Amazon’s Plan to Reinvent Healthcare Takes Shape

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With the $3.9B acquisition of primary-care provider One Medical closed, Amazon’s plan to disrupt healthcare is beginning to materialize. Amazon’s evolution into a healthcare retailer has been characterized by multiple false starts like Haven, the failed joint venture with JP Morgan and Berkshire Hathaway, and Amazon Care, shuttered in 2022 after failing to grow beyond Amazon’s own employees. What many viewed as a series of failures, however, were signs of a maturing strategy to deliver value-based healthcare in an integrated primary care, pharmacy, patient data and fulfillment ecosystem.

Primary Care

By bringing One Medical into its evolving healthcare offering, Amazon is following the path of CVS and Walgreens by building a verticalized offer to deliver in-person and virtual primary care services to its shoppers. While Amazon acquired 220+ physical primary care locations, they will not immediately have the reach of their rivals – CVS’s MinuteClinic has 1180 locations and Walgreens Village Medical has 339 locations. But Amazon can scale quickly. Their Prime Membership covers an estimated 76% of American households in 2022.[1]

One Medical’s membership demographics across their 880,000+ members should be encouraging for Amazon as they align with key Prime Member profiles; urban, wealthy, mostly female, college-educated individuals. In its own financial documents, One Medical confirms that a significant portion of its business model involves taking care of young, educated, employed individuals with commercial insurance, such as those working in the tech industry.

Pharmacy

While Amazon has long sold OTC medication via its website, they entered prescription medication fulfillment in 2018 by acquiring Pill Pack. By marrying Pill Pack's core strength in prescription management with Amazon's vast and efficient fulfillment network, the foundation was laid for the digital Amazon Pharmacy store opened in 2020. Amazon Pharmacy offers customers prescription fulfillment across generic and branded medication with free delivery to the patient's doorstep.

Amazon demonstrated its focus on delivering affordability and price transparency by launching its own cash-pay generic prescription drug membership, RxPass, in 2023. Amazon's goal is not to drive incremental margin here, but to give its Prime members an added reason to turn prescription management and fulfillment over to Amazon.

Access to Patient Data

Certainly, Amazon plans to integrate data from multiple sources, including primary care records, prescription history, and even non-medical purchasing habits in grocery to deliver better holistic care. While the FTC didn't formally challenge Amazon's acquisition, they did highlight ongoing concerns with Amazon's access to patient healthcare data and its intended uses for that data.

Having access to the full suite of patient data certainly offers Amazon opportunity to create personalized health-based recommendations for its customers, but Amazon will need to demonstrate that it can use patient healthcare data responsibly to overcome barriers in customer trust. Over 34% of adults reported that they would not be comfortable using Amazon for healthcare. [2]

What does this mean for drug manufacturers?

- Amazon is building a value-based-care ecosystem, where they'll have influence over customers' end-to-end healthcare needs. Drug manufacturers have new avenues to reach patients via Amazon OTC, Pharmacy, and Primary Care offerings. The future value of Amazon Healthcare is ultimately in the sum of the parts. Brands that lean in early to develop relationships with Amazon will reap rewards at scale. Now is the time to consider your brand's role in the holistic offering and lean into opportunities early.
- Amazon needs membership scale to truly drive the 'reinvention' of healthcare that they envision. A critical aspect in the failures of Amazon's previous healthcare attempts was the inability to generate enough scale to influence pricing. Amazon will aggressively court customers with price-focused offerings to achieve that scale. Expect that Amazon is comfortable taking losses in the short term to acquire customers and market share in the long term.

Our Take on What's Next

Consumers are demanding modern healthcare experiences that prioritize price transparency, convenient access to care, virtual and telehealth capabilities, and at-home prescription fulfillment. Amazon now has the building blocks to deliver a 'reinvented' patient experience, but they will need to achieve scale to do it. We wouldn't be surprised if One Medical primary care offices or Amazon Pharmacy counters are a key unlock toward Amazon CEO Andy Jassy's goal to find 'a format that we want to go big on, on the physical side' in 2023, 'and double down'. [3]

Sources: 1. Statista, 2023 2. Forrester's Healthcare Topic Insights Survey, 2022 3. Financial Times, 2023