



South America's largest predator, the Amazon's Black Caiman alligator can grow up to 20 feet in length and over 1,000 pounds...

## Who Will Amazon Bite In Healthcare?

Healthcare distributors, medical suppliers, wholesalers, GPOs, retailers and even product manufacturers are at risk...

As Amazon prepares to explore the healthcare sector for more revenue and customers, there are numerous strategies and competitive maneuvers for it to consider. In an earlier story, "Is Amazon About To Flood The Healthcare Industry?" (link featured below), Amazon's attributes and preparations for expanding its business in healthcare were covered. In this article, the competitive landscape will be assessed. Amazon's growth in healthcare will come at the expense of three incumbents:

- Trade (distributors, medical suppliers, wholesalers)
- GPOs
- Pharmacy Retailers

All three entities are rooted in healthcare. They know their customers and competitors well; Amazon is a new element to the mix. How they anticipate, strategize and react to Amazon's entrance will determine if they or their competitors lose more to Amazon. While fundamental management, pricing, merchandise selection, distribution and promotion are key factors, innovation based on customer engagement will be pivotal to outdistance competitors and keep a lead on Amazon to sustain customer relationships and growth.

### **Leading trade entities (distributors, medical suppliers, wholesalers)**

- American Medical Depot / AMD
- AmerisourceBergen
- Bound Tree Medical
- Cardinal Health
- H.D. Smith
- Henry Schein
- McKesson
- Medline
- Morris & Dickson
- Owens & Minor
- Patterson Medical
- Value Drug Company

### **Considerations**

Depending on the product and sector, these companies support hospitals / health systems, small to large medical practices of many types, home infusion, long term care, surgery centers, dialysis clinics, assisted living and other healthcare provider organizations.

Amazon is building additional distribution centers in various locations, expanding its air and truck fleet plus contracting with metropolitan / regional shippers and delivery companies. Through this verticalization / integration, Amazon can better control costs attributed to shipping. Some of the trade entities above have their own transportation fleets (as well as distribution centers, warehouses, etc.) but Amazon is ramping up very quickly. The incumbent trade entities will be more dependent than Amazon on FedEx, UPS, U.S. Postal Service and other carriers to deliver products and have to pay their shipping rates.

Entities with large stakes in pharmaceutical distribution may be more protected. Due to contracting, payer involvement and the local, state, regional and Federal regulations applied to drug distribution and sales, Amazon may not be able to assertively compete at the onset in this category. For commodity items (bandages, disinfectants, gauze, gowns, linens, masks, gloves), basic medical products (blood pressure cuffs, hand-held instruments, IV sets / disposables, otoscopes, stethoscopes) or basic office fixtures / supplies (stools, cabinets, paper goods, computer products) Amazon can be very competitive.

### **Leading group purchasing organizations (GPOs)**

- GNYHA
- HealthTrust Purchasing Group / HPG
- Hospice Provider Group
- Innovatix
- Intalere
- Managed Healthcare Associates / MHA
- PDM Healthcare
- Pharmacy GPO
- Premier
- Vizient

### **Considerations**

While these are the larger GPOs, it is estimated there are over 200 GPOs operating within the healthcare sector. Much of their income depends on membership fees, a percentage of sales revenue generated by transactions through GPO contracts and data. Lower sales volume immediately translates to less income for GPOs.

GPOs contract with product manufacturers to share pricing advantages with provider organizations. These pricing advantages may feature immediate discounts or cumulative rebates based on sales and volume. GPOs are frequently used by a wide variety of healthcare provider entities to source product and gain discounts. Pharmaceuticals are routinely featured in these contracts.

Amazon may choose to engage the GPOs as business partners or bypass them entirely with their own GPO or another buying arrangement. While healthcare provider rebates would suffer if they bought from Amazon versus through an incumbent GPO contract and associated trade partners, perhaps Amazon makes it worth the customer's effort with additional discounts or other savings such as shipping, etc.

Healthcare provider CFOs, procurement professionals and legal departments would welcome streamlined contracting arrangements that would reduce the management burden on them and reduce costs. If Amazon can bundle simple contracts, high service levels and immediate cash savings to healthcare provider organizations looking to improve operations and reduce costs, they will win business quickly from healthcare provider organizations.

### **Leading retailers with wide healthcare lines**

- Costco
- CVSHealth
- Sam's Club
- Target
- Walgreens
- Walmart

### **Considerations**

These retailers plus regional drugstores chains and grocers sell a variety of healthcare items to consumers. They are well aware of Amazon's ability to disrupt category sales. Amazon can infringe on Trade business in a different way based on retailer sales. Retailers routinely work with healthcare distributors and wholesalers to place/ pull product from. Amazon has less exposure to this arrangement as an integral part of their business model is warehouse / distribution -coupled with enormous data management competence. If retailers are selling less, they are placing / pulling less stock from Trade partners.

More retailers are stocking more advanced products to support customers whom are home patients with additional care needs. If Amazon develops a strategy to support them, especially those in very rural or deep urban locations as well as those with limited transportation or physical mobility, they will establish themselves in two ways. Amazon will not only gain new customers but also capture sales of products which these customers typically bought from a retailer (this includes healthcare and non-healthcare products). Amazon could choose to skip the administration and cost of setting up and managing buying clubs, coupon flyers, loyalty programs, etc. and compete on price and convenience through its standard Amazon Prime offering augmented with highly selective saving offers all administered electronically.

## **Competitive Positions**

The incumbent distributors, medical suppliers and wholesalers are very well established with healthcare provider organizations. They understand not only the business aspects of healthcare but many of the clinical / patient nuances as well. Those with large pharmaceutical distribution businesses at least temporarily have leverage against Amazon and other competitors with large commodity product offerings.

Retailers have been squaring off against Amazon for years. For many types of products, the immediate access to see, touch and take home is important; Amazon's business model is less competitive in this aspect. If Amazon chooses not to engage GPOs, then GPOs will have to prove themselves competitively and do whatever they can with firming up their position between product producers, trade partners and provider organizations.

## **Competitive Actions**

Amazon's competitors are far from powerless. They have the ability to develop improvements, strategies and tactics to bog down Amazon's expansion into the healthcare sector. A tremendous focus needs to be put on existing customer relationships, changing/improving existing operations and having alternate strategies / tactics prepared in advance which can be strategically deployed to thwart Amazon's advance. It will be necessary for them to pivot with the right strategy and tactics quickly. There are many sectors within the provider organization marketplace plus healthcare consumers are widespread with great awareness and appreciation of Amazon's service. These are initial options incumbents can consider while also developing new ones to outpace Amazon:

## **Trade**

- Further optimize logistics internally as well as with distribution to customers with the goal of lowering operating costs and improving customer service
- Cleanup ongoing administrative issues with accounts and prevent reoccurrence; improve customer relations, reduce administrative waste
- Make better use of data for internal use plus find ways to better share it with customers (both online and in consultative account management visits) so they can manage their practice, procurement and facilities better

## **GPOs**

- Strive to redesign contracting approaches to strengthen yet simplify agreements with provider organizations; make them easier for customers to manage and realize savings more quickly
- Avoid contracting / pricing arrangements that continually rework the price; this takes up administrative resources and delays getting discounts / rebates back to the customer and making them whole
- Develop additional, stronger attributes to leverage pharmaceutical business and other highly specialized, advanced products sales into provider organizations where Amazon has less expertise
- Develop more assertive ways to drive deeper competitive bidding with manufacturers to lower pricing
- Be certain systems and displayed data align with customers so both sides always see dollars exchanged, units consumed, etc. in the same way the other is so immediate, productive dialogue can be exchanged

## **Retailers**

- Retailers need to continue to better promote immediacy / benefits of storefront versus online ordering and delivery
- With an optimum strategy of the retail and online business integrally supporting one another profitably; retailers need to revisit their e-commerce strategies so they can more profitably compete with Amazon via combined storefront and digital means
- Depending on locations / demographics, retailers should further assess how to better support advanced at home patients; CVSHealth and Walgreens each have interests in home infusion operations which could serve as a marketing conduit for other products
- Critically evaluate Amazon's Dash Replenishment Service (DRS); develop competitive tools, counter strategies; this device (which also can be used by healthcare provider organizations) wreaks havoc on competition as the buyer (consumer / patient or clinician) is engaged at point-of-care without a chance of a competitive message entering the picture --and enhances service levels for the customer as well

## Trade, GPO and Retailers

- Improve and strategically apply clinical knowledge to the benefit of respective customers and use it as a competitive asset; Amazon has excellent e-commerce and logistics capabilities but their clinical expertise is not well established and this may be a disadvantage for them initially
- Assess positions with payers; by assessing ways to bond and inter-support them, create additional contracting and stronger relationships with them which Amazon does not have a lot of face time or experience with yet
- Comparatively square business models, market position and customer relationships against Amazon; focus on strengthening the most prominent weaknesses which Amazon can be expected to exploit
- Capitalize on the experience of operating through some of the healthcare industry's most drastic changes and pressures; as the industry continues to reinvent / reshape itself, outflank Amazon by recognizing challenges early and charting optimum courses through them
- Maximize business intelligence efforts to learn more about Amazon's internal planning / development regarding its plans for healthcare and connect the dots in the overall commercial marketplace; boost accuracy of predictions and development of strategies /tactics
- Assess how Amazon may be currently reaching healthcare customers based on their current offerings; isolate highly specialized or heavily promoted categories and monitor them closely\*

\*A likely Amazon strategy, based on category / product management approaches, is carefully selecting high demand, high margin products in a particular sector, establish higher sales volume with them, then promote additional goods to these users based on "buyers of this product also bought..." based on actual sales and overall market research studies. For some items, they may go further with them by launching their own private label version of it. Incumbents need to monitor this carefully as their sales within these select product categories can erode quickly with no apparent explanation...

## .....What about product manufacturers?.....

- Negotiate for better prices / better terms with product manufacturers; improve ways to simultaneously build their business and yours

- If manufacturers are introducing a new product; assess it closely and engage customers for opinions; if it's a winner, exploit demand, move it in volume and be a first-to-market leader ahead of Amazon
- Improve business relations / operations with product manufacturers: if they believe Amazon is easier to work with, provides comparable or better profits and gives them better customer access, all 3 incumbents will be competing against Amazon and product manufacturers
- Amazon has effectively developed private labeled products, competitively priced and strategically promoted it; brands the private label has undercut or displaced may seek to enhance relationships with trade, GPO and retail entities to regain revenues

**These competitive actions are just starters. Each incumbent organization has its strengths and weaknesses against Amazon. Amazon has built its business on innovation and execution. Incumbents need to innovate and execute better to maintain their existing revenues, continue to grow and compete against Amazon...**

### **Moving Forward**

There is a lot on the line for each of the incumbent stakeholders. Even those in optimum competitive positions stand to lose a portion of their revenues if they are not vigilant. This can further evolve into losses attributed to other competitors plus Amazon.

On the flip side, Amazon has had a great run. It has orchestrated its growth well and is investing millions of dollars in expansion efforts. Amazon knows they are facing worthy, well-entrenched foes in the healthcare sector. The longer it takes for them to get a foothold costs more money and if they need to change strategies midstream, this can be more costly or even take them off course if it's the wrong choice.

A novel, simple exercise may yield interesting results to cultivate innovation, new strategies and better business practices against other incumbent competitors and Amazon. Pretend Amazon controls 100% of the healthcare market. If each of the three incumbents, Trade, GPO and Retail, were forming up at the same time, what would they do individually and collectively to take a bite out of Amazon?

## About the author

Thank you for reading this article; I am a healthcare marketer seeking a new opportunity. My background is brand marketing; products (pharmaceuticals, medical devices, disposables), services (clinical programs, market access, Rx benefits), managed care marketing and digital marketing. Scroll down to connect with me via LinkedIn and Twitter --plus the links below are to healthcare digital marketing and managed care marketing resources I have produced:

[Is Amazon About To Flood The Healthcare Industry?](#)

[UHC and SCA: A Super Surgical Tandem](#)

[Healthcare Digital Marketing ROI: Boost It With Infographs & Social Sharing](#)

[Digital Consumer's Health Insurance Buyer's Journey](#)

[Pinterest And Healthcare Marketing](#)

[Ten Healthcare Digital Marketing Actions To Improve ROI](#)

[Healthcare Marketing Social Media Resources](#)

[Mechanics of Deductibles, Big Data and Healthcare Marketing](#)

[Healthcare Brand Management Market Access Concepts](#)

[Employee Benefit Consultants And Market Access](#)

[A Conversation About Compounding Pharmacies](#)

[United Healthcare's Changing Business Model](#)

[Healthcare, Medical, Pharmaceutical Directory](#)

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