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Amazon has Big Ambitions in Primary Care. One Medical is Just the Latest Piece of its Plan July 22, 2022

When it comes to primary care, One Medical is hardly Amazon's first rodeo.

By the time the tech giant made the bombshell announcement that it was buying One Medical on Thursday, it had already aggressively scaled what began as a modest primary care pilot for its Seattle-area employees. Amazon has enlisted two different primary care companies — Care Medical and Crossover Health — to help it expand its services to all 50 states.

All that was training for its next big leap into primary care with One Medical, a company that's outshined the competition by sheer scale alone, boasting almost 770,000 members across 23 states plus Washington, D.C., as of March. Industry insiders say there's a path for Amazon to pair One Medical with its existing assets — a large subscriber base, grocery stores, an online pharmacy, and drug delivery — to become a serious contender in health services.

"A lot of employers will be interested if Amazon can make it work, and One Medical brings credibility to the offering," said Greg Hagood, a senior managing director at SOLIC Capital Advisors.

Amazon's venture with Care Medical started about three years ago with Amazon employees in the Seattle area. From there, it grew to Washington state employers, and its virtual offerings have since expanded to employers and individuals nationwide. The company announced in February it plans to roll out new in-person locations in 20 new cities this year, including San Francisco, Miami, Chicago, and New York City. That's in addition to the eight in-person clinics already up and running in places like Boston, Dallas, and Los Angeles. Care Medical also filed paperwork in early 2021 to do business in Georgia, Hawaii, Maine, Maryland, and Alaska.

Amazon hired Crossover Health in 2020 to head up another slate of primary care clinics exclusively for its own employees. The partnership started in Dallas but has seen its own share of growth, and currently operates 17 clinics in five cities and covers more than 100,000 employees and dependents.

And while Amazon has worked to sell its primary care business far beyond the confines of its own payroll, Crossover has remained limited to Amazon employees.

Crossover has found success convincing other large employers like Apple, Facebook, and Comcast that it can lower their costs and keep employees healthy. The company gets paid a fixed monthly amount for each member, a model designed to cut down on unnecessary services. Visits can be in-person or virtual. In a statement, Crossover said Amazon's move affirms that primary care is a critical area of investment and needed innovation.

It's a notably different approach than One Medical, which charges for each service delivered in most cases. Now that One Medical owns the Medicare-focused Iora, it can bill for even more services delivered to seniors with chronic conditions.

There's some evidence One Medical charges more for services than other providers. The company also relies on referral arrangements with large health systems when patients need higher levels of care.

One thing One Medical doesn't have, though, is the ability to generate a profit just yet. It's been in the red for years, losing almost \$93 million on operations in the first quarter.

Expenses are part of the problem. Providing medical care is expensive, and One Medical has focused on staffing physicians, who tend to be particularly expensive, even though patients prefer them. The trick will be to right-size the cost structure by adding in a mix of nurse practitioners, physician assistants, and nurses, Hagood said. That's something Amazon is already doing with its virtual visits.

"It's still tough to manage the cost of care for these models," Hagood said. "That's the make-or-break for Amazon: Can they get the provider mix right?"

One thing Amazon's proven it's good at is driving demand. Experts predict the strategy will be to promote the primary care platform for its more than 200 million Amazon Prime subscribers worldwide as of last year, much like the company did after buying Whole Foods and offering special grocery deals to Prime members.

But there's an open question of whether individual-level interest can really pay off in primary care. Right now, One Medical gets a sizable chunk of its revenue from partnerships with hospital systems, not paying members. That suggests demand for One Medical's core subscription business isn't enough to sustain the operation, said Jeff Goldsmith, president of the health consultancy Health Futures. To people in their 30s and 40s, health just isn't enough of a priority to pay for on-demand care, he said.

"To me the question in all these new models, which I'm excited about, is: Are they a business or not? One Medical didn't answer that question. And now they don't have to. Amazon does," Goldsmith said.

Amazon ultimately didn't answer that question with Haven, pitched as a visionary venture to lower employer health spending alongside Berkshire Hathaway and JPMorgan Chase. The company ultimately was doomed by a poorly defined mission, strategic blunders, and no measurable progress.

But the deal with One Medical presents an entirely different opportunity, and will help Amazon compete in the in-store space with big players like CVS Health and Walmart, said Howard Forman, a health care management professor at Yale University. Those companies weren't about to sell their clinics to Amazon, but now Amazon might just be able to compete with them, especially if it harnesses its delivery and logistics prowess, he said. Forman said he pictures Amazon rolling out a new Prime tier that includes health care services.

The downside, though, is that such a model could further entrench the country's two-tiered health care system. Amazon and other subscription-based platforms are for the haves, and there are ever-shrinking options for the have-nots who rely on Medicaid or who are uninsured, Forman said.

"It's the direction we're going in a lot of ways," he said.

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