Can Amazon remake health care?

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At a time when health care providers have gone all in on telemedicine, Amazon, the world's biggest online retailer, surprised Wall Street in late July when it announced it would acquire 1Life Healthcare Inc., which runs the subscription-based One Medical primary-care service, for $3.9 billion. Investors and market watchers noted Amazon's less-than-stellar forays into health care, while privacy advocates raised concerns about Amazon's access to patient medical data. Still others have voiced hopes Amazon will bring much-needed efficiencies and improved customer experience to health care as it has to retail shopping.

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GAZETTE: Given the size of its investment, what could Amazon's recent acquisition of One Medical mean for the health care industry?

CHANDRA: Amazon is an enormous company. I think we're all excited because it's Amazon, but the reality is that it's a $4 billion expense for a company that has $160 billion dollars of current assets on its balance sheet that they can deploy to buy another company. So, this is actually a very small acquisition for Amazon—very, very small.

This aside, the idea behind the business model of One Medical is twofold: to make health care easier to access, and through prevention and better primary care management to avert downstream spending. These are laudable goals. But One Medical certainly has not figured out how to save money. They've been hemorrhaging money, and they have extremely low margins, in part because most of health care spending is on sick patients and can't be easily reduced. Amazon has bought into One Medical's aspiration, which again, is wonderful if they succeed. But from the perspective of an Amazon shareholder, or the hard-nosed evidence to date, it is probably going to cause that shareholder to lose the money that One Medical shareholders were losing.

GAZETTE: Why do you think Amazon decided to plunge further into health care, an area they haven't had a lot of success in?

CHANDRA: When Amazon looks at health care, they probably see two opportunities where they could add a lot of value. First, the supply chain in health care is a mess. There are so many intermediaries selling to other people, and Amazon has done extremely well by streamlining the supply chain. So they must be thinking that the current insurers and other payers can't improve the supply chain relative to what they can.

The second area where Amazon may think it can help is on price transparency: Prices are often opaque in health care. Nobody really knows the price of anything. But it's a leap to think that by making the prices more transparent, we can save money in health care. There have been countless experiments around price transparency in health care, where patients have been given information on prices and there's no evidence they use that information at the time they need their health care. Shopping for health care is nothing like shopping for the other items that Amazon might be selling and these kinds of ideas involving more consumerism in health care have not worked—and it's not like other companies have not tried.

More generally, Amazon has been interested in health care for over 20 years, but their performance is somewhere between a C and C+. They've been trying to run Amazon Care, just before the pandemic, to offer health care to its employees. The take up of that has been poor. Before the pandemic, they bought PillPack for something like $800 million. It's not clear that PillPack has been able to displace any of the large pharmacies. They had a disaster in 2018 when they launched Haven, along with JPMorgan Chase and Berkshire Hathaway, which was a naive effort to reform health care. Haven folded in 2021. And in the late 1990s, they tried to buy drugstore.com. So, they've been interested in health care for a very long time, but unsuccessful. Health care is hard, and general lessons from outside health care don't always apply to health care.

GAZETTE: What does Amazon's entry into primary care mean potentially for consumer access to health care? Amazon is a trusted, well-known brand so the company could easily attract more customers. But it also has a reputation for crowding out competitors once they get a foothold in a marketplace, which could potentially lead to limited choice and less access for consumers.

CHANDRA: I'm not that worried about them crowding out competitors just yet. Maybe they'll do that if they're incredibly successful, but my point is they're not going to be incredibly successful. But, if they are, then that's a conversation that the regulators need to be aware of.

In the short run, my great worry is patient privacy. They're going to get something like 10 or 15 years of patient data from One Medical. What are they going to use that for? How are they going to use it? What safeguards will patients in this new Amazon/One Medical health care have on how their data will be used? I would like regulators to think about and wrestle with that issue.

The other worry for regulators is that Amazon may bungle One Medical because it doesn't know how to run a health care business—which is not only a logistics business. There isn't much that one can do about this, but it would be sad if One Medical would have been more successful if owned by say, United or CVS or Walgreens or Humana, than if owned by Amazon.

GAZETTE: Amazon is highly customer-driven and known for finding ways to streamline its operations to provide greater efficiencies and save the company money. That can result in faster, more convenient service for customers. Getting medical care is anything but convenient or efficient. How might Amazon make the customer experience more important in the business of delivering services?

CHANDRA: I like the fact that Amazon might be able to improve the customer experience in health care, because people are clearly frustrated by that. But, despite the general frustration, improving the patient experience is not going to save money on health care. Improving the experience makes it easier to access health care and that increases spending. Second, most of the spending in health care happens at the end of life or on very sick patients. So, improving the efficiency of primary care scheduling or vaccine appointments or something like that—that's not going to be a very big market. Other companies, like Teladoc Health, have captured much more of the "patient experience" market than One Medical has. There's already a bunch of other well-established, public companies that have figured out that what you don't want is a brick-and-mortar facility. What you want is more of a virtual relationship with your doctor. And so, if that's really the future, then buying a bunch of brick-and-mortar facilities at a 77% premium was exactly the wrong answer.

GAZETTE: Has the public's newfound acceptance of

telehealth shifted the way providers view delivery of service?

CHANDRA: We'd already started to see a move toward telehealth before the pandemic. Two and a half years of COVID accelerated that movement, and it's here to stay. But to be clear: These telehealth visits improve the patient experience. They don't save money, in general. First, it's easier for patients to schedule a visit, so more visits get scheduled. And second, almost all of the spending in health care is on very sick patients. That's not where the One Medical model acts, and that's not where the telehealth model is. So, telehealth doesn't become a way to bend the cost curve as much as a way to make health care easier to access.

There's this aspiration in health care that if we only got people more primary care, and took care of things earlier, we would be spending less on most of their conditions. That's certainly possible, but we've never figured out how to deliver this aspiration in a systematic manner. The aspiration might even be possible—like putting a human on Mars—but that's quite different than thinking that we know how to land a human on Mars. The sobering reality of health care is that terrible things—Alzheimer's or cancer or an accident—can happen to anyone, including very healthy people. And that's the bulk of health care spending. The reason that health insurance is expensive is not the lack of primary care. It's all the other expensive stuff that we need when we're really sick. And Amazon is no expert in managing any of that.

GAZETTE: It seems that Amazon has a shot at improving the business of health care, but is that the same as really fundamentally changing the field?

CHANDRA: If you ask me what the biggest challenges in American health care are today, I would say that U.S. health care is really expensive, and that we desperately need more meaningful innovation for a whole host of diseases—diabetes, cardiovascular disease, Parkinson's, Alzheimer's, and ALS. We want cures, not chronic disease management.

How does Amazon's foray into health care help with either? Simply because Amazon might be able to introduce supply-chain disruptions that increase its profit margin does not mean that patients will benefit from Amazon's greater profitability. Amazon might continue to charge the high prices but pocket the savings.

It's also not clear how Amazon will lower deductibles, co-payments, and co-insurance. But we need to do these [things] because we know patients respond to these financial barriers by cutting back on valuable care. Amazon's not going to fix that problem.

Amazon is good at selling other people's products—but I don't see it as a pharmaceutical company that might cure disease.

Also, Amazon also paid 77% more than the market value of One Medical. CVS looked at One Medical and passed on acquiring it. CVS is a lot more knowledgeable about health care, including the supply chain, than Amazon is. So, what does Amazon see in One Medical that CVS does not?

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