How Major Companies Are Disrupting the Healthcare Sector

By Jack Curran

Companies in the healthcare sector have been in a consolidation arms race.

Over the past year, the healthcare sector has been in a state of flux. Negotiations in Congress surrounding the future of the Patient Protection and Affordable Care Act (PPACA) have resulted in uncertainty and instability for both health insurance companies and healthcare providers. While these negotiations have yet to result in new healthcare laws, some aspects of the PPACA have been either been repealed or gone unfunded, resulting in a healthcare environment with a volatile level of regulation. Additionally, over the past decade, healthcare providers and health insurance companies have been in a consolidation arms race, as providers merge and form healthcare networks to better negotiate with health insurance companies, which have grown rapidly. Throughout all of this, many large companies have attempted to maintain a strong position in the healthcare sector through acquisitions, partnerships and innovation.

Amazon, Berkshire Hathaway and JPMorgan Chase

Despite the volatile nature of the healthcare sector, one new major enterprise is expected to join, and possibly disrupt, the healthcare market. In one of the most recent efforts to navigate the healthcare sector, Amazon, Berkshire Hathaway and JPMorgan Chase have announced a joint effort to form an independent healthcare company for their employees. While very little is known about what these companies have in store, the three massive operations have an estimated 950,000 employees combined; therefore, any effort to provide a group this large with healthcare will be a significant undertaking. In 2018, an estimated 220.8 million people have private health insurance. If this new company provides health insurance to all of these employees, it will enter the Health and Medical Insurance industry (IBISWorld report 52411b) with an estimated market share of 0.4%. While this share is small, aside from the five largest companies in the industry, the average health insurance company has a market share of only 0.02%.

In addition to providing health insurance, the three companies have suggested that this joint effort may include more involved strategies for providing healthcare. While IBISWorld cannot speculate on what exactly these strategies will be, if these companies are successful in developing innovative ways of delivering healthcare, the entire sector could change. However, while the strategies are not clear,
Amazon has announced plans to become a major distributor of medical supplies for hospitals and outpatient clinics. While it may not play into the Amazon-Berkshire Hathaway-JPMorgan Chase plan, this move illustrates Amazon’s determination to enter the healthcare sector. Amazon, Berkshire Hathaway and JPMorgan Chase are all major players in their respective industries, with Amazon in the E-Commerce and Online Auctions industry (IBISWorld report 45411a); Berkshire Hathaway in the Reinsurance Carriers and Property, Casualty and Direct Insurance industries (52413 and 52412); and JPMorgan Chase in the Commercial Banking and Investment Banking and Securities Dealing industries (52211 and 52311). As industry leaders, if these companies develop a successful and innovative business strategy, many of their competitors will likely follow suit.

**CVS-Aetna**

While Amazon, Berkshire Hathaway and JPMorgan Chase seek to enter the industry, current major players in the Health and Medical Insurance industry are working to increase their standing. In December 2017, CVS Health announced plans to purchase Aetna for $69.0 billion. CVS Health, one of the largest providers of Pharmacy Benefit Management (PBM) insurance plans, purchased Aetna as a way to enter into the conventional health insurance market. Prior to the deal, Aetna had been the third-largest company in the Health and Medical Insurance industry with revenue of $60.5 billion in 2017. As a result of this acquisition, in 2018, CVS Health is expected to generate $212.6 billion in health insurance revenue, giving the company a Health and Medical Insurance industry market share of 26.7%.

While this deal will support CVS Health as a company, it will also create new competition within the Health and Medical Insurance industry. The chart below illustrates the market share of various health insurance companies before and after the CVS-Aetna merger.

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*acquired by CVS in 2017

Source: IBISWorld.com
How Major Companies and Regulatory Changes Are Disrupting the Healthcare Sector

Medical Insurance industry. Though the industry has a high level of concentration, with the four largest companies accounting for 61.2% of revenue in 2017, and 73.9% in 2018 following the CVS-Aetna acquisition, the largest companies compete with one another. Over the past five years, United Health Group (UHG) has had an advantage over the other largest companies because it was able to provide traditional health plans and PBMs through OptumRX. Prior to the CVS-Aetna acquisition, no other company was able to compete with UHG’s full range of services. Following the acquisition, the Health and Medical Insurance industry will likely have greater competition between its largest players.

Private insurance enrollment
Along with the move toward consolidation, insurance companies are also adjusting to changing regulation. Over the past five years, volatility surrounding the PPACA has threatened the Health and Medical Insurance industry. In 2016, the future of the law was unclear, prompting some health insurance companies to pull out of the PPACA’s health insurance exchanges, which provided subsidized insurance plans for low-income individuals. Funding for the health exchanges has also declined, causing more companies to be unable to afford to offer discounted plans. As a result, in some states, overall health insurance premiums have increased, making it difficult for some people to purchase insurance.

Additionally, the 2018 tax plan passed by Congressional Republicans eliminates the PPACA’s Health Insurance Mandate, which required all individuals to get health coverage. Without this mandate, many people are expected to opt out of health insurance due to rising premiums. This trend will be especially prevalent in states with the highest premium increases. For example, the number of people with private health insurance in Florida is expected to fall 1.1% in 2018. Nationwide, the number of people with private insurance is expected to fall 0.1% in 2018. As health insurance enrollment declines, many healthcare industries will be hindered. Demand for healthcare services is directly related to people’s ability to access health insurance, and therefore, pay for healthcare services. While demand for these services will likely not decline over the next five years, enrollment declines will limit revenue growth.
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