

CVS and Aetna: First Signs of Amazon’s Effect on the Pharmaceutical Industry

By Concord Cheung, J.D. Candidate 2020 | November 6, 2017

Last Thursday’s [report](#) that Amazon has obtained wholesale pharmacy licenses in 12 states has caused a ripple in the healthcare field. Public records indicate that Amazon’s ambitions may include distribution of medical devices. First [alleged](#) in May, Amazon’s entry into the pharmaceutical industry would be its second attempt into retail pharmacy. Amazon previously owned 40% of the unsuccessful online pharmacy company, Drugstore.com.

CVS Health is vulnerable to Amazon’s move on both the retail pharmacy and pharmacy benefit manager areas. Unconfirmed [reports](#) have surfaced that CVS has submitted a bid to buy Aetna, the third largest U.S. health insurer. A joint CVS-Aetna is expected to leverage patient data to manage healthcare costs, whether in drug price negotiations or customized health plans that encourage use of lower-cost clinics. As a defensive measure, a joint CVS-Aetna would help CVS recover its stock price, which has dropped amid speculation of Amazon’s entry into the healthcare field. Meanwhile, Aetna’s [revenue](#) has been affected by Obamacare policies and the company expects to lose \$200 million this year. An industry-wide health insurance tax of 3% is expected to affect profits for 2018.

Analysts have [noted](#) that Amazon’s move into pharmaceuticals is expected to most affect retail pharmacy chains like Walgreens Boots Alliance, CVS Health Corp., and Wal-mart Stores Inc. However, Amazon has not previously entered into a regulated market and without readily available assets to purchase, building out pharmacy capabilities may prove to be a challenge for Amazon.

Previous reports have [indicated](#) that Amazon was hiring an internal pharmacy benefit manager to serve its 128,000 employees. These managers often negotiate with drug makers to obtain discounts and also help patients save by converting them from name brand versions to generic versions. Amazon’s technology and experience in purchasing and inventory management may give them an advantage and eventually serve as a platform when the program is expanded and added to the plethora of other goods and services offered by Amazon.

Express Scripts Holding, the largest standalone pharmacy benefit manager, [sees](#) potential in partnering with Amazon. The company indicated that it saw no threat to its business that sold pharmaceutical drugs to cash-paying customers. Most people are guided in their pharmaceutical drug purchases by their insurance plan coverage and such strategic partnerships may be vital for Amazon to enter this market. Regardless of how this plays out, Amazon’s entry is likely to shake up the pharmaceutical drug distribution business.