

# Amazon, Berkshire Hathaway, and JPMorgan Chase: READING BETWEEN THE LINES

## IT'S BIG NEWS, BUT IS IT JUST HYPE?

A startling yet vague announcement was made last week that these 3 companies are forming a joint venture in healthcare. The announcement has created a lot of buzz: What could it mean and what are its possible implications, not only for this trio of high-profile employers and their employees, but also for other patients, health insurers, and care providers?

Since information is sparse and conjecture is plentiful, Entrée Health is taking a closer look at the public announcement to read between the lines and consider ways in which this venture could impact the healthcare system.

**Amazon, Berkshire Hathaway, and JPMorgan Chase** announced...that they would **form an independent healthcare company to serve their employees** in the United States<sup>1</sup>

The 3 companies may shift the responsibility and costs of providing employees with healthcare services, equipment, and/or drugs by "cutting out the middleman" and putting these functions under their own control.

Amazon can leverage its technologies and subsidiaries to offer health services via the Web, along with its proven ability to control inventory, manage supply chains, and deliver products to consumers.

**Amazon is poised to directly provide unique healthcare services for the group:**

- Promoting routine and urgent care clinics (in Amazon-owned retail)
- Offering telehealth consultations
- Writing prescriptions using Web services capabilities and direct delivery of prescription drugs

...initially [they will] **focus on technology** to provide **simplified, high-quality healthcare** for their employees and their families, and **at a reasonable cost.**<sup>1</sup>

the initiative, which is in the early planning stages, would be a long-term effort **"free from profit-making incentives and constraints."**<sup>1</sup>

The companies may create a joint pharmaceutical group purchasing and distribution enterprise, cutting out fees paid to PBMs and mail-order pharmacies.

*What could this mean for MARKET ACCESS?*

THIS WAY IN

## THINGS TO CONSIDER

### Group purchasing models have been operational for years. What will change with these employers being the negotiators?

The combined employee population of the 3 companies is about 1,150,000 (or ~4-5 million covered lives).<sup>2</sup> Not a significant population compared with those managed by Aetna, Cigna, UnitedHealth Group, and the Blues, and these employers already self-insure—so what could they change in the next few years to improve their employee healthcare costs? Manufacturers already have high-volume direct purchasers. Would this joint venture produce any real differences? The secret may lie with Amazon's distribution prowess.

### At least early on, innovation will likely be limited to retail drug delivery

Distribution improvements could impact retail drug costs, yet retail pharmacy is a segment that only makes up around 10% of healthcare costs in the United States—a small slice of the healthcare system pie.<sup>3</sup> Early innovations are not likely to address the complexity of hospital-based or physician-administered products.

### *Healthcare disruptions: past, present, and future?*<sup>4</sup>

**1929: Baylor Hospital** introduces a prepaid hospital insurance plan for a group of schoolteachers, creating the prototype for hospital and medical insurance

**1930s: Kaiser Permanente** creates an integrated managed care consortium for steel and construction workers, combining healthcare with insurance. This plan opened up to the public in 1945

### *Could this joint venture be the next pivotal disruption?*

## THE BOTTOM LINE

### Value for all—a new story to tell

If this joint entity can eliminate the “middleman” markup associated with retail drugs and obtain similar price concessions that PBMs receive, it could remove some price pressure on manufacturers. Some of the cost savings might be passed on to their employees, creating a closed system of savings for all stakeholders, and potentially reshaping the value story for drugs.

Stay with Entrée Health for continued updates about this joint venture and other healthcare market disruptions

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