitated or value-based arrangements where they have direct financial incentive to reduce total cost of care. This alignment is crucial because it means CenterWell actually wants pharmacy costs to go down, unlike traditional for-service providers who might be indifferent or even benefit from higher medication costs. This alignment makes it much easier to implement a transparent pricing model like Cost Plus's because everyone's incentives point in the same direction.

Potential Partnership Models and Structures

So what might this partnership actually look like in practice? There are several plausible models, and the most likely outcome is probably some combination of approaches rather than a single clean structure.

The simplest model would be Cost Plus becoming the preferred pharmacy provider for CenterWell's primary care centers and Humana's employer clients. In this scenario, CenterWell would steer their members toward Cost Plus for generic and certain specialty medications where Cost Plus has significant pricing advantages. It could work as a narrow network pharmacy benefit design where members get better cost-sharing if they use Cost Plus, or it could be structured as a direct contracting arrangement where CenterWell pays Cost Plus directly and members pay nothing or minimal copays. The value proposition to employers would be straightforward: savings on medications, dramatically lower costs, and potentially better adherence because of lower patient out-of-pocket costs.

A slightly more integrated version would involve Cost Plus and CenterWell build a joint venture that combines Cost Plus's pharmacy operations with CenterWell's clinical infrastructure. Imagine Cost Plus pharmacies embedded in or adjacent to CenterWell primary care centers, potentially with on-site dispensing capabilities. Patients could see their primary care provider and pick up their medications in the same visit, with pharmacists and physicians working collaboratively on medication management. This integrated pharmacy and primary care model has been tried before with mixed results, but Cost Plus's pricing advantage could make the unit economics work in a way they haven't previously.

A more ambitious model would involve Cost Plus and CenterWell jointly developing a new PBM offering specifically for employers with high-need populations. This PBM would combine Cost Plus's transparent pricing with CenterWell's clinical capabilities and care management infrastructure. The pitch to employers would be that they're not just getting cheaper drugs, they're getting better outcomes through integrated pharmacy and medical management. This could include things like pharmacist-led medication therapy management, integration between pharmacy data and medical records, proactive outreach for adherence issues, and coordination between prescribers and pharmacists on formulary alternatives. The economics could work because Cost Plus saves money on acquisition while CenterWell reduces medication costs through better medication adherence and management.

Another possibility is that this partnership is really about building infrastructure for pharmacy manufacturing and distribution. Cost Plus has been investing in manufacturing capabilities for certain high-volume generics, and Humana has enormous purchasing power and a predictable demand profile because of their Medicare Advantage book. They could partner to build out manufacturing for medications that are commonly used by seniors, essentially cutting out multiple steps of the pharmaceutical supply chain. This would be a longer-term play and would require significant capital investment, but the potential margins are substantial if they can manufacture generics at scale and distribute them through owned channels.

The most interesting possibility, at least from an investor perspective, is that Cost Plus and CenterWell use this partnership to build a technology platform that optimizes

provider groups and health plans could use. Think of it as PBM-as-a-service or pharmacy-as-a-service, where Cost Plus and CenterWell build the core infrastructure for transparent pharmacy pricing and integrated pharmacy-medical management then license that infrastructure to other value-based care organizations. The market for this could be substantial. There are hundreds of ACOs, Medicare Advantage Medicaid MCOs, and large provider groups that want to do something innovative in pharmacy but don't have the capabilities or scale to build it themselves. A white labeled platform from Cost Plus and CenterWell could be exactly what these organizations need.

The Economics That Make This Work

Let's talk numbers, because that's what makes partnerships like this real rather than just interesting press releases. The economics of pharmacy are complex, but the math of why Cost Plus and CenterWell might work together is fairly straightforward.

Start with a typical Medicare Advantage member. They're probably on six to eight medications, with a mix of generics and brands. Their total annual pharmacy spend might be somewhere in the range of three to five thousand dollars, with the plan paying the majority through their Part D benefit. In a traditional PBM arrangement, the plan might be paying significantly above actual acquisition cost because of spread pricing, rebate retention, and other PBM margin-capture mechanisms. There's probably somewhere between twenty and forty percent in excess costs embedded in that pharmacy spend that's going to PBM margin rather than actual drug costs or pharmacy services.

Cost Plus's model eliminates most of that. For generics, which are the majority of prescriptions even if not the majority of spend, Cost Plus is often sixty to eighty percent cheaper than traditional retail or mail-order pharmacies. Even for brands where Cost Plus doesn't have as much pricing leverage, their markup is transparent and minimal. If you shifted a Medicare Advantage member's entire medication list to Cost Plus where possible and kept traditional channels for the drugs where Cost

doesn't have advantage, you might reduce total pharmacy spend by thirty to fifty percent depending on the member's specific medication profile.

Now multiply that by Humana's five million MA members. Even if you could only a portion of those members to this model and you only achieved half the theoretical savings, you're talking about hundreds of millions or potentially billions in annual savings. For a company like Humana that's trying to maintain margins in Medicare Advantage while rates are under pressure, that kind of pharmacy cost reduction is transformative. It could be the difference between an MA product that's marginally profitable and one that generates substantial margins, or it could allow Humana to offer richer benefits to attract and retain members while maintaining profitability.

From Cost Plus's perspective, the economics are about volume and infrastructure utilization. Their model works at scale because pharmacy operations have high fixed costs and relatively low variable costs once you have the infrastructure in place. Adding millions of prescriptions through a Humana partnership would allow Cost Plus to spread their fixed costs over a much larger base, improving their unit economics substantially. It would also give them the scale to justify investments in things like additional manufacturing capabilities, better technology infrastructure, and expanded clinical services that would make their offering more competitive against traditional PBMs.

The employer piece of this is also economically compelling. Humana already serves employer clients through their commercial insurance and ASO products, and CenterWell is increasingly working with employers on value-based primary care arrangements. If they could bundle a transparent pharmacy benefit with their Medicare offerings, they could differentiate themselves in the employer market in a meaningful way. Employers are sophisticated buyers who understand pharmacy economics, and they're tired of feeling like they're being taken advantage of by PBMs. A Cost Plus and CenterWell offering that could demonstrate real savings with transparent pharmacy costs would be highly attractive, especially for self-funded employers who directly bear pharmacy costs.

Market Implications and Competitive Response

If Cost Plus and CenterWell actually execute on something like what I've described it's going to force responses from the rest of the market, and those responses will create both opportunities and risks for entrepreneurs and investors.

The big three PBMs (CVS Caremark, Express Scripts, and OptumRx) will not sit by while a significant chunk of the pharmacy market gets pulled into a transparent pricing model. They'll likely respond in a few ways. First, expect to see more aggressive pricing for transparent or pass-through PBM arrangements, especially employer clients who are comparing alternatives. The big PBMs have been moving toward more transparent models anyway because of regulatory pressure and client demand, but a high-profile Cost Plus and CenterWell partnership would accelerate that shift. Second, expect the big PBMs to emphasize their scale advantages and comprehensive capabilities. They'll argue that Cost Plus can't match their formulary breadth, their clinical programs, their technology platforms, or their ability to manage complex specialty medications. Some of that will be legitimate competitive positioning and some of it will be FUD, but it will all be aimed at slowing customer defection to alternative models.

For other health plans and provider organizations, this partnership will be a proof point that alternative pharmacy models are viable at scale. If Humana can make work, why can't everyone else? Expect to see a wave of similar partnerships between health plans or provider groups and transparent pricing pharmacy companies, network pharmacies, or even direct relationships with wholesalers and manufacturers. The logic of vertical integration in pharmacy is compelling, and successful examples tend to get copied quickly in healthcare.

For pharmacy benefit consultants and advisors, this creates both opportunity and disruption. On one hand, there will be more demand for help navigating an increasingly complex pharmacy landscape with more alternatives to evaluate. On the other hand, if Cost Plus and CenterWell build something that's genuinely easy to understand and implement, it could reduce the need for consultants to translate

contracts and pharmacy economics for employers. The consultants who thrive will be the ones who can help clients think strategically about pharmacy as part of total cost of care rather than just helping them negotiate better PBM contracts.

For retail pharmacies, this is another headwind in an already difficult environment. As more prescriptions shift to mail-order through Cost Plus or similar transparent pricing models, that's fewer prescriptions going through traditional retail pharmacies. The retail pharmacies have been trying to pivot to higher-value clinical services away from commodity dispensing, but they still rely on prescription volume for their underlying economics. A successful Cost Plus and CenterWell partnership accelerates the decline of the traditional retail pharmacy model.

Investment Themes and Opportunities

So what does all this mean for angel investors looking at healthcare opportunities? There are several themes worth paying attention to.

First, infrastructure for alternative pharmacy models is going to be increasingly valuable. Cost Plus has shown there's demand for transparent pricing, but building the infrastructure to deliver on that promise at scale is hard. There are opportunities in pharmacy technology platforms, supply chain optimization, direct-to-manufacturer contracting platforms, and data integration tools that make alternative pharmacy models operationally feasible. If you're looking at a company that's building pickaxe shovels for the transparent pharmacy movement, that's worth serious consideration.

Second, clinical services layered on top of pharmacy are where a lot of the value creation is going to happen. Just making drugs cheaper is good, but combining cheaper drugs with better adherence, better prescribing, and better integration with medical care is where you get really compelling ROI. Companies building medication therapy management platforms, pharmacist workforce enablement tools, pharmacy and medical data integration solutions, or adherence intervention technologies are potentially benefiting from the same trends that make a Cost Plus and CenterWell partnership attractive.

Third, there's going to be massive demand for solutions that help employers and health plans navigate pharmacy complexity. Decision support tools, pharmacy analytics platforms, formulary optimization software, and benefit design modeling tools are all going to see increased demand as the pharmacy market fragments and becomes more complex. The winning solutions will be the ones that can handle both traditional PBM arrangements and alternative models, giving buyers clear apples-to-apples comparisons.

Fourth, value-based care organizations are going to need pharmacy solutions that align with their economic models. If you're a primary care group taking capitated or an ACO taking downside risk, you need pharmacy partners who are aligned with reducing total cost of care rather than maximizing prescription volume or margins. Companies building pharmacy solutions specifically for value-based care organizations (pharmacy optimization for capitated populations, integrated pharmacy and medical risk management, etc.) are worth watching.

Fifth, manufacturing and supply chain for commonly used generics represents a major opportunity for vertical integration. Cost Plus has demonstrated this with their manufacturing investments. There's room for more companies building out distributed manufacturing capacity for high-volume generics, direct-to-manufacturer sourcing platforms, or supply chain optimization for pharmacy operations. The economics get better as you cut out intermediaries, and there's a lot of intermediaries to cut out in the pharmaceutical supply chain.

Risks and Obstacles

Nothing in healthcare is easy, and there are plenty of ways a Cost Plus and Centricity partnership could fail to deliver on its promise. Understanding these risks helps in evaluating the partnership itself and in thinking about where opportunities exist to solve the problems that emerge.

Regulatory complexity is probably the biggest risk. Pharmacy benefit management is heavily regulated at both the federal and state level, with different rules for Medicare Part D, Medicaid, ERISA plans, and state-regulated insurance. Any partnership

navigate this regulatory maze while maintaining compliance across multiple jurisdictions. The Medicare Part D regulations in particular are incredibly complex with rules around formularies, tiering, transitions, and pharmacy networks that limit what Cost Plus and CenterWell can actually do even if the economics make sense.

Integration complexity is another major risk. Cost Plus and CenterWell come from different worlds with different technology systems, different operational processes and different organizational cultures. Making them work together seamlessly is to require significant investment in integration, change management, and operational alignment. Healthcare is littered with failed partnerships that made perfect sense on paper but couldn't execute on the operational integration required to realize the value.

Provider and patient adoption is far from guaranteed. Physicians have relationships with existing pharmacies and may be resistant to steering patients to new pharmacy options, especially if it requires changes to their prescribing workflows. Patients have inertia around their pharmacy relationships and may not want to switch even if the economics are better. Overcoming this inertia requires significant investment in education, engagement, and making the switching process as frictionless as possible.

Competitive response could undermine the economics. If the big PBMs see Cost Plus and CenterWell succeeding with transparent pricing, they could respond with aggressive pricing of their own to retain clients. They have deeper pockets and more scale, and they could afford to take short-term margin hits to prevent the market from shifting to alternative models. Cost Plus and CenterWell would need to build sustainable competitive advantages beyond just pricing (better service, better integration, better outcomes) to survive aggressive competitive response.

Manufacturer relationships could be problematic. The pharmaceutical manufacturers have carefully constructed pricing and rebate structures that benefit from the complexity of the current system. They may not be willing to offer Cost Plus the pricing they offer to larger PBMs, or they may put contractual restrictions on how their products can be priced and distributed. Building direct relationships with

manufacturers at scale takes time and negotiating leverage that Cost Plus may not have yet.

What This Means for Healthcare Entrepreneurs

If you're building in healthcare and you're paying attention to market dynamics, the Cost Plus and CenterWell partnership tells you several important things about where the industry is heading.

First, transparency is becoming a genuine competitive advantage in healthcare, not just a nice-to-have or a marketing claim. For decades, complexity and opacity were features of the healthcare system that allowed intermediaries to extract value. That's changing. Buyers are sophisticated enough now to demand real transparency, and technology has made it feasible to deliver transparency at scale. If you're building a healthcare business, think hard about whether your business model requires opacity to generate margin, and if it does, consider whether that's sustainable.

Second, vertical integration continues to be the dominant strategic trend in healthcare. Plans want to own providers, providers want to own pharmacies, pharmacies want to own PBMs, everyone wants to own everything. This creates opportunities to build infrastructure that enables vertical integration for organizations that can't build it themselves, and it creates opportunities to build solutions that work across vertically integrated systems rather than being tied to a single player.

Third, value-based care is moving from aspiration to reality, and that changes which kinds of solutions are valuable. Products and services that help fee-for-service providers extract more revenue are becoming less valuable, while products and services that help value-based care organizations reduce total cost of care while maintaining or improving outcomes are becoming more valuable. If you're building for the healthcare market, make sure you understand which business model your customers are operating under and whether that business model is growing or shrinking.

Fourth, the employer market is more sophisticated and more willing to experiment than ever before. Employers have been burned by PBMs, insurers, and healthcare vendors promising savings that never materialized, so they're skeptical, but they also desperate for solutions that actually work. If you can demonstrate real value transparent economics and credible evidence, there's genuine demand in the employer market. The key is being able to demonstrate value quickly and clearly rather than requiring multi-year transformations or complex implementations.

Finally, healthcare businesses increasingly need to think about how they fit into broader ecosystems rather than trying to be standalone solutions. Cost Plus on its own is interesting but limited in scope. Cost Plus integrated with CenterWell's primary care and clinical infrastructure is much more powerful. As you're building, think about what adjacent capabilities your solution needs to be maximally valuable, and think about how you could partner with or integrate with organizations that have those capabilities.

The Cost Plus and CenterWell partnership, if it happens in a meaningful way, will be the thing that transforms healthcare pharmacy overnight. But it will be another data point in the ongoing shift toward transparency, vertical integration, and value-based models. For investors and entrepreneurs paying attention to patterns rather than individual deals, that's the real lesson. The pharmacy wars are getting interesting, and the winners are going to be the ones who can combine better unit economics with better patient outcomes and better alignment with the incentive whoever is actually paying the bills. Everything else is details.



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