

# Crystal Ball Predictions for 2019 - Amazon Prime Healthcare is Going to Change Everything

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The times of healthcare, as Nobel laureate Bob Dylan would say - are a changin'.<sup>[1]</sup> With annual U.S. health spending quickly approaching \$4 trillion<sup>[2]</sup> and on track to be 20% of GDP<sup>[3]</sup> by 2026, we are in desperate need of change. While most of the recent chatter around healthcare spending focused on regulatory reforms or reducing benefits offered by health plans, these discussions neglect one of the most effective levers of change - technology innovation. Enter Amazon, a customer-centric delivery system that conquers industries by cutting out legacy fat and creating a slim, efficient industry-disrupting machine.

It makes sense that Amazon would target a \$4 trillion-dollar sector that is rife with waste, inefficiency, and solid customer dissatisfaction.<sup>[4]</sup> After all, this is their area of expertise. Amazon has made the process of buying and receiving consumable goods more time and cost efficient than going to your neighborhood store. One example of this is the sale of batteries. Online battery sales currently make up 5% of total battery sales, with UBS reporting that they expect online sales to rise to 17% by 2025.<sup>[5]</sup> With that increase, the expectation is that Amazon will make up 90% of the sales with their private label brand.<sup>[6]</sup> This is Amazon's jam. Find an industry plagued by fragmentation, opacity, and waste<sup>[7]</sup> - create a streamlined, transparent customer-centric experience - license and repeat.

## Amazon Prime Pharmacy?

A strategic position for Amazon lies deep within the pharmaceutical sector. Much like my middle school romantic life, the pharma's supply chain in the U.S. is "convoluted, filled with middlemen and confusing."<sup>[8]</sup> For a drug to pass from manufacturer to patient, more than three groups will take a profit, while also obscuring the actual cost of the drug from the consumer.<sup>[9]</sup>

In September of 2018, Amazon acquired the online pharmacy startup [PillPack](#), sending shock waves through the pharmacy industry.[\[10\]](#) PillPack's secret sauce is that they pre-sort your prescriptions into consolidated packages according to the time interval in which they should be taken. While this may seem like your everyday online pharmacy play for Amazon, don't be fooled. The national average annual employer premium contribution (for individual coverage) is approaching \$5,700 per employee.[\[11\]](#) Of that employer cost, 10% of the spending goes toward retail prescription drugs.[\[12\]](#) Given Amazon's domestic employee base of more than 500,000 workers, this suggests that Amazon has, on the low end, a \$285 million annual bill for prescriptions - let's just say big pharma has it coming.

Recently, Amazon has hinted that it will rapidly expand PillPack's reach to their own employees by filing for new pharmacy licenses in New Mexico, Washington, and Indiana. [\[13\]](#) Now, all Amazon has to do is grab enough market share to gain a bit of leverage over the wholesalers, pharmacy benefit managers, and drug manufacturers to force some change, right? Nope, Amazon's vision of the future has no room for those pesky leeches of the middle of the supply chain. The beauty of the Amazon method is it replaces the middleman and passes the savings onto the customer. Amazon has already applied for wholesale licenses, and with PillPack in the pocket, it is easy to envision that the acquisition of drug manufactures is not far down the road; giving Amazon end-to-end control of the chain. The consumer not only receives value for this displacement but also (because this is Amazon) better service and efficiency. Think about it: same day delivery of prescriptions all managed from the convenience of your smartphone.

### **Amazon Prime Benefits?**

One hundred fifty-six million U.S. workers receive their health coverage from an employer-sponsored health plan.[\[14\]](#) Of that number, 61% are covered by a self-funded employer health plan.[\[15\]](#) This is the nearly \$1 trillion-dollar market Amazon is after.[\[16\]](#)

In early 2018, Amazon, Berkshire Hathaway, and JPMorgan Chase & Co. made another market shaking announcement.[\[17\]](#) With a combined employee count of approximately one million workers, these three titans set out on a journey to develop

“technology solutions that will provide U.S. employees and their families with simplified, high-quality and transparent healthcare at a reasonable cost.”[\[18\]](#) This could be the game changer that health care consumers dream of.

For starters, this new partnership could take on the antiquated foundation of the entire health care system - claims management. Claims management is the foundation for all payments within the health care system, and the albatross that keeps self-insured employer plans tied to the major health insurers. These systems are maintained on significantly dated technology and are vastly inefficient.[\[19\]](#) Once again, enter Amazon. Amazon can standardize this fragmented area, introduce tools that will detect errors in coding and misdiagnosis, integrate and collapse payment process flows, and create a low-cost plug-and-play solution for employers.

This has the potential to create a transformative benefits marketplace for not only employers but also pharmacies, providers, wellness companies, hospital groups, and provider networks - all by outsourcing claims processing to Amazon.[\[20\]](#) The next logical step for Amazon then is to offer stop-loss insurance at competitive prices based on real-time data from claims data processing.

### **Where Are the Cost Savings?**

How does all this innovation reduce costs? By shedding the bloated transaction costs present at each level. The numbers are quite astounding. For example, insurance brokers, who are an essential part of navigating the current system, take payments from insurers of up to 16% of the health plan premium.[\[21\]](#) On top of that 16%, insurers have a 12% to 18% administrative cost built into their premium charges.[\[22\]](#) Both of these charges, equaling as much as 34% of insurance costs, could be reduced if Amazon successfully acquires and consolidates each step in the current chain.

Amazon, sitting on \$29 billion in cash as of September 2018,[\[23\]](#) has made it clear that it is pursuing this partnership “free from profit-making incentives and constraints.”[\[24\]](#) This might as well be a shot across the bow of the entire health care delivery industry. Change is coming, and if my recent shopping experience as a Prime member is any reflection of that change, it will be transformative to my benefit.

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[1] Bob Dylan, *The Times They Are a-Changin'*, *The Times They Are a-Changin'*, Columbia Records, 1964.

[2] Centers for Medicare & Medicaid Services, National Health Expenditure Projections 2017-2026, <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/ForecastSummary.pdf>.

[3] Id.

[4] Centers for Medicare & Medicaid Services, National Health Expenditure Projections 2017-2026, <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/Downloads/ForecastSummary.pdf>.

[5] Kate Taylor, Mary Hanbury, Dennis Green, Amazon's growth could threaten these 10 industries, Business Insider (Jun. 28, 2018, 12:11PM), <https://www.businessinsider.com/amazon-is-killing-these-7-companies-2017-7#consumable-manufacturers-2>.

[6] Id.

[7] CB Insights, Amazon In Healthcare: The E-Commerce Giant's Strategy For A \$3 Trillion Market, <https://www.cbinsights.com/research/report/amazon-transforming-healthcare/>.

[8] Id.

[9] Id.

[10] Amazon Quarterly Report, (Sep. 30, 2018), <http://quote.morningstar.com/stock-filing/Quarterly-Report/2018/9/30/t.aspx?t=:AMZN&ft=10-Q&d=590216a2e85680116195940bfe0e4b17>; Tae Kim, Walgreens, CVS and Rite-Aid lose \$11 billion in value after Amazon buys online pharmacy PillPack,

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[11] Kaiser Family Foundation, 2018 Employer Health Benefits Survey, (Oct. 03, 2018), <https://www.kff.org/report-section/2018-employer-health-benefits-survey-summary-of-findings/>.

[12] Centers for Medicare & Medicaid Services, National Health Expenditures 2017 Highlights, <https://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/downloads/highlights.pdf>.

[13] Christina Farr, Amazon's PillPack may be gearing up to serve the retailer's employees before broader rollout, analyst says, CNBC (Nov. 21, 2018, 1:38 PM), <https://www.cnbc.com/2018/11/21/pillpack-is-applying-for-licenses-as-amazon-expands-pharmacy-business.html>.

[14] Kaiser Family Foundation, Health Insurance Coverage of the Total Population, 2017, <https://www.kff.org/other/state-indicator/total-population/?dataView=1&currentTimeFrame=0&sortModel=%7B%22colId%22:%22Location%22,%22sort%22:%22asc%22%7D>.

[15] Kaiser Family Foundation, 2018 Employer Health Benefits Survey, (Oct. 03, 2018), <https://www.kff.org/report-section/2018-employer-health-benefits-survey-summary-of-findings/>.

[16] The \$1 trillion-dollar market size estimate is as of 2017 and based on the Kaiser Family Foundation's estimate of total individuals covered by employer sponsored health plans in the United States and the Kaiser Family Foundation's estimate of the average total premium paid for employer sponsored health insurance. Kaiser Family Foundation, Health Insurance Coverage of the Total Population, <https://www.kff.org/other/state-indicator/total-population/?dataView=1&currentTime>

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[17] Business Wire, Amazon, Berkshire Hathaway and JPMorgan Chase & Co. to partner on U.S. employee healthcare, (Jan. 30, 2018, 7:00 AM), <https://www.businesswire.com/news/home/20180130005676/en/Amazon-Berkshire-Hathaway-JPMorgan-Chase-partner-U.S>.

[18] Id.

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[22] Id.

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