

THE OHIO MEDICAID ASSESSMENT SURVEY (OMAS)

Monopoly, Competition, and
Medicaid Contracting

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Simple Criteria for Sole Source Contracting

Criteria for Contracting Risk

1. How competitive is that market?
2. Ease of monitoring contract performance
 - Can the vendor game the contract?

	Many Competitors and Easy to Enter	Non-competitive and Hard for New Entrants
Easy product or service to monitor and measure	Lowest Risk	
Difficult product or service to monitor and measure		Highest Risk

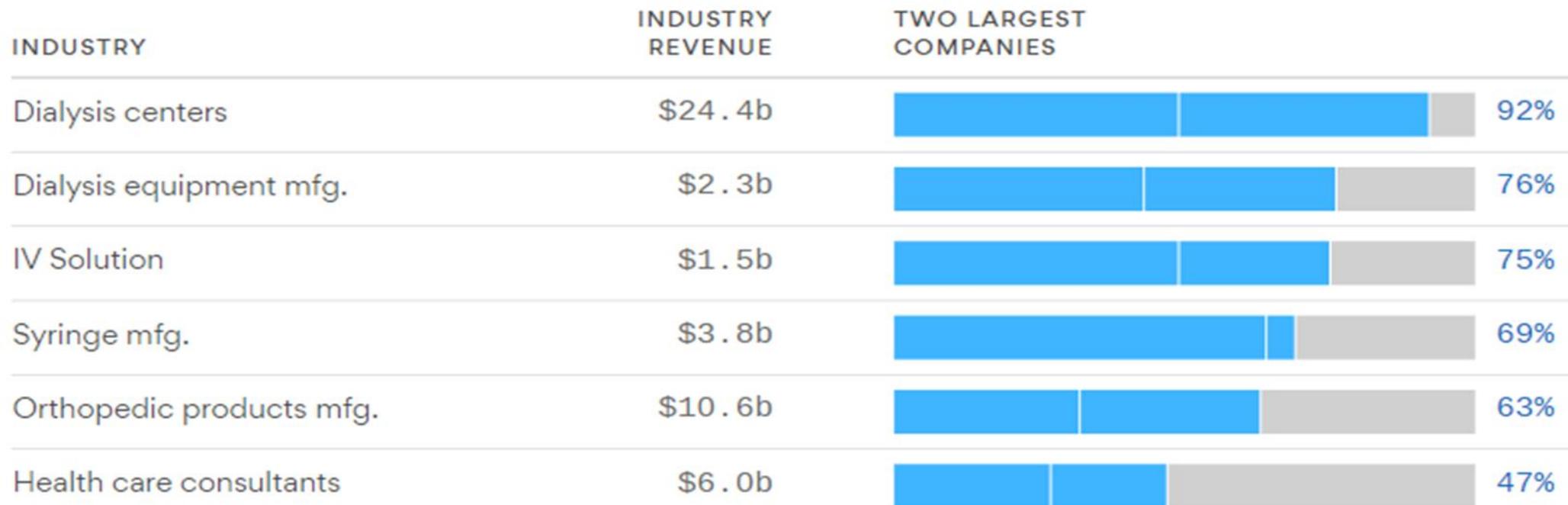
Adapted from Brown and Potoski 2005, "Transaction Costs and Contracting: The Practitioner Perspective."

Are Healthcare Markets Competitive?

- Widespread concern about increasing consolidation and monopoly in healthcare
- Contracting concern:
 - Grant sole-source in a market with minimal competition
 - No competitors left to compete in rebid
 - **PROBLEM:** Created a monopoly by accident

Are Healthcare Markets Competitive?

Combined market share of the two largest companies in selected health care sectors



Data: [Open Markets Institute](#); Chart: Axios Visuals

Remember: Markets Don't Stand Still

- Ex: **Selective Contracting** = limit patient choice to a narrow panel of providers to obtain price discounts in exchange for patient volume
- Produced total savings up to 10% of healthcare spending
- Savings have disappeared as:
 - Trend to more open provider networks (PPOs replaced HMOs)
 - Provider markets have consolidated (markets are dynamic)

Ex: Selective Contracting and Consolidation

National Estimates of the Effects of Hospital Competition
on Hospital Cost Growth, 1989 - 1994

Number of Hospitals	High HMO Penetration	High PPO Penetration
1	8.5 %	15.5 %
2	- 3.4	3.9
3	- 7.4	0.0
4	- 9.4	- 1.9
⋮		
∞	- 15.3	- 7.7

Source: Computed from Bamezai et al. [1999].

Ease of Monitoring Contract Performance

- Contracts cannot predict all possible scenarios
- How do I know if contractor is doing a good job?
 - Must spend contracting savings on contract oversight
 - Or, risk contract failure/underperformance/cream skimming
- Some deliverables are easier to monitor
 - Garbage collection vs Teaching
- Healthcare is hard to monitor

Summary

- Sole source contracts require careful review in healthcare:
 - Market concentration is high (and increasing)
 - Contract outcomes are difficult to observe
- Costs of monitoring difficult contracts can exceed savings from sole source
 - Contract failure and unintentional monopoly are even more expensive
- Questions