Who wins and who loses if Amazon enters the prescription drug business

By Ed Silverman @PharmaLot

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Will pharma be the next business Amazon disrupts?

In industry after industry, the company has turned practices and expectations inside out — and the pharmaceutical world is the latest poised for change as speculation mounts that Amazon will soon start selling prescription medicines. Anticipation has been building for months, in fact, but it heightened last week on the news that Amazon (AMZN) obtained wholesale pharmacy licenses in at least a dozen states.

But who wins or loses if — or when — Amazon gets going?

Remember, the pharmaceutical distribution business is highly complicated and much will depend on what Amazon decides to do. There are three possibilities being kicked around, so here is a hypothetical rundown of how this may play out.

**Amazon brings medicines into its existing business**

Let's say Amazon adds prescription drugs to its online retail business, but doesn't contract with pharmacy benefit managers, which act as middlemen between drug makers and health plans by
purchasing medicines and establishing preferred coverage lists. Typically, PBMs have exclusive contracts, so people who have prescription drug coverage through a health plan may not bother with Amazon.

Under this scenario, retailers and PBMs are unlikely to be affected. However, individuals are free to shop around for a better price and may find a prescription filled by Amazon is cheaper than their co-pay at the pharmacy or existing mail-order option run by a PBM. Moreover, there are also people without coverage who pay cash. So Amazon could be desirable if its price undercut the competition.

This storyline could make losers out of retailers and PBMs, according to Linda Cahn, a consultant who advises health plans and employers on PBM contract negotiations. And she noted that Amazon already has a huge selling point — its wildly popular Amazon Prime membership plan, which costs $99 a year and ships most orders for free.

As of earlier this year, some 85 million Americans have a Prime account, up about 22 percent year-over-year. By offering prescription drugs, Amazon Prime presumably would be able to attract many consumers, at least for those medicines that need to be taken to combat chronic maladies
such as diabetes, high cholesterol, and high blood pressure.

“While the exact aspiration and glide path to entry is as yet not clear, it is believed that Amazon will start by capturing share in both the cash paying and third-party mail order, and possibly specialty pharmacy segments,” wrote Leerink analyst Ana Gupte in a recent investor note.

Of course, retailers would obviously feel a lot more pain if Amazon opened a brick-and-mortar retail pharmacy operation. For now, this is another unknown and seems farther down the list of speculation, but one can never say never since Amazon did, after all, buy the Whole Foods supermarket chain recently. And few saw that deal coming.

**Winners:** individuals. **Losers:** retailers and PBMs.

**Amazon contracts with industry middlemen**

PBMs, meanwhile, are bracing for change.

A looming threat from Amazon, in fact, explains why CVS Health (CVS$^4$) has been scrambling to make deals. The company, you may recall, not only operates the drugstore chain but also CVS Caremark, which is one of the nation’s largest PBMs. (Along with Express Scripts (ESRX$^5$) and OptumRx, which is owned by UnitedHealth (UNH$^6$), these big three PBMs command nearly 80 percent of the U.S. prescription drug market.)

CVS is unlikely to want to contract with Amazon to sell and deliver prescription drugs, because such a deal would undercut its own pharmacies. This is why CVS made a $66 billion bid for Aetna (AET$^8$), the big health insurer, which is very much a defensive deal. CVS realizes it must grow its business by quickly expanding the number of people who could be covered by its PBM and pharmacy services.

The other PBMs, though, stand to gain. By tapping Amazon to ship prescription drugs, they offer their clients — corporations, unions, and government agencies — a business that is popular with consumers. For Express Scripts and OptumRx, this is a winning play against their big rival, CVS Caremark, even if it means sacrificing some or all of their own business.

Not everyone is convinced, though, that Amazon will be nearly as disruptive as the speculation suggests.

“The Amazon hype about the pharma industry has far exceeded the reality of what Amazon might or could do in the drug channel,” said Adam Fein of Pembroke Consulting, who advises drug makers and distributors, and writes the Drug Channels blog. “A reality of this market is that payers will be reluctant to disrupt systems that work, even if those systems are partially uneconomic or somewhat inefficient.”

**Winners:** PBMs. **Losers:** retailers.

**Amazon becomes a middleman itself**
Amazon could get into the PBM business and have an opportunity to affect drug pricing, should it want to do so, according to Cahn. How so? Amazon may have the clout to dispense with rebates and force drug makers to negotiate more openly and directly based on actual pricing.

Again, this is speculative. But “they could require manufacturers to compete on price and eliminate secret rebate deals,” said Cahn. “And that would really disrupt the existing business model.”

**Winner:** Amazon. **Losers:** drug makers, PBMs, retailers.

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