

# Amazon Targets Hospital Supplies

BY MELANIE EVANS  
AND LAURA STEVENS

Amazon.com Inc. is pushing to turn its nascent medical-products business into a major supplier to U.S. hospitals and outpatient clinics that could compete with distributors of items ranging from gauze to hip implants.

Amazon has invited hospital executives to its Seattle headquarters on several occasions, most recently in late January, to sound out ideas for expanding its business-to-business marketplace, Amazon Business, into one where hospitals could shop to stock outpatient locations, operating suites and emergency rooms, according to hospital executives who attended the meetings.

Amazon Business already sells a limited selection of medical supplies, as well as industrial and office goods.

The market for medical supplies is one of a growing number of businesses the online retail giant has put in its sights, from groceries to clothing, often with market-moving results. Shares of health-supply distributors fell Tuesday, in part from The Wall Street Journal's online report of Amazon's intensified push into the industry, analysts said.

Amazon recently dispatched employees to a large Midwestern hospital system, where officials are testing whether they can use Amazon Business to order health supplies for the system's roughly 150 outpatient facilities. *Please see AMAZON page A9*

# AMAZON

Continued from Page One

official overseeing the efforts. The pilot is contemplated for the hospital system's catalog of supplies, the official said, allowing employees to compare prices the system negotiates with its distributors against those in the Amazon Business marketplace.

In response to questions about these efforts, Amazon said it is building technology to serve health-care customers, and seeking to sell hospitals on a "marketplace concept" that differs from typical hospital purchasing, which is conducted through contracts with distributors and manufacturers.

Chris Holt, leader of global health care at Amazon Business, said Amazon won't look to imitate established models already used in the medical-distribution sector. "Our goal is to be something new," he said. "We've been actively building out new capabilities and features" to simplify purchasing, he said.

Echoing sentiments articulated by some in the industry,

he said existing supply-chain options are dated and "not nearly as safe and secure" as needed. "We're thinking about not how we can go into what's already out there, but rather how we can rethink safety and security of anything clinical," he said.

Other companies spending the health-care supply space include Walgreens Boots Alliance Inc., which the Journal reported has approached distributor AmerisourceBergen Corp. about buying the portion of the company that it doesn't already own. Amerisource is primarily a pharmaceuticals distributor with a business supplying hospital systems.

Amazon is making a steady push into health care, an industry the company rattled last month when it said it was forming a nonprofit venture with JPMorgan Chase & Co. and Berkshire Hathaway Inc. and aimed at reducing the three companies' health-care costs. Earlier reports of Amazon's interest in the pharmacy-services business helped spur CVS Health Corp.'s \$69 billion bid last year for insurance giant Astra Inc.

Amazon in recent months

obtained approval from several state pharmaceutical boards to become a wholesale distributor, a step necessary for it to sell medical equipment to licensed professionals. Amazon's competition-shopping clubs could shake up the hospital- and clinic-supply business, where midstream fees and costs and proprietary contracts obscure price differences. But

## Amazon is seeking to sell hospitals on a 'marketplace' concept

Amazon faces challenges. So far, some hospitals have been reluctant to buy supplies from Amazon Business, for reasons including lack of options and lack of control over purchases and shipping, which hospitals closely safeguard to ensure prompt arrival of goods. "We can't be without supplies," said Phyllis McCready, chief procurement officer for Northwell Health in New Hyde Park, N.Y., one of the hospital

executives who attended the Seattle meetings with Amazon. Hospitals typically contract for assurances that products will be available and delivered securely, she said. "It's a little different than being out of a size 8 dress. I can't be out of a size 6 dress," she said.

McCreedy, who oversees the hospital system's \$3 billion annual budget for supplies, contract services and pharmaceuticals.

Ensuring continuity of product supply is also crucial, said Donna Drummond, Northwell's senior vice president of consolidated business services. When doctors and nurses reach for a familiar product, they know its specifications, jumping online to look for the best deal could disrupt that continuity, she said. Northwell is "not ready to move from our current model," Ms. Drummond said, but added, "We are open to a competitive market."

Hospitals today typically sign contracts to buy supplies directly from manufacturers or from distributors, which include Owens & Minor Inc., McKesson Inc. and Cardinal Health Inc. Also in the chain are com-

panies known as group-purchasing organizations that negotiate on behalf of multiple hospital buyers, seeking to leverage collective demand.

## The Supply Side's Economics

Annual revenue and net income for health-care distribution companies:

Company	Revenue	Net Income
McKesson Corp. (San Francisco, Calif.)	\$128.5 billion	\$1.1 billion
Cardinal Health Inc. (Dublin, Ohio)	\$150 billion	\$1.3 billion
Henry Schein Inc. (Shelville, N.Y.)	\$11.6 billion	\$0.6 billion
Owens & Minor Inc. (Mechanicsville, Va.)	\$9.7 billion	\$0.8 billion

Hospitals formed and own a stake in many such groups as well. Some companies in the medical-supply market have already signaled concerns about Amazon Business's initial inroads into the sector.

Owens & Minor Chief Executive R. Cody Phipps described Amazon as "a formidable competitor in any distribution business," as he discussed last company's earnings in November. Owens & Minor didn't respond to a request for comment. McKesson and Cardinal Health declined to comment.

Some companies that sell to hospitals and doctors say they offer services beyond distribution that give them a competitive advantage. Medline, also a manufacturer of employe clinicians to develop custom products for customers, said Ron Barth, executive vice president of sales. Henry Schein Inc. provides small-business customers with health-care education and consulting, said the company's spokeswoman. Presinter Inc., which acts as a purchasing group for hospitals, took investors in January that its pricing competed favorably with Amazon Business and other online retailers.