



Amazon Joint Venture to Create Healthcare Company

On January 30, 2018, Amazon, Berkshire Hathaway, and JPMorgan Chase & Co. announced a new partnership dedicated to developing an independent, not-for-profit healthcare company for their respective employees.¹ The project's goals include creating simpler, higher quality, and transparent healthcare for the companies' more than one million employees at lower costs, by using innovative technological solutions to address current problems seen in healthcare.² The announcement created consternation among various healthcare industry giants, and was accompanied by an estimated \$30 billion decrease in market shares for the top ten health insurance and pharmaceutical companies within two hours of its publication.³ This venture denotes Amazon's first serious foray into the healthcare industry, though not its first effort to expand its innovative approaches across industry lines, e.g., the acquisition of Whole Foods in August 2017.⁴

Amazon's fledgling healthcare venture has stimulated robust debate; the move has been characterized as "disruptive," viewed with skepticism, and lauded as an opportunity for market diversification.⁵ Nonetheless, it appears that Amazon has no intention of curtailing its incursion into the healthcare marketplace. In February 2018, *The Wall Street Journal* reported that Amazon was piloting an expansion of its burgeoning medical supply business, with the goal of revolutionizing the traditional model of hospital purchasing.⁶

While this new partnership has garnered much attention, both good and bad, it is not the first of its kind. The *Health Transformation Alliance* (HTA), established in 2016, is a nonprofit cooperative comprised of 46 large self-funded companies, e.g., American Express, IBM, Johnson & Johnson, that have joined together to offer employees and their families an alliance by which to negotiate healthcare contracts and change care delivery.⁷ Currently, HTA is piloting structured group contracts with United Healthcare and Cigna to provide care for common and costly healthcare conditions, whereby providers are paid based on performance targets instead of volume.⁸ While HTA anticipates a savings of more than \$600 million over three years based on this scheme, they acknowledge that this strategy simply takes advantage of their greater leveraging power, is not truly "transformative," and probably will not last in the long term.⁹ HTA's exploitation of the current healthcare marketplace, where size equates to power, simply emphasizes the systemic flaws that have allowed for the

continued corporatization and commoditization of healthcare services and providers, and builds upon the pay-for-performance models that have not yet been proven to increase quality or decrease cost. In contrast, during an interview with CNBC, Warren Buffet of Berkshire Hathaway stated that this new joint venture plans to do more than "simply squeezing middlemen for better prices,"¹⁰ but also acknowledges that "it's gonna be difficult to...really make fundamental change. But we're committed to it."¹¹ However, critics remain skeptical about the feasibility of cutting out the healthcare industry "middlemen," e.g., insurers, pharmaceutical benefit managers, and drug distributors, without adequate existing infrastructure, as well as the likelihood of successfully tackling the often contradictory goals of reducing spending and increasing quality.¹²

The trio has not yet released much detail regarding the new venture or plans for implementing potential change. However, speculation has run rampant since the announcement. In a March 2018 webinar by the Polsinelli law firm, industry experts discussed the "Potential Amazon Effect," whereby they posited that Amazon may revolutionize the healthcare market by applying past successes in their ability to change consumers' purchasing behaviors and creating simpler and more efficient distribution models that create value in high quality providers.¹³ Although Warren Buffett, in a recent interview with CNBC, did not allude to any particular plans for the venture, he did state that their first step will be to find the right CEO to head this new project within the next year.¹⁴

The healthcare industry has largely maintained the "status quo" over the past several decades with regard to the continued and growing inefficiencies that defy efforts of cost containment, driven by the stagnant policy of polarized political parties and the continued fiduciary incentives for stakeholders to maintain that status quo.¹⁵ The government, while able to set goals and provide a regulatory framework to facilitate solutions to healthcare's overarching problems, often relies on private sector involvement to create and pilot the innovative and transformative tools to implement real change.¹⁶ This is done by utilizing an "assess-expand-or-end" pilot approach to evaluating potential breakthrough innovations,¹⁷ such as that pursued by *Centers for Medicare & Medicaid Services* (CMS) Administrator, Seema Verma, who stated in a *Wall Street Journal* op-ed

that, “[w]e are analyzing all [CMS] Innovation Center models to determine what is working and should continue, and what isn’t and shouldn’t... We will move away from the assumption that Washington can engineer a more efficient healthcare system from afar.”¹⁸

Amazon and its partners are pursuing a company that is “free from profit-making incentives and constraints.”¹⁹ This approach will not only spur additional support and investment, and ideally rally bipartisan support for larger scale changes, but, if effective, will also collectively reduce healthcare costs, potentially saving these partner companies billions of annual dollars spent on healthcare.²⁰ While this undertaking is still in its infancy, it has the potential to introduce a new, innovative view of how quality healthcare can be provided while

simultaneously reducing costs, a feat that has been unachievable thus far in the U.S. healthcare system. At the very least, it will help determine how much of the country’s continually growing healthcare costs are due to greed of “middlemen” versus flaws in systemic infrastructure.²¹ Jeff Bezos, Amazon founder and CEO, stated that the partners are aware of the complexities and difficulties associated with these goals, and intimates that “success is going to require talented experts, a beginner’s mind, and a long-term orientation.”²² While some view this venture as foolhardy, and others with burgeoning hope, U.S. history is testimony to a litany of failed efforts in the realm of healthcare innovation and reform, and it remains to be seen whether Amazon and its new partners can succeed where others have not.

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[Todd A. Zigrang](#), MBA, MHA, ASA, FACHE, is the President of **HEALTH CAPITAL CONSULTANTS (HCC)**, where he focuses on the areas of valuation and financial analysis for hospitals, physician practices, and other healthcare enterprises. Mr. Zigrang has over 20 years of experience providing valuation, financial, transaction and strategic advisory services nationwide in over 1,000 transactions and joint ventures. Mr. Zigrang is also considered an expert in the field of healthcare compensation for physicians, executives and other professionals.

Mr. Zigrang is the co-author of "[The Adviser's Guide to Healthcare – 2nd Edition](#)" [2015 – AICPA], numerous chapters in legal treatises and anthologies, and peer-reviewed and industry articles such as: *The Accountant's Business Manual* (AICPA); *Valuing Professional Practices and Licenses* (Aspen Publishers); *Valuation Strategies*; *Business Appraisal Practice*; and, *NACVA QuickRead*. In addition to his contributions as an author, Mr. Zigrang has served as faculty before professional and trade associations such as the American Society of Appraisers (ASA); American Health Lawyers Associate (AHLA); the American Bar Association (ABA); the National Association of Certified Valuators and Analysts (NACVA); Physician Hospitals of America (PHA); the Institute of Business Appraisers (IBA); the Healthcare Financial Management Association (HFMA); and, the CPA Leadership Institute.

Mr. Zigrang holds a Master of Science in Health Administration (MHA) and a Master of Business Administration (MBA) from the University of Missouri at Columbia. He is a Fellow of the American College of Healthcare Executives (FACHE) and holds the Accredited Senior Appraiser (ASA) designation from the American Society of Appraisers, where he has served as President of the St. Louis Chapter, and is current Chair of the ASA Healthcare Special Interest Group (HSIG).



[John R. Chwarzinski](#), MSF, MAE, is Senior Vice President of **HEALTH CAPITAL CONSULTANTS (HCC)**. Mr. Chwarzinski's areas of expertise include advanced statistical analysis, econometric modeling, as well as, economic and financial analysis. Mr. Chwarzinski is the co-author of peer-reviewed and industry articles published in *Business Valuation Review* and *NACVA QuickRead*, and he has spoken before the Virginia Medical Group Management Association (VMGMA) and the Midwest Accountable Care Organization Expo. Mr. Chwarzinski holds a Master's Degree in Economics from the University of Missouri – St. Louis, as well as, a Master's Degree in Finance from the John M. Olin School of Business at Washington University in St. Louis. He is a member of the St. Louis Chapter of the American Society of Appraisers, as well as a candidate for the Accredited Senior Appraiser designation from the American Society of Appraisers.



[Jessica L. Bailey-Wheaton](#), Esq., is Vice President and General Counsel of **HEALTH CAPITAL CONSULTANTS (HCC)**, where she conducts project management and consulting services related to the impact of both federal and state regulations on healthcare exempt organization transactions and provides research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services. Ms. Bailey-Wheaton is a member of the Missouri and Illinois Bars and holds a J.D., with a concentration in Health Law, from Saint Louis University School of Law, where she served as Fall Managing Editor for the *Journal of Health Law & Policy*.



[Daniel J. Chen](#), MSF, is a Senior Financial Analyst at **HEALTH CAPITAL CONSULTANTS (HCC)**, where he develops fair market value and commercial reasonableness opinions related to healthcare enterprises, assets, and services. In addition, Mr. Chen prepares, reviews and analyzes forecasted and pro forma financial statements to determine the most probable future net economic benefit related to healthcare enterprises, assets, and services, and applies utilization demand and reimbursement trends to project professional medical revenue streams, as well as ancillary services and technical component (ASTC) revenue streams. Mr. Chen has a Master of Science in Finance from Washington University St. Louis.