INSIDE: 2019 BenefitsPRO Broker Expo preview

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It's Amazon's World

Is there a place for benefits advisors in Amazon & Co.'s health care model? Insider Mick Rodgers says there is.

Retail clinic growth has health systems racing for storefront space

The Amazon effect

Is there a place for benefits advisors in Amazon & Co.'s health care model?

BY DAN COOK

Photography by Ken Richardson

MICK RODGERS
Managing Partner
Axial Benefits Group

First it was books. Next came music, followed quickly by technology, clothing, furniture and all things e-commerce. After that, it was TV and movie streaming, e-readers and artificial intelligence. Over the past 25 years, Amazon's process for expanding its empire has proven successful time and again: Dominate or exit.

In most cases, domination won.

Now, Amazon has set its sights on yet another market: health care. With partners Berkshire Hathaway and JPMorgan, the company has already taken significant steps in that direction. As a result, brokers who want to survive "had better wake up," says Michael "Mick" Rodgers.

"When people ask me, 'Are they aiming for brokers?'" he says, "I explain that if Uber had aimed at General Motors, Ford and Chrysler, the taxi drivers would have just been collateral damage.

"Advisors will be affected, but that's not who Amazon is aiming for. They're aiming much higher. And because of that, advisors have an opportunity to get on board."

Rodgers, managing partner with Axial Benefits Group in Boston, has a front-row seat for the show that's about to unfold after he was approached by the joint venture to serve as a consultant. He believes the trio will forever change the health care, insurance and benefits advisor industries.

Rodgers worked for several years as benefits advisor for game-changer PillPack, the prescription delivery startup acquired by Amazon in June. PillPack's notability rested on two features: next-day prescription drug delivery and a packaging system that made it easy for patients to adhere to their medication regimen.

Amazon's acquisition of the company was a dream come true for Rodgers. Then, another dream came true.

"Seeing from the inside what PillPack was doing in the online pharmacy space, I had been saying for the last three or four years that I hope my clients will one day get to buy pharmacy benefits from Amazon. When I got an email last May that said the joint venture wanted to meet with us, I thought it was a joke." But it was no joke.

He accepted the offer. "When they were getting off the ground and they were interviewing me, I think the aggregation process we use for our coalitions and commitment to deploy highly effective cost controls within our pools of clients resonated with them."

Much of the inner workings of, and the plans for, the group's health care venture remain top secret. But Rodgers shared some topics, of both the big-picture and the detailed variety. Among the highlights:

- The joint venture could set the stage for the elimination of insurance companies and carriers from the health care equation.
- It could entirely change the role played by insurance advisors.

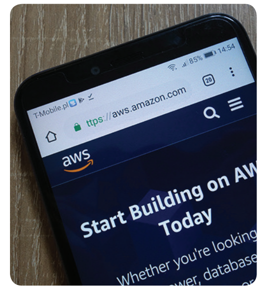
- It will be the point of the spear for Amazon's entry into the health care arena.
- Any lack of transparency in the health care system will be abolished.
- Amazon will play the dominant role in the new enterprise, but Berkshire Hathaway, as a reinsurer, will also provide a critical service.
- The joint venture will be able to use the bulk of the 1.2 million employees of the three combined companies as an incubator.
- Amazon paid a huge premium for PillPack ($1 billion) because it offers the way to eliminate prescription benefits managers (PBMs) from the health care contracting process.
- Amazon intends to integrate the PillPack marketing and distribution model into its emerging health care business strategy, eliminating prescription benefit managers as part of the integration.
- Amazon wants to do with Alexa what Magnavox did with televisions—have one in every home in the U.S. Just as TVs opened up a new sales and marketing world, the in-home Alexa presence will open a path to Amazon's vision for what health care should look like.

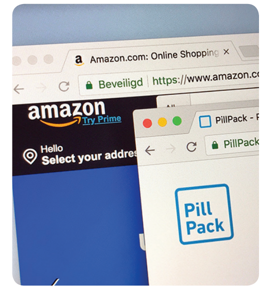
Cutting links from the distribution chain

Are carriers' days numbered? Amazon thinks they are, and Rodgers heartily agrees. But that does not necessarily mean benefits advisors will become obsolete. At least not those who immediately start to reinvent themselves to fit the coming health care revolution.

"My message is this: Be ahead of the curve, stop using the buzzwords and start adding value. Because Amazon is coming into the health care market."

First, Rodgers sets the scene for brokers: Amazon is quickly assembling the pieces it needs to create its own health care structure.





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1. It already owns a retail chain, Whole Foods. That property offers the immediate opportunity and footprint to create in-store health care centers. It allows Amazon to use its massive customer database to send healthy shopping suggestions to millions of people. Amazon can improve upon Whole Foods' already impressive healthy products inventory.

2. Amazon has been public with the development of a standard language for processing medical claims, dubbed HERA. The plan is to have hospitals adopt it nationwide so that it becomes the preferred claims processing language. There have been reports of the language being preloaded into Amazon's AWS server offerings to hospitals.

3. PillPack will become its pharmaceuticals distribution and packaging model, ensuring next-day prescription delivery and higher drug adherence, both of which will result in healthier patients. Oh, and that model completely removes PBMs.

4. Next comes direct contracting with hospitals for a variety of services, from helping with HERA to lower cost medical supplies through Prime and, of course, Amazon's health plan members.

"What they don't have right now is the hospital contracts that the insurers have," Rodgers says. "But what if Amazon could get those directly? There would be no need for an insurance carrier, and no concern about regional networks. Amazon is everywhere."

And they have plenty of experience at this kind of thing. Amazon's strategy for entry into health care is no different than the strategy it deployed in the past to lock up other markets.

Amazon's health care domination strategy

With the pieces of Amazon's health care domination plan in place (or well underway), Rodgers describes how Amazon could implement its plan.

According to Rodgers, there are four things that Amazon focuses on when it comes into a new market:

1. Eliminate what does not add value: Remove "the middlemen that are value extractors with a high profit margin. This includes companies that are focusing on just formatting data as a service. In the supply chain, they look for folks that are middlemen where customer experience is an afterthought."

In health care, that's PBMs, insurance companies, and old-school brokers who only represent a few large carriers and offer customers limited plan options.

2. Transparency: Weed out "companies that have relied on opaque pricing as a business model, and I can't think of an industry that is less opaque than health care. Amazon adds transparency at every level."

3. Standardization: Inject as much standardization as possible into the market. HERA is a perfect example.

4. Customer service: Focus "exclusively on customer experience." Rodgers doesn't even bother to argue that health care's top priority is elsewhere. A quick look at other Amazon markets will reveal the company's obsession with the customer experience.

Trading secrets?

The potentially broad reach of the Amazon & Co. joint venture across businesses in data analytics, pharmacy services, medical clinics, population health management and advisory services looks to provide competition, if not outright challenges, to other firms in the health care industry. But they're not backing down without a fight.

First up: a lawsuit filed by Optum seeking to prevent one of its former executive from joining the collaboration and potentially divulging trade secrets.

Former Optum exec David Smith joined Amazon & Co. earlier this year as director of strategy and research. In its suit against Smith, Optum claims that during his time as vice president of product at Optum, he was "privy to and misappropriated trade secrets that will help the new venture compete against it, violating nondisclosure and noncompete covenants in his contract."

Smith, for his part, has argued that he has no Optum trade secrets in his possession, has no use for such information in his new job, and that Optum's own arbitration agreement with him precludes it from bringing the lawsuit. Nor, says Smith, does the new venture compete for business with Optum, since it offers no products or services to the general market, nor does it seek profits.

Among the reasons Optum has to be nervous about the joint venture is its sheer size, should it decide to woo members of health plans already in place. And since Berkshire Hathaway and JPMorgan Chase are at present customers of Optum, the joint venture is likely to be directly in competition with Optum.

In addition, there's Amazon's acquisition of online pharmacy startup PillPack last year. According to Business Insider, "While Amazon's precise plans for PillPack are unclear, it may look to undercut existing pharmacy benefits managers, which serve as intermediaries between pharmacies and insurers. And OptumRx–a subsidiary of UnitedHealth–is one of the three largest PBMs in the U.S." **– Marlene Satter**

"Amazon has this really unique playbook when they come into new markets, and we are seeing it now in health care," Rodgers says. "It's not about making a profit today. Amazon doesn't need to make money in health care right away. They can make a lot of investments up front before the results are realized." The investment in the joint venture wasn't made to turn a quick profit, but to explore ways to enter and then reinvent the health care market.

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The advisor of tomorrow

Where does the benefits advisor of tomorrow fit into this new health care model? Wherever one can add value, Rodgers says.

"What does all this mean for benefit advisors?" Rodgers asks. "The advisors of tomorrow have to think, 'What would Amazon do in this situation? Where would they send people with a diagnosis of X?' They will send them to the highest quality hospital and providers with lowest costs. That is how the advisor is going to add value to that process, by knowing where those providers and health care centers of excellence are and getting members there for care."

Amazon, JPMorgan and Berkshire Hathaway are already directing their thousands of health plan members in those directions. That's just one of many areas where advisors of tomorrow can play a role.

As the joint venture and its creators demonstrate how direct contracting with the COEs will be done, and the value derived from it, other employers will inevitably follow. The big numbers plan sponsors can bring to the COEs will lead to lower costs for both parties, in part by eliminating the insurers and related middlemen who, Rodgers says, currently add little or no value.

But plan sponsors will need guidance from brokers with knowledge of the COEs and with direct contracting experience. They will need to know how all the emerging technologies—wearables, virtual health services, platforms that connect disparate parts of the health care world—fit into a plan.

"The advisor of tomorrow's role is to build plans that include all these integrated pieces," he says.

And although Amazon and its partners are barrelling ahead with their vision, it is not too late for brokers to make the shift to true advisors.

"Here's the other piece: What roadblocks will Amazon hit?" Rodgers asks. "The only one I can think of is legislation. They will have to take on health care and Big Pharma, the two biggest lobbying groups in Washington. These roadblocks for Amazon allow a little time for advisors to get ahead of the curve. But advisors have to get ready, have to have concrete, executable strategies that are customer-centric and forward thinking. The key is to add value."

Or disappear.