Amazon as a Medical Supplier

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Executive Summary

Amazon is seeking to disrupt the traditional healthcare supply chain by selling everything from bandages to hip replacements to syringes. They plan to expand their B2B marketplace to allow hospitals and clinics to shop for supplies they need to stock various departments and locations. It would extend the advantages of their consumer site to hospital systems, including lower costs, simplified purchasing, and getting rid of middle men.

A natural starting point would be to work with the many satellite facilities owned by hospital systems. In fact, Amazon has already met with major hospital executives and even rolled-out a program with a large hospital system to stock dozens of outpatient facilities with a customized catalog of supplies.

Amazon's model would follow a marketplace concept rather than traditional contract negotiations hospitals and clinics currently have with distributors and manufacturers. There are concerns, though, that the products may not be up to the same specifications and Amazon won’t be able to keep the supply consistent with the direct contract model that most provider organizations currently use. Simply put, hospitals don’t have the luxury of running out of stock, which is why they typically contract directly with distributors and manufacturers.
Amazon’s foray into the healthcare space is generating water cooler talk from the supply side of the house all the way up to the executive suite. CEOs accounted for almost one-third of the participants in the study, indicating there are a lot of powerful players interested in the announcement.

Demographics

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Disruption can be both positive or negative, but it certainly gets people's attention. Almost three quarters of the people we spoke to had heard something, with 59% indicating they were familiar with the news. Expect that number to grow.
Support

Awareness rates are almost equal to that of support. Those who responded favorably cited Amazon’s record of low cost and quick turnaround. Some skeptics feel that GPOs could be an obstacle to the online storefront’s success, while others are hoping it will disrupt the existing negotiation process.

Support: 62%
Neutral: 26%
Unsupportive: 12%
Success

It’s hard to bet against a winner. You can virtually shop for anything and everything on Amazon. Only 11% think they will be unsuccessful as they shift to the healthcare market.

Successful 75%
Neutral 14%
Unsupportive 11%
Effect

The majority think that if Amazon can keep prices down and provide a quick turnaround, this will be a positive disruption. However, no one wants disruption in delivery. Even supporters warned that they need to maintain their current levels of accuracy and customer service if this is going to work out.
Half of respondents recommend that Amazon stick to its strength: providing commodities. That said, there is a lot of interest in everything from surgical supplies to catheters. Pharmaceuticals was third on the list for what providers think they should focus on, but Amazon recently put plans for drug distribution on the back burner.
Conclusion

Based on early feedback, it appears that Amazon has a strong show of support in the healthcare space. How disruptive will they be?

Circuit City: Filed for bankruptcy 2008
Blockbuster Video: Filed for bankruptcy 2010
Borders Bookstores: Filed for bankruptcy 2011
Whole Foods: Partnered with Amazon 2017
Sears: Partnered with Amazon 2017
Kohls: Partnered with Amazon 2018

To say Amazon has disrupted the retail market would be an understatement. They have mastered the process of online shopping and next day delivery. Based on the response we have received from those in the healthcare space, their play will be received with open arms.

These will be tough waters to navigate. Healthcare can be bogged down with red tape. GPOs have dominated the supply chain for a long time. However, if Amazon is able to make a splash in commodities, which they already excel at, the market appears to be Prime for more.
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