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Amazon invites some friends to light a US healthcare bonfire

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The prospect of Amazon's arrival on the US healthcare scene was already causing jitters. Today's news that the online giant has teamed up with Berkshire Hathaway and JP Morgan Chase for its first major foray suggests that these concerns were well placed.

True, few details have emerged on the partnership, and the scope of the venture needs to be known to assess the real threat, for example how Amazon's presence might hit drug distributors. However, the announcement still sent share prices tumbling across the US healthcare sector this morning.

Stocks fell across pharmacy benefit managers (PBMs), insurers and distributors in response to a press release from the three companies. All are huge employers – with more than a million staff combined – and have a vested interest in driving healthcare costs down.

The insurers Humana and Cigna dropped 3% and 6% respectively; drug distributers Cardinal Health and McKesson slipped 3% and 4%, while the PBMs also took a hit. Express Scripts and CVS Health fell 9% and 6% at the open. CVS, which also owns pharmacy chains, is trying to push through a $69bn acquisition of the health insurer Aetna, a move seen as defensive as its various businesses fight new problems (*Aetna acquisition could help CVS's Amazon defence, December 4, 2017*).

Feeling the pain

It is easy to see how the three new partners could hurt these incumbents.

At the very least Amazon could use its huge distribution networks to deliver medicines – and the company has reportedly already been acquiring pharmacy licences. Berkshire Hathway owns several insurance companies. And JP Morgan presumably knows something about handling financial transactions.

Actual details are thin on the ground, however. A new not-for-profit company will be created, to focus on technology that will provide employees of the three parents "simplified, high-quality and transparent healthcare at a reasonable cost".

This would certainly seem to be a dig at the opaque world of PBMs and insurers, which have increasingly been framed as the bad guys in the past year, as pharmaceutical companies have tried to push back against drug price rhetoric.

And, even though the new partners have admitted that these efforts are in early planning stages, it is clear that they are looking long term.

"The three of our companies have extraordinary resources, and our goal is to create solutions that benefit our US employees, their families and, potentially, all Americans," Jamie Dimon, chairman of JP Morgan, was quoted as saying.

Failure to act

With Warren Buffett describing the ballooning costs of healthcare as a "hungry tapeworm" in the US economy, this looks like a serious attempt to shake up the status quo.

Notably, the news comes days after US hospital groups said that they would be taking generic drug supply problems into their own hands, also by creating a not-for-profit entity (*Interview – Hospital chains seek pricing control, January 25, 2018*).

These two events suggest that the sky-high cost of healthcare provision in the US is being taken more seriously by parties outside the sector. That these groups feel forced to act suggests that they consider the incumbents and policy makers incapable or unwilling to make some necessary changes.

Of course it will take some time for this effort to take shape, and it still might fail. But Amazon is coming to light the fire, and it has brought some powerful friends along. Expect other large corporates to be watching this space with interest.

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