

## E-COMMERCE GIANT POISED TO DISRUPT HEALTH CARE SUPPLY CHAIN

Amazon is taking strides to enter one of the most complex of industries: health care. In late 2016, Amazon began investigating the possibilities of leveraging its supply chain to meet health care consumers' needs. Amazon Business, Amazon's current supply chain platform, has already transformed the supply chain industry, generating over \$1 billion in sales in its first year and continuing to grow at a 20 percent rate month to month. Amazon Business provides organizations of all types and sizes the ability to access exclusive business-only pricing, discounts for buying in bulk and free two-day shipping for prime members, among other business-savvy tools like an analytics dashboard that can track spending by individuals, groups or an organization as a whole. Amazon appears ready to leverage its successful supply chain platform in the health care distribution industry.

### REINVENTING THE SUPPLY CHAIN MODEL

While Amazon is typically viewed as a market leader, Amazon Business has made some changes to its current model to attract purchasers as it makes its way into the health care world. Amazon Business customers can now purchase items at GPO-negotiated pricing and pay by invoice, a change made after receiving feedback from several Amazon health care suppliers and customers. This means that customers affiliated with a GPO can indicate as such to Amazon and will have access to the same terms and pricing available under their applicable GPO agreement but using Amazon's channels of distribution. Likewise, instead of paying at the point of sale, customers can elect to be invoiced for items and pay at a later date. In an effort to revamp health care purchasing, however, Amazon Business executives are challenging health care consumers to forego the old model of business for a new model involving fewer long-term contracts to avoid a sense of comfort resulting in economic inefficiencies. The goal is to shift purchasing from a push supply chain model, where manufacturers push newly developed products into the market in an attempt to get customers to buy them, to a pull supply chain model, which creates demand at the point of consumption to address historical inefficiencies.

With the new model causing disruption in the health care industry, Amazon is making moves to grow its medical supply segment to compete with existing distributors. Its product offerings already include: infusion pumps, IV bags, catheters, forceps and hospital beds, among an array of other medical supplies. Amazon's track record of undercutting margins by up to 20 percent is what could potentially cause the greatest disruption in the health care space and create concerns for traditional distributors. If Amazon Business maintains its recent growth, its pricing model will likely put pressure on the medical supply distribution business as a whole and potentially force smaller distributors out of the market.

### VALUE-ADDED SERVICES

In addition to offering traditional medical supplies, Amazon Business executives have hinted at providing certain health care services, such as license verification capabilities, which allow a hospital, surgery center or doctor's office to submit their license for verification directly by Amazon. Using Amazon Business, these entities can submit their license type, state license number, the licensee name and organization type, and Amazon will verify the license, opening up an additional array of thousands of professional-only products available for purchase through the organization's Amazon Business account. Amazon Business currently offers this service to a limited number of customers and license types in a template-like structure. As of this post, Amazon Business has introduced this license verification capability in 43 states.

In addition to license verification services, Amazon Business offers enrollment in the Amazon Tax Exemption Program, in which tax-exempt organizations can provide their tax-exempt numbers directly to Amazon in a template-like online tool, which will verify the tax-exempt status with a particular state, sometimes in a matter of minutes, and will then store the information in the organization's Amazon Business account. Sales tax will automatically be removed from the calculation of the total price for applicable purchases by such tax-exempt entities.

### PRACTICAL TAKEAWAYS

As health care entities, including providers, manufacturers, GPOs and others in the health care industry, continue to adapt to this value-based era, disruptions such as these are becoming common. Health care entities should consider evaluating their supply chain to ensure their sourcing strategies are contemporary by doing the following.

**Reviewing purchasing strategies.** Such review can help assess whether the Amazon model will provide better pricing or inefficiencies

than current practices for certain items. Oftentimes, health care entities are encouraged to buy more in order to pay less. This aligns with the historic "push" model of supply chain and encourages bulk buying to receive a better price, only to see those items take up precious space on hospital shelves as they go unused. It may be more contemporary to buy items as needed, thus transitioning to the "pull" supply chain model. While this model may not be appropriate for all purchasing, certain low-risk categories of supplies for which there is less of a need for long-term contracts with firm pricing could be transitioned to the Amazon model.

**Evaluating supply and distribution contracts.** As Amazon enters the market, manufacturers and distributors will likely feel some pressure as Amazon lowers cost for the consumer, ultimately squeezing profit margins for competitors. Manufacturers should review their pricing strategies while providers should review their direct agreements with suppliers and distributors to ensure they remain competitive given other options available in the market.

If you have any questions or would like additional information about this topic, please contact:

- **Erin Rozycki** at (248) 457-7857 or [erozycki@hallrender.com](mailto:erozycki@hallrender.com);
- **Jennifer Viegas** at (317) 977-1485 or [jviegas@hallrender.com](mailto:jviegas@hallrender.com); or
- Your regular Hall Render attorney.

Special thanks to Aaron Mulgrue, law clerk, for his assistance with the preparation of this Health Law News article.