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Economic incentives of McKesson's Management Services Organization (MSO) businesses

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This analysis has been performed on behalf of McKesson Corporation (McKesson).

1. Executive Summary

Operating and administering a physician group has become increasingly complex over time, with a major consolidation of physician groups having occurred over the last two decades. This consolidation has occurred through mergers between physician groups, acquisitions of physician groups by hospitals, payers, and other healthcare providers, and the employment decisions of individual physicians. While such consolidation is one way to overcome the difficulties of running an independent physician group, it is not the only potential solution. An alternative approach is for a physician group to outsource practice management services to MSOs that are specialized providers of such services, like McKesson. Such MSOs directly solve the problem at issue, being able to efficiently run a physician group, but do not require broader changes that may be viewed as undesirable by the physician group, such as losing its independence or clinical autonomy.

We highlight six economic principles that underpin the value that McKesson brings to its physician group customers: (i) labor specialization; (ii) economies of scale; (iii) efficient outsourcing of services; (iv) expansion of provided services; (v) alignment of long-run incentives; and (vi) reduced procurement costs. These economic factors generate clear incentives for physician groups to contract with McKesson's MSO businesses by either reducing the cost and complexity of administering a physician group or by expanding the range of services offered by the physician group.

McKesson's MSO businesses operate in a competitive environment where prospective customers (physician groups) can turn to a wide range of alternative providers, including contracting with other MSOs or merging with (or becoming employed by) a hospital system, payer, or larger physician group. Consequently, McKesson must offer attractively priced, high-quality practice management services to be selected as a physician group's MSO.

We also explore potential concerns related to the vertical integration of McKesson's MSO businesses with the drug wholesaling services offered by McKesson. We conclude that such concerns are unlikely given McKesson's business model where, for example, it does not have clinical control over its physician group customers and offers drug wholesaling services similar to those provided by other wholesalers.

Finally, we consider the impact of potential regulatory changes that would hinder drug wholesalers like McKesson from competing to provide practice management services to physician groups. Physician groups considering outsourcing of practice management services would be directly harmed by reduced competition to provide practice management services. Moreover, such regulatory changes would likely have the unintended consequence of accelerating the ongoing trend towards physician consolidation.

2. Introduction

McKesson provides physician practice management services through its Management Services Organization (MSO) businesses, which serve physician groups with certain medical specialties.[1] Practice management includes services such as the management of billing, non-physician employees, facilities and equipment, drug and medical supplies purchasing, information technology (IT), and clinical research support. We analyze the role of McKesson's MSO businesses within the healthcare industry, including the evolving landscape of physician groups, the economic incentives to use an MSO, and the dynamics of competition between MSOs.

The goal of our analysis is to apply standard economic principles to McKesson's MSO businesses. We focus on the landscape in which they operate, and issues related to the vertical integration between McKesson's MSO businesses and McKesson's other businesses. This analysis is based on a review of publicly available data and information, including academic and industry publications and physician data from IQVIA. Our analysis also generally relies on our prior experience working on a variety of matters involving the healthcare industry, including projects where we worked on behalf of McKesson.[2] We used this information to develop an economic framework for analyzing McKesson's MSO businesses and the economic incentives for physician groups, McKesson and other MSOs, and other industry participants.

Our analysis is organized as follows. Section 3 describes trends in physician employment and the landscape in which physician groups operate. Section 4 analyzes the practice management services McKesson provides to physician groups and the economic incentives that inform a physician group's decision to contract with McKesson. Section 5 discusses the competitive landscape for MSOs. Section 6 considers how vertical integration impacts McKesson's incentives. Section 7 discusses the effect of potential regulations that would limit McKesson's ability to provide practice management services. Section 8 concludes.

[1] McKesson primarily focuses on oncology and ophthalmology, with limited practice management services provided for other specialties. See, for example, https://www.mckesson.com/specialty/full-service-practice-management. McKesson has a majority ownership stake in PRISM Vision Holdings, which provides ophthalmology management services. See, https://www.mckesson.com/about-us/newsroom/press-releases/2025/mckesson-completes-acquisition-prism-vision-holdings.

[2] One of the authors of this paper worked on behalf of McKesson in its acquisition of a controlling interest in Core Ventures, Florida Cancer Specialists & Research Institute's MSO. See, https://www.mckesson.com/about-us/newsroom/press-releases/2025/mckesson-corporation-completes-acquisition-of-core-ventures.

3. Physician practice management is becoming increasingly complex

Operating and administering a medical practice has become increasingly complex over time.[3,4] For example, the American Medical Association (AMA) highlights the challenges faced by small group physicians, noting that "[w]ithout support from a larger organization, many of these practices would fail due to rising administrative and infrastructure demands, cultural changes in the expectations of both providers and patients, and growing reimbursement constraints."[5] Relatedly, in 2024 the AMA found that among surveyed physicians whose practices were acquired by hospitals, private equity, or insurers over the last ten years, the "very important" reasons for such sales include "improved access to costly resources," "better manage payers' regulatory and administrative requirements," and "ease participation in risk-based payment models."[6] Each of these factors highlights aspects of the increased complexity of providing medical care, including from both regulatory and contractual requirements.

The AMA survey highlights how one potential response to the increased complexity of operating a physician group is to affiliate with larger entities whose greater scale allows them to operate more efficiently than an individual physician group could. As the relative costs and complexity associated with operating an independent physician group rise, the likelihood of physicians opting to do so decreases (all else equal). If alternatives allow physicians to reduce the cost—in terms of time, effort, and money—of managing the regulatory and administrative requirements of running a physician group, physicians may view those alternatives as preferred options. Such alternatives include physician employment by hospitals or payers, either through direct hiring or physician group acquisitions. This phenomenon is broadly understood within the economics literature and is

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3 See, for example, Phillip Tseng, Robert S. Kaplan, Barak D. Richman (2018), "Administrative Costs Associated with Physician Billing and Insurance-Related Activities at an Academic Health Care System," *JAMA*; and https://www.ama-assn.org/practice-management/private-practices/navigating-private-practice-business-challenges.

4 The fast-paced evolution of technology has associated challenges and costs for physician groups. Medical practices face burdens associated with cybersecurity threats, including data breaches and ransomware attacks, which are complex to mitigate. See, for example, Andis Robeznieks (2024), "On Cybersecurity, Physicians Must Always be on Their Toes," available at https://www.ama-assn.org/practice-management/digital-health/cybersecurity-physicians-must-always-be-their-toes. Developments in technology and a shift to value-based care also may require physician groups to invest in technology. See, for example, American Medical Association, "Guidance for Physician Practices for Investment in Technology of Value-Based Care," available at https://www.ama-assn.org/system/files/investment-technology-value-based-care.pdf. Similarly, in December 2025, The Centers for Medicare & Medicaid Services (CMS) announced the launch of its voluntary ACCESS payment model which seeks to expand technology-supported care for Medicare beneficiaries. See, https://www.cms.gov/newsroom/blog/improving-access-technology-supported-care-outcome-aligned-payments.

5 Molly Smith (2025), "Physician Practice Acquisitions: What Drives Them and Implications for Consumers and Payers," available at https://www.aha.org/news/blog/2025-10-21-physician-practice-acquisitions-what-drives-them-and-implications-consumers-and-payers.

6 Carol K. Kane (2025), "Physician Practice Characteristics in 2024: Private Practices Account for Less Than Half of Physicians in Most Specialties," available at https://www.ama-assn.org/system/files/2024-prp-pp-characteristics.pdf.

consistent with the simple observation that "it pays to have people become specialized as specialization vastly expands the production potential."[7] As the complexity of operating a physician group increases, physicians are increasingly seeking to specialize in caring for patients and allow some other entity to specialize in providing administrative and regulatory support.

The Government Accountability Office notes that studies have shown that "at least 47 percent of physicians were employed by or affiliated with hospital systems in 2024, up from less than 30 percent in 2012."

Consistent with the rising complexity of operating a physician group, over the last two decades there has been major consolidation of physician groups.[8] The proportion of physicians employed by large physician groups has grown and conversely the proportion of physicians in smaller physician groups has declined.[9] For example, the Government Accountability Office notes that studies have shown that "at least 47 percent of physicians were employed by or affiliated with hospital systems in 2024, up from less than 30 percent in 2012."[10] This consolidation has occurred through both horizontal mergers between physician groups, vertical acquisitions of physician groups by hospitals and other healthcare providers, and the employment decisions of individual physicians, e.g., an individual physician leaving a physician group for employment at a hospital system.

7 Bengt R. Holstrom and Jean Tirole (1989), "The Theory of the Firm," *Handbook of Industrial Organization*.

8 See, for example, Zack Cooper, Stuart Craig, Aristotelis Epanomeritakis, Matthew Grennan, Joseph Martinez, Fiona Scott Morton, and Ashley T. Swanson (2025), "Hospitals are Gobbling Up Physician Practices–and Health Care Prices are Rising as a Result," available at https://tobin.yale.edu/research/hospitals-are-gobbling-physician-practices-and-health-care-prices-are-rising-result. This trend is impacted by other factors as well, including increasing demand by hospitals and payers to directly employ physicians. See, Michael G. Vita (2024), "Physician Group and Healthcare Merger Study," available at https://www.ftc.gov/enforcement/competition-matters/2021/04/physician-group-healthcare-facility-merger-study; and Physicians Advocacy Institute and Avalere Health (2024), "Updated Report: Hospital and Corporate Acquisition of Physician Practices and Physician Employment 2019-2023," available at https://www.physiciansadvocacyinstitute.org/PAI-Research/PAI-Avalere-Study-on-Physician-Employment-Practice-Ownership-Trends-2019-2023.

9 See, for example, GAO GAO-25-107450 (2025), "Health Care Consolidation: Published Estimates of the Extent and Effects of Physician Consolidation," available at https://files.gao.gov/reports/GAO-25-107450/index.html; Carol K. Kane (2025), "Physician Practice Characteristics in 2024: Private Practices Account for Less Than Half of Physicians in Most Specialties"; and Martin Gaynor (2019), "Diagnosing the Problem: Exploring the Effects of Consolidation and Anticompetitive Conduct in Health Care Markets," Statement before the Committee on Judiciary Subcommittee on Antitrust, Commercial, and Administrative Law, U.S. House of Representatives, available at https://www.congress.gov/116/meeting/house/109024/witnesses/HHRG-116-JU05-Bio-GaynorM-20190307.pdf.

10 GAO GAO-25-107450 (2025), "Health Care Consolidation: Published Estimates of the Extent and Effects of Physician Consolidation."

The increasing reliance on MSOs can be viewed as a targeted response to physician demand for services that allow them to remain both independent and efficient providers of physician services.

While such consolidation is one way to overcome the difficulties of running an independent physician group, it is not the only potential solution. An alternative approach is for a physician group to outsource practice management services to MSOs that are specialized providers of such services (like McKesson, as discussed in Section 4). Such MSOs directly solve the problem at issue, being able to efficiently run a physician group, but do not require broader changes that may be viewed as undesirable by the physician group. For example, an independent physician group may seek to reduce their costs but may not want to give up their clinical independence or ownership in their own practice, both of which are likely to occur if a physician becomes an employee of a hospital or other larger healthcare provider. Thus, the increasing reliance on MSOs can be viewed as a targeted response to physician demand for services that allow them to remain both independent and efficient providers of physician services.[11]

[11] As discussed in Section 7, competition to provide practice management services counters the trend towards physician group consolidation and potentially decreased competition for physician services.

4. McKesson's MSO businesses

McKesson's MSO businesses provide practice management services needed to run a physician group such as the administration of billing and revenue cycle management, technology, marketing support, and drug and medical supplies purchasing.[12] McKesson's MSO business units have specialized in providing these services, reducing the administrative burden on physicians and enabling them to focus more on patient care.

Below, we highlight six economic principles that underpin the value that McKesson brings to its physician group customers: (i) labor specialization; (ii) economies of scale; (iii) efficient outsourcing of services; (iv) expansion of provided services; (v) alignment of long-run incentives; and (vi) reduced procurement costs. These economic factors generate clear incentives for physician groups to contract with McKesson's MSO businesses by either reducing the cost and complexity of administering a physician group or by expanding the range of services offered by the physician group.[13]

[12] See, for example, https://www.mckesson.com/specialty; https://usoncology.com/practice-success/practice-growth-advocacy/practice-management; and https://prismvisiongroup.com/benefits. Also, as discussed in Section 4, McKesson reduces the costs for a physician group to offer an expanded set of services by, for example, providing clinical research support.

[13] McKesson's MSO businesses provide practice management services to physician groups owned and controlled by physicians.

4.1 Labor specialization

Physicians spend significant time and effort doing non-clinical activities.[14] Like any business, physician groups must undertake a range of administrative and regulatory tasks, such as human resources, payroll, information technology, billing, and vendor contracting, that do not need to be performed by a physician.[15] From an economic perspective, it is inefficient for one type of highly specialized labor, physicians, to dedicate a meaningful portion of their time to activities where they lack specific expertise and are likely at a relative disadvantage in providing, compared to (non-physician) individuals who have specialized in those activities. By outsourcing non-clinical functions to a specialized provider, such as McKesson's MSO businesses, physicians can focus on their core competency, providing medical care. While, in principle, physician groups could address this by hiring non-physician employees to perform non-clinical tasks, as discussed in the following subsection, economies of scale provide an economic rationale for why physician groups often outsource administrative and regulatory tasks to specialized firms that can more efficiently provide such services.

By outsourcing non-clinical functions to a specialized provider, such as McKesson's MSO businesses, physicians can focus on their core competency, providing medical care.

4.2 Economies of scale

McKesson's practice management services enable physician groups to take advantage of economies of scale, while retaining autonomy over patient care relationships including control over clinical decisions. "Economies of scale" refers to the concept that average per unit costs decrease as production volume increases, often reflecting the fact that fixed costs, such as upfront investments, are averaged across a greater quantity of output.[16] Physician groups are typically smaller scale operations with a localized footprint. McKesson's MSO businesses offer centralized administrative and technology support across a national footprint of physician group customers, which enable these physician groups to take advantage of economies of scale with respect to overhead costs and process management. By contracting with a McKesson MSO business, a physician group can reduce practice management costs through these economies of scale.

[14] See, for example, Abe Dunn, Joshua D. Gottlieb, Adam Hale Shapiro, Daniel J. Sonnenstuhl, and Pietro Tebaldi (2024), "A Denial a Day Keeps the Doctor Away," *The Quarterly Journal of Economics*; and Steffie Woolhandler and David U. Himmelstein (2014), "Administrative Work Consumes One-Sixth of U.S. Physicians' Working Hours and Lowers Their Career Satisfaction," *International Journal of Health Services*.

[15] Relatedly, the "Expansion of provided services" subsection below discusses McKesson's provision of clinical research support to physician group customers.

[16] See, N. Gregory Mankiw, *Principles of Economics*.

Practice management services often have high fixed costs associated with their development. For example, developing a streamlined process for reimbursement filing and tracking may require substantial upfront investment. While variable costs associated with continued operations may be low relative to the upfront fixed cost, an individual physician group may be unable or unwilling to incur the fixed cost for building such processes. In contrast, McKesson's MSO businesses can develop such services centrally and efficiently provide them across their physician group customers. McKesson has an incentive to do so, to improve quality and become more competitive by providing attractive services to physician groups. McKesson bears the development cost of such services and each physician group customer benefits from this investment without having to incur the same fixed costs.[17]

Many physician groups have opted to contract with McKesson's MSO businesses as opposed to self-providing practice management services or selecting a competing option (see Section 5). This choice behavior, or "revealed preference," reflects that these physician groups view McKesson's MSO offerings as the most attractive available offering relative to alternatives, such as developing costly services for their own practice or obtaining such services in some other way, such as being acquired by another physician group or a hospital system.[18] This is direct evidence that the outsourcing of practice management services to McKesson has benefited McKesson's MSO customers.

4.3 Efficient outsourcing of services

An alternative to relying on McKesson's MSO businesses is to outsource individual practice management services to vendors that specialize in providing such services. For example, there are companies that specialize in providing physician groups with revenue cycle management solutions.[19] A key benefit of McKesson's MSO businesses is that they provide a comprehensive set of practice management services that are designed to work together, creating efficiencies and other benefits for McKesson's physician group customers, e.g., technology solutions that integrate data used for billing, revenue cycle management, inventory management, and financial reporting. This enables physician groups to work with a single vendor rather than outsourcing these services to multiple vendors, avoiding the costs associated with managing multiple vendor relationships and the interoperability costs from doing so. By contracting with McKesson, a physician group can reduce the complexity, and the associated costs, of administering their practice.

The economics literature notes that firms make decisions over whether to purchase externally or self-supply a product or service and, if they opt to purchase externally, which alternative to select based on the relative costs.[20] If a firm opts to purchase externally, they may consider purchasing

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17 The technology investments discussed earlier in footnote 4 are examples of services with high fixed development costs that can be shared across physician group customers.

18 Paul A. Samuelson (1948), "Consumption Theory in Terms of Reveal Preference," *Economica*.

19 See, for example, https://www.agshealth.com and https://www.ensemblehp.com.

20 See, for example, Oliver E. Williamson (2002), "The Theory of the Firm as Governance Structure: from Choice to Contract," *Journal of Economic Perspectives*; and Bengt R. Holstrom and Jean Tirole (1989), "The Theory of the Firm," *Handbook of Industrial Organization*.

services separately from a number of vendors or alternately purchasing a set of services from a single vendor. Some vendors may offer a broad range of products or services, i.e., position themselves as "One Stop Shops," while other vendors may sell a single product or service.[21] Customers that value convenience or seek to reduce transaction or search costs associated with selecting from multiple vendors may prefer to contract with a One Stop Shop.

Given the increasing administrative burdens of operating a physician group, McKesson's MSO businesses provide an attractive solution to practice management, with many physician groups contracting with McKesson. This revealed preference indicates that these physician groups view McKesson's comprehensive practice management solution as a more attractive offering compared to contracting with a range of individual vendors for each practice management service they seek to outsource.

4.4 Expansion of provided services

A related benefit of McKesson offering a comprehensive set of practice management services is the reduced costs for a physician group to offer an expanded set of services. McKesson has developed additional services designed to work with its core practice management services which can be added by a physician group customer at a lower cost than if they were to outsource this function to another vendor. The economics literature recognizes the benefits of such "economies of scope" where it can be more efficient to purchase a range of related services from the same firm.[22]

One such example is McKesson's administrative and technology support to physician groups for participating in clinical research studies, which McKesson provides through a joint venture with HCA Healthcare.[23,24] In the past, smaller physician groups often have not participated in clinical research studies due to the high associated administrative costs, with clinical research more commonly done by physicians employed at academic medical centers and research institutions.[25] Indeed, as the complexity of running a physician group increases over time, one would expect this to "crowd out" non-essential activities that require additional investment, expertise, and administrative support. By outsourcing practice management to McKesson, a physician group can free up its physicians to

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21 Andrew Rhodes and Jidong Zhou (2019), "Consumer Search and Retail Market Structure," *Management Science*.

22 John C. Panzar and Robert D. Willig (1981), "Economies of Scope," *The American Economic Review*.

23 See, https://usoncology.com/physicians/clinical-trials.

24 In 2024, USON physician group customers enrolled over 1,800 patients in interventional clinical trials and USON had more than 330 clinical trials available to physician group customers. See, The US Oncology Network 2024 Annual Report at 32, available at https://engage.mckesson.com/the-network-2024-annual-report/p/1.

25 See, Janet Woodcock, Richardae Araojo, Twyla Thompson, and Gary A. Puckrein (2021), "Integrating Research into Community Practice—Toward Increased Diversity in Clinical Trials," *New England Journal of Medicine*; and Kari G. Vance, Jonah Pedelty, Barbara J. Van Gorp, Carol GT Vance, Elizabeth M. Johnson, Fangfang Jiang, David-Erick Lafontant, Maxine Koepp, Andrew A. Post, Emine Bayman, Ruth L. Chimenti, Dana L. Dailey, Leslie J. Crofford, Heather Reisinger, and Kathleen A. Sluka (2025) "Community Engagement Strategies Improve Recruitment and Enrollment in a Pragmatic Clinical Trial," *Journal of Clinical and Translational Science*.

consider additional revenue-enhancing activities, such as clinical research, that may be a more efficient use of its physicians' available time. Moreover, conditional on already receiving practice management services from McKesson, the incremental cost to adding other services, such as administrative and technology support for clinical research, is likely lower compared to outsourcing this function to a separate vendor.

Another example is McKesson's support for value-based care. Physician group customers who wish to participate in value-based care programs, such as those offered by the Centers for Medicare & Medicaid Services (CMS) or private payers, can rely on the processes and other support that McKesson has developed to facilitate value-based care. For example, a physician group that is already using McKesson's electronic health records platform is well positioned to have McKesson collect and report clinical data to support value-based care programs. McKesson's support for value-based care benefits not only their physician group customers and their patients, but also payers who offer value-based programs. For example, some of McKesson's physician group customers participated in CMS's Oncology Care Model, an initiative that aimed to improve the quality of care and reduce costs through better care coordination and adherence to national treatment guidelines.[26] These customers were able to improve outcomes for their patients, including reduced inpatient stays and emergency room visits, but also reduced costs to CMS by $337 million compared to the benchmark amount.[27] McKesson continues to provide support for other value-based care programs, including CMS's Enhancing Oncology Model that resulted in savings to CMS of $44 million in its first performance period (treatment episodes initiated between July 1, 2023 and December 31, 2023) compared to the benchmark amount.[28]

By outsourcing practice management to McKesson, a physician group can free up its physicians to consider additional revenue-enhancing activities, such as clinical research, that may be a more efficient use of its physicians' available time.

4.5 Alignment of long-run incentives

MSOs often provide practice management services via long-term contracts that can last ten years or more.[29] Our understanding is that McKesson's MSO businesses engage in long-run contracting for

[26] See, https://www.cms.gov/priorities/innovation/innovation-models/oncology-care.

[27] See, https://usoncology.com/news/oncology-care-model-ocm-six-years-later.

[28] See, the US Oncology Network 2024 Annual Report at 11, available at https://engage.mckesson.com/the-network-2024-annual-report/p/1.

[29] See, for example, Tony Berberabe (2019), "As Practices Look to the Future, 2 Models for Next-Generation Management Companies Emerge," available at https://www.targetedonc.com/view/as-practices-look-to-the-future-2-models-for-nextgeneration-management-companies-emerge.

practice management services. The economics literature recognizes that longer-term contracting facilitates cooperation and reduces transaction costs relative to repeated short-term contracting.[30] In particular, long-run relationships can better align the incentives of the contracting parties.[31]

These benefits arise for McKesson and its physician group customers. As discussed in Section 5, McKesson has an incentive to provide high quality, financially attractive services to be selected by physician groups that are evaluating a range of options for their practice management needs. McKesson's MSO businesses have a strong incentive to facilitate investments that increase a physician group customer's long-term success, in part because McKesson's compensation for practice management services is often based on a physician group's revenue or profitability over the duration of the relationship. Rather than focusing on a physician group customer's short-run financial outcomes, McKesson and their physician group customers can take a longer view that incorporates the benefits of costly investments that might not make economic sense if McKesson engaged only in short-run contracting with its physician group customers. As discussed below, long-run relationships not only facilitate practice-specific investments for McKesson's physician group customers but also incentivize McKesson to invest in the practice management services that it provides.

A physician group customer's long-run relationship with McKesson allows them to take advantage of investment opportunities that might not be possible for a physician group to undertake on their own. For example, McKesson enables investments at lower capital costs.[32] Greater access to investment dollars at lower interest rates incentivizes physician groups to invest in their practice. This benefits not only themselves (and McKesson), but also their patients. For example, McKesson's access to low-cost capital can incentivize a physician group's investment in a new office, improving access to care for their patients.[33] In 2023, McKesson's US Oncology Network facilitated $100 million in capital

30 See, for example, Oliver D. Hart and Bengt Holmstrom (1986), "The Theory of Contracts," Massachusetts Institute of Technology, Department of Economics Working Paper 418.

31 Common ownership through a merger or acquisition is another way to align the long-run incentives of physician groups and MSOs. For example, a hospital system that provides practice management services to its employed physicians or affiliated medical groups will generally have closely aligned incentives with those entities. But such alignment comes at the cost of physician group independence and clinical autonomy. Thus, long-run contracting by MSOs can be viewed as a substitute for provider consolidation.

32 See, The US Oncology Network 2024 Annual Report at 25, available at https://engage.mckesson.com/the-network-2024-annual-report/p/1.

33 See, for example, https://usoncology.com/practice-success/practice-growth-advocacy/financial-empowerment ("For example, Tennessee Cancer Specialists used capital from The Network to open a new office and plan a medical oncology buildout. With a cost of capital lower than the prime rate, practices gain long-term financial flexibility and growth potential.").

projects for physician group customers.[34] These investments funded new facilities, enhanced existing facilities, and were used to deploy new technology and equipment.[35]

In 2023, McKesson's US Oncology Network facilitated $100 million in capital projects for physician group customers. These investments funded new facilities, enhanced existing facilities, and were used to deploy new technology and equipment.

McKesson's long-run relationships with its physician group customers similarly incentivize McKesson to make investments in the practice management services that it provides. The expected return from McKesson's investments in practice management services depends, in part, on the number of McKesson's physician group customers that will benefit from such investments. Long-run relationships provide greater predictability in McKesson's customer base for practice management services when determining whether and how to invest in its MSO businesses. McKesson is better positioned to improve the range and quality of its practice management services as long-run relationships reduce McKesson's risk regarding the number of customers (physician groups) that would benefit from such investments. For example, McKesson can develop services related to value-based care[36] or its oncology-focused electronic health records platform[37] based, in part, on the needs of its physician group customers, knowing that (most) of those customers will still be physician group customers in the future, even if it takes a long time to develop new or improved services. Innovation in this environment is a lower-risk endeavor compared to a situation where shorter-run contracts are employed, where the needs of one's current customers may be very different from the needs of one's future customers.

4.6 Reduced procurement costs

The economics literature highlights how vertical integration creates an incentive for a vertically integrated firm to provide services to its own affiliates at a lower cost. Specifically, throughout a supply chain, each profit-maximizing vendor will typically set prices for its products or services that exceed the cost of providing those products or services. In contrast, a vertically integrated firm has an incentive to set a smaller price markup on products or services that it sells to affiliated entities, reducing the procurement costs. In the economics literature, this phenomenon is referred to as the

34 See, The US Oncology Network 2023 Annual Report at 28, available at https://usoncology.com/annual-report-23.

35 See citation in footnote 34. In 2025, US Oncology Network committed $114 million in capital investments that included modernizing patient facilities, expanding service lines, and new spaces for practices. See, https://usoncology.com/news/reflecting-on-2025-co-creating-the-future-of-community-oncology.

36 See, https://usoncology.com/practice-success/patient-centric-care/value-based-care.

37 See, https://www.ontada.com/point-of-care-solutions/iknowmed.

"elimination of double marginalization" and is commonly viewed as a key benefit of vertical integration.[38]

This incentive from vertical integration provides an additional mechanism through which a physician group can further reduce its costs and become a more efficient provider of physician services. Specifically, McKesson's contracts with physician groups often are structured such that McKesson provides practice management services in return for a share of a physician group's net profits. This creates an economic incentive for McKesson to agree to lower wholesale distribution costs, with McKesson benefitting from the physician group's increased profitability from lower procurement costs.[39] Our understanding is that McKesson's MSO contracts with physician groups often include provisions stipulating favorable pricing for drugs and medical supplies.[40] As discussed above, the economics literature highlights how this is mutually beneficial to both McKesson and the physician group.

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38 See, for example, Jean Tirole, *The Theory of Industrial Organization*; and U.S. Department of Justice and the Federal Trade Commission's 2023 Merger Guidelines at footnote 31, available at https://www.ftc.gov/system/files/ftc_gov/pdf/2023_merger_guidelines_final_12.18.2023.pdf. As discussed below in footnote 39, since McKesson receives only a percentage of its physician group customer's profits, rather than the "elimination" of double marginalization it is more appropriate to describe it as a "reduction" of double marginalization.

39 The economic intuition for this is as follows. First, suppose that McKesson is not a physician group's MSO, and therefore McKesson does not receive a share of the physician group's profits for providing practice management services. At McKesson's profit maximizing price for distribution services, McKesson's profits will be similar if it slightly increases or decreases that price (if that were not the case, then the price would not be profit maximizing). Now, consider the same situation but McKesson is the physician group's MSO and therefore receives a share of the physician group's profits. At the previously profit-maximizing price for distribution services, a small price reduction will not impact its profits for distribution services but will increase the physician group's profits and consequently McKesson's share of those profits. While the magnitude of this incentive to reduce price may be modest because McKesson typically receives only a relatively small percentage of its physician group customer's profits, it nonetheless provides greater incentive to reduce price compared to a situation where McKesson does not receive any percentage of its physician group customer's profits. This incentive is similar to a model developed by Steve C. Salop and Daniel P. O'Brien (2001), "The Competitive Effects of Passive Minority Equity Interests: Reply," *Antitrust Law Journal*, although that model applies to a situation where a firm acquires a financial interest in a competitor (leading to an incentive to set higher, rather than lower prices, as is the case here involving a buyer-seller relationship). A related economic intuition is that it is efficient for a vertically integrated firm to maximize the profitability of the total enterprise rather than independently maximize the profits of each division. Analogously, it is efficient for McKesson to receive compensation as a (relatively small) portion of a physician group's profits rather than by receiving compensation through higher prices for services supplied to physician group customers.

40 Relatedly, McKesson's group purchasing organization (GPO) businesses assist their physician group customers in lowering procurement costs by generating rebates from pharmaceutical manufacturers that are paid to their physician group customers.

5. MSO competition

McKesson's MSO businesses compete with other MSOs as well as other providers of practice management services, such as hospital systems that directly employ physicians. McKesson must provide high quality, financially attractive services to be selected by physician groups that are evaluating a range of options for their practice management needs.

A physician group selects an MSO based both on their expected financial return across offers and their preferences over the differentiated service models that are available in the market. In doing so, a physician group distinguishes between price and non-price attributes of a service.[41] For example, a physician group may, all else equal, prefer retaining their independence and therefore have a general preference for contracting with an MSO. Alternately, a physician group may put less weight on independence and instead more heavily weigh reduced financial risk and consequently prefer to sell their business to a hospital or physician group.

When attempting to win a physician group's business, McKesson submits an individualized bid to the potential customer that balances the expected financial return from winning the bid against the likelihood of the physician group selecting McKesson as their practice management services provider. While a higher offer increases the probability of McKesson being selected, it also decreases the expected financial return to being selected. This is a standard trade-off that businesses face in bidding markets and other price-setting situations.

When the financial attractiveness of bids is similar, a physician group is likely to select the option that most closely matches their non-price preferences. When McKesson's practice management services are more closely aligned to the non-price preferences of a physician group, e.g., a strong desire to retain clinical independence, other MSOs that have a similar product offering are substitutes for McKesson.[42] These include MSO businesses operated by other large distributors, such as Cardinal Health and Cencora.[43] McKesson also competes with a range of other MSOs that offer similar services, such as the American Oncology Network (AON) and The Oncology Institute of Hope and Innovation.[44] As discussed below, however, MSOs with more differentiated product

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41 See, for example, Steven T. Berry (1994), "Estimating Discrete-Choice Models of Product Differentiation," *RAND Journal of Economics*.

42 Since physician groups have preferences along multiple non-price dimensions, e.g., a physician group may prefer clinical independence but dislike business risk, MSOs such as hospitals that provide practice management services differentiated from McKesson's may still closely align to the (overall) non-price preferences of a physician group and therefore be close substitutes for McKesson.

43 For example, within oncology Cardinal Health expanded its MSO business by acquiring Integrated Oncology Network (ION) and Cencora similarly acquired OneOncology. See, https://newsroom.cardinalhealth.com/2024-12-03-Cardinal-Health-completes-acquisition-of-Integrated-Oncology-Network and https://www.oneoncology.com/annual-reports/tpg-cencora-transacrion.

44 See, https://www.aoncology.com and https://theoncologyinstitute.com.

offerings are also substitutes for McKesson, particularly when the financial attractiveness of bids is not similar.

Alternatives that are differentiated from McKesson's MSO businesses are also substitutes, and therefore competitors. This includes acquisition offers from hospitals, which can be more financially attractive than what McKesson is able to profitably offer to physician groups for practice management services.[45,46] A physician group may select a more financially attractive offer from a hospital even when McKesson's offering is more closely aligned with a physician group's non-price preferences. Offers from other physician groups are also substitutes. Independent physician groups may provide less attractive financial offers but may more closely align with a physician group's non-price preferences relative to McKesson's offering if the physician group weighs affiliation with a physician run organization heavily.[47]

McKesson's comparative advantage relative to other MSOs is being able to directly provide a comprehensive set of services that includes not only the essential practice management services needed to run a physician group, but also additional services including drug wholesaling, clinical research support, and support for value-based care. As discussed earlier, this allows McKesson's MSO businesses to reduce costs for their physician group customers and allows them to offer an expanded set of services. For this reason, it is unsurprising that McKesson's physician group customers often receive a range of services from McKesson, e.g., McKesson often is the drug wholesaler for physician groups for which it provides practice management services. Similarly, other MSOs compete by drawing on their respective strengths, e.g., hospitals are often able to provide greater compensation and financial stability to their employed physicians. While each MSO may offer a differentiated set of services, each physician group is free to select the most attractive choice from the set of competing options. Consequently, the observation that McKesson's physician group customers often contract for a range of services indicates a revealed preference for doing so compared to alternative choices, including both self-provision and the outsourcing of individual services to specialized providers of those services. While MSOs such as McKesson may prefer that their customers purchase a wide range of services from them, they can achieve that goal only if they can provide attractively priced, high-quality services that are preferred by their customers over all other available options.

While physician groups select an MSO based on the overall attractiveness of the services that it provides, individual physicians employed by those physician groups may have different preferences that may incentivize them to select different employment choices. For example, even if a physician group selects McKesson as its MSO, some of its physicians may instead elect to leave the practice and join a physician group or hospital that does not use McKesson as its MSO. Conversely, individual physicians who prefer to be employed by an independent practice that contracts with one

45 For example, a hospital's access to 340B drug pricing may enable them to provide a practice with a more attractive financial offer than an MSO that did not have access to 340B pricing.

46 As discussed below, payers such as UnitedHealth's Optum are also major employers of physicians.

47 Unlike (some) hospitals, independent physician groups do not have access to 340B pricing.

of McKesson's MSO businesses may choose to leave their current employer, such as a hospital, and join a physician group that receives practice management services from McKesson.

McKesson's US Oncology Network (USON), which provides practice management services to oncology practices, is the largest component of McKesson's MSO business. Even in this core area, however, McKesson is a relatively small player. Based on an analysis of 2025 IQVIA OneKey physician data, we find that USON's physician group customers represent only approximately 5% of all oncologists in the United States. The remaining 95% of oncologists receive practice management services from a wide range of other providers, including:

Hospitals and payers: Similar to other specialties, oncologists are increasingly likely to practice in a physician group affiliated with a hospital system. Hospital systems typically operate at a much greater scale than an independent physician group and can self-provide practice management services. Similarly, payers, such as UnitedHealth's Optum, are also major employers of physicians, including oncologists.

Physician groups: Some physician groups also have sufficient scale to provide practice management services. For example, DMG Practice Management Solutions is an MSO provider that is a subsidiary of Duly Health and Care, a large multi-specialty physician group that operates in the Chicago area.[48] Other employers of oncologists include City of Hope,[49] which includes Cancer Treatment Centers of America, and Ironwood Cancer and Research Centers.[50]

Oncology-focused MSOs: McKesson also competes with oncology-focused MSOs. These include MSOs owned by other distributors, such as Cencora's OneOncology and Cardinal Health's Navista,[51] as well as oncology-focused MSOs not affiliated with distributors, such as American Oncology Network (AON).[52] Similarly, ONCare Alliance is a network of independent physician groups that offers a range of services, including administrative support.[53]

Other MSOs: Oncology practices can also turn to MSOs that provide practice management services to a range of specialties, rather than primarily oncology. Examples include Brown and Toland[54] and PremierOne Plus.[55]

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48 https://www.dulyhealthandcare.com/our-history.

49 https://www.cityofhope.org and https://www.cityofhope.org/cancer-treatment-centers-of-america-locations-to-be-renamed-city-of-hope.

50 https://www.ironwoodcrc.com/our-philosophy.

51 https://www.navista.com/about-us.html.

52 https://www.aoncology.com.

53 https://www.oncarealliance.com/about.

54 https://altais.com/about/brown-and-toland. Brown and Toland's MSO is now part of Altais Health Solutions. See, https://altais.com/about/history.

55 https://popmso.com/Html/about.html.

Self-provision: Since practice management includes essential services, all physician groups must either outsource or self-provide practice management services. Physician groups that choose to self-provide may still outsource specific practice management services to vendors of such services, e.g., a firm may outsource billing to a specialized provider of those services.

6. Vertical integration

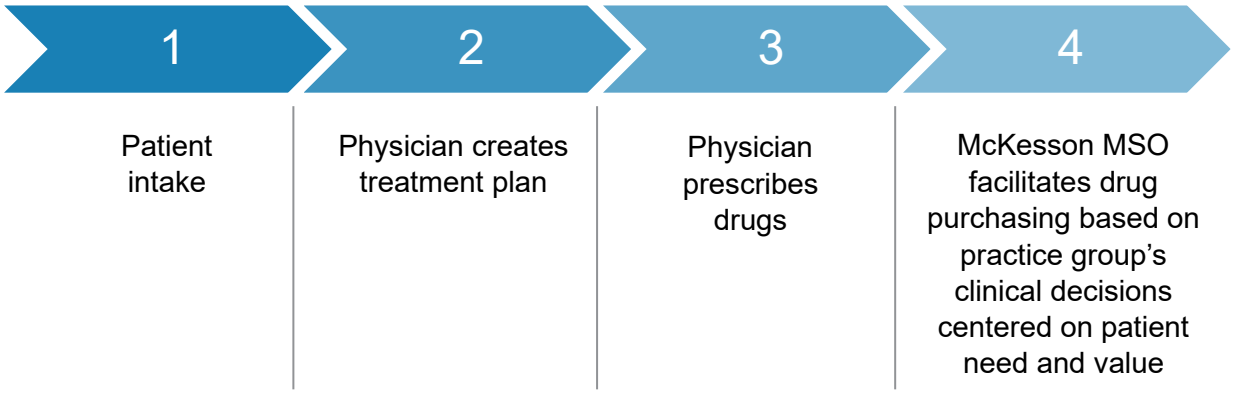
Below, we address four potential concerns related to the vertical integration of McKesson's MSO businesses with the drug wholesaling services offered by McKesson: (i) McKesson could steer the drug purchasing decisions of its physician group customers; (ii) McKesson could prevent other wholesalers from supplying its physician group customers; (iii) McKesson could disadvantage competitors to its physician group customers by setting higher distribution prices; and (iv) McKesson could impact physician reimbursement from payers for its physician group customers.

6.1 Steering of drug purchasing decisions

One potential concern regarding McKesson's MSO businesses is that they could steer a physician group's drug purchasing decisions, through their physicians' prescribing and treatment decisions, towards drugs that are more profitable for McKesson's wholesale distribution business. When considering this potential concern, it is important to keep in mind a fundamental asymmetry between McKesson and the physician groups for which it provides practice management services. Specifically, McKesson's compensation for practice management services is often based on a physician group's revenue or profitability, and consequently McKesson has an incentive to take actions that make its physician group customers more profitable (or higher revenue). In contrast, physician group customers do not have a financial incentive to take actions that are profitable to McKesson (other than by increasing the profitability or revenue of the physician group).

Moreover, our understanding is that McKesson does not provide information to physician group customers on the profitability to McKesson of distributing particular drugs. Instead, McKesson only provides information regarding a given drug's profitability to the physician group. For example, for a drug being considered by a physician group, McKesson might share the physician group's cost of acquiring the drug and its expected reimbursement from payers but would not share with the physician group McKesson's own acquisition costs.

Practice groups using McKesson MSOs have clinical autonomy in selecting which drugs to prescribe to patients



As previously described, physician groups retain autonomy over patient care relationships and full control of clinical decisions when contracting with McKesson for practice management services, including which drugs are purchased.[56] Consequently, it is not the case that McKesson requires, or could require, drug purchasing decisions that are not in the interest of its physician group customers. These factors imply that physician group customers have neither the ability, nor the incentive, to purchase drugs that are particularly profitable to McKesson. Instead, physician group purchasing incentives are similar to their incentives had they not contracted with McKesson: when medically appropriate, and there are therapeutic alternatives, they have an incentive to consider the financial impact of drug purchasing decisions on the physician group's own profitability (but not McKesson's).

While McKesson provides support and facilitates best practices for its physician group customers, our understanding is that the decision over what those best practices should be is not controlled by McKesson, but rather their customers. For example, McKesson's US Oncology Network provides support for implementing clinical pathways within McKesson's electronic health records system, iKnowMed.[57] These treatment protocols are developed by committees comprised of physicians from McKesson's physician group customers. These clinical pathways are simply recommendations that physicians employed by McKesson's physician group customers can choose, but are not required to follow, based on their independent judgement. Consequently, McKesson cannot influence clinical decisions, including treatment decisions regarding drug therapies, through its support for clinical pathways.

Physician groups retain full control of clinical decisions when contracting with McKesson for practice management services, including which drugs are purchased.

6.2 Competition to supply physician group customers

Another potential concern regarding McKesson's MSO businesses is that they could prevent other wholesalers from competing to serve its physician group customers, which is known as "customer foreclosure" in the economics literature.[58] The competitive concern raised by customer foreclosure is

[56] Some MSOs do not maintain a physician group's clinical autonomy, e.g., a hospital system may institute standardized processes for their employed physicians after acquiring a physician group. In such a situation, potential concerns regarding the MSO's impact on clinical decision-making potentially arise. This does not apply to McKesson's MSO businesses, however, since their physician group customers retain full clinical autonomy.

[57] See, for example, https://www.mckesson.com/specialty/technology-solutions-specialty-practices/oncology-clinical-management-technology. See also, https://www.asco.org/news-initiatives/current-initiatives/cancer-care-initiatives/clinical-pathways.

[58] See, for example, Jean Tirole, *The Theory of Industrial Organization*. See also, D. Bruce Hoffman (2018), "Vertical Merger Enforcement at the FTC," Prepared remarks at Credit Suisse 2018 Washington Perspectives Conference.

that a lack of potential customers may prevent the entry or expansion of competing firms, resulting in a less competitive market for the good or service at issue.

When assessing this potential vertical concern, it is important to recognize that, regardless of whether (or how) a physician group outsources practice management services, it is generally the case that it will purchase the vast majority of prescription drugs (and other medical supplies) from a single wholesaler. This does not imply that competition to become the primary distributor is limited, however, with the economics literature recognizing that "winner take all" (or, as discussed below, "winner take most") situations can result in intense competition as potential suppliers vie for a larger prize.[59]

When a physician group is choosing an MSO, part of that decision may also be selecting a primary drug wholesaler. MSOs often have relationships with drug wholesalers, and their ability to provide drug wholesaling services at an attractive price may be a key component of why a given MSO is selected. That is, rather than being evidence of customer foreclosure, the observation that McKesson's MSO customers typically rely on McKesson as their primary drug wholesaler is simply the result of McKesson providing the most attractive bid for a set of services that includes both practice management services and wholesale distribution services. Indeed, our understanding is that McKesson's MSO customers are often initially McKesson's wholesale distribution customers who have expanded their relationship with McKesson to also include practice management services. By selecting a single vendor for both wholesale distribution services and practice management services, a physician group can make the "prize" of winning their business even larger and as a result raise the intensity of competition for their business.[60]

While physician groups typically purchase the significant majority of drugs from their primary distributor, they still purchase from other suppliers when there is a benefit. For example, physician groups purchase directly from pharmaceutical companies, and bypass drug wholesalers entirely. They also purchase drugs from non-prime distributors when offered more attractive pricing. Our understanding is that McKesson's wholesale distribution customers, including those who also purchase practice management services from McKesson, have engaged with such alternatives. This further diminishes the likelihood that McKesson could profitably use a customer foreclosure strategy to deter entry or expansion by competing drug wholesalers.

One might claim that, once a physician group has chosen an MSO and/or a wholesale distributor, that physician group is effectively foreclosed since it cannot select another prime distributor or MSO until the end of its contracts for those services. Such an argument would not make economic sense,

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59 Barry J. Nalebuff and Joseph E. Stiglitz (1983), "Prizes and Incentives: Towards a General Theory of Compensation and Competition," *The Bell Journal of Economics*; and Benny Moldovanu and Aner Sela (2001), "The Optimal Allocation of Prizes in Contests," *The American Economic Review*.

60 When faced with greater competitive intensity, all bidders, including McKesson, have an incentive to offer better pricing (and other contractual terms), benefitting the physician group customers. See, for example, Peter Cramton (2004), "Competitive Bidding Behavior in Uniform-Price Auction Markets," *IEEE Hawaii International Conference on System Sciences*.

however, with the economics literature recognizing that the use of long-term contracts does not diminish competition to serve a given customer. Instead, long-term relationships simply focus competition to less frequent points with higher stakes, with the larger "prize" of a long-term contract or similar arrangement raising the intensity of competition to win a long-term contract.[61]

To summarize, McKesson does not "control" the decisions of its physician group customers regarding who they select as their primary drug wholesaler or their practice management services vendor. Rather, McKesson must compete with other distributors and MSOs to be selected for those roles by offering high quality services at attractive prices.

When assessing the potential for customer foreclosure, it is also important to recognize that the physician groups that McKesson serves represent a small fraction of all physicians in the United States and consequently represent a small fraction of the prescription drugs (and other medical supplies) purchased by physicians (or their associated physician groups). For customer foreclosure to be effective in deterring the entry or expansion of competing wholesale distributors, it must be the case that there are insufficient alternative customers that competing distributors could turn to. This is unlikely to be the case here, however, given the wide range of physician groups that receive practice management services from vendors other than McKesson, e.g., from other wholesaler-owned MSOs such as Cardinal Health and Cencora, or from alternative providers of practice management services such as hospitals. For example, as discussed earlier, McKesson's US Oncology Network represents only approximately 5% of oncologists in the United States. It is implausible that McKesson's customer relationship with such a small fraction of oncologists would meaningfully impact the ability of other distributors to enter or expand.

That is, rather than being evidence of customer foreclosure, the observation that McKesson's MSO customers typically rely on McKesson as their primary drug wholesaler is simply the result of McKesson providing the most attractive bid for a set of services that includes both practice management services and wholesale distribution services.

6.3 Raising rivals' costs

Another potential concern regarding McKesson's MSO businesses is that McKesson may try to disadvantage competitors of its physician group customers by setting higher prices for its wholesale distribution services for those competitors. This is known as "raising rivals' costs" in the economics

[61] See footnotes 59 and 60.

literature.[62] For the reasons provided below, it is unlikely that McKesson would have a meaningful incentive to engage in such a strategy.

The first step in assessing a potential "raising rivals' costs" concern is to consider whether McKesson can meaningfully harm competitors of its physician group customers. A "raising rivals' costs" strategy is only likely to be successful when a firm's services are significantly differentiated from other providers. Otherwise, competing physician groups would simply select an alternative drug wholesaler and not be meaningfully harmed if McKesson bid less aggressively to become the physician group's distributor. The largest drug distributors, McKesson, Cencora, and Cardinal, offer relatively similar services, with a physician group able to turn to Cencora and Cardinal as a close substitute if McKesson attempted to set higher prices for a rival physician group.[63] Consistent with this, McKesson has low margins: the 2024 gross profit margin for McKesson's distribution businesses was approximately 4%, and the 2024 operating profit margin for McKesson's US pharmaceutical business was only approximately 1%.[64] These low margins indicate that McKesson faces highly elastic demand, and an attempt to raise wholesale distribution prices to competitors of its physician group customers would not meaningfully harm those groups (who would switch to an alternative distributor). Such an attempt would simply harm McKesson's wholesale distribution business, which would lose a customer, rather than meaningfully benefiting its physician group customers.

Second, for a "raising rivals' costs" strategy to be profitable it must be the case that the decrease in profits from setting drug wholesaling prices to a competing physician group higher than they would otherwise is offset by the increase in profits from providing practice management services. There is no obvious mechanism for why higher wholesaling prices for a rival physician group would meaningfully increase a McKesson physician group customer's profits. This is particularly true given that most patients are insured and consequently make physician choice decisions based largely on non-price factors. Moreover, our understanding is that McKesson's payment for practice management services typically is a relatively small percentage of a physician group customer's profits or revenue. Consequently, McKesson would have limited incentive to sacrifice its drug distribution profits, even if doing so would make its physician group customers more profitable (which as discussed above, appears unlikely).

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62 Steven C. Salop and David T. Scheffman (1983), "Raising Rivals' Costs," *The American Economic Review*.

63 Physician groups can also purchase from other distributors. See, Adam J. Fein (2025), "The 2024-25 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors," Drug Channels Institute, at 34. Examples include CuraScript SD, a subsidiary of Cigna, with $9 billion in estimated revenue from drug distribution in 2023; Morris & Dickson with $5.5 billion in estimated revenue from drug distribution in 2023; Smith Drug Company with $2.9 billion in estimated revenue from drug distribution in 2023; FFF Enterprises with $2.7 billion in estimated revenue from drug distribution; and Anda Distribution, owned by Teva, with $1.6 billion in estimated revenue from drug distribution in 2023.

64 Adam J. Fein (2025), "The 2024-25 Economic Report on Pharmaceutical Wholesalers and Specialty Distributors," Drug Channels Institute, Exhibit 170.

6.4 Physician group negotiations with payers

Another potential concern is that McKesson's MSO businesses increase the negotiating leverage of its physician group customers when those physician groups negotiate reimbursement for their services with payers. Our understanding is that separate physician groups contract independently with payers—often different payers depending on geography—and McKesson provides key support in those negotiations. The economics literature highlights how the leverage of each side in a negotiation depends on their best alternatives if they fail to reach an agreement, e.g., the ability of a physician group to contract with alternative payers or the ability of a payer to contract with alternative physician groups.[65] Whether, and how, McKesson provides support in a physician group's negotiations with payers does not fundamentally impact the physician group's alternatives to reaching an agreement with a payer, and consequently is unlikely to impact the physician groups' leverage in such negotiations. Instead, McKesson's role should instead be viewed as the efficient outsourcing of a particular type of practice management service, negotiation support, to a firm specialized in providing such services (similar to McKesson's role in providing other practice management services).[66]

To the extent the same MSO provides negotiation support to competing physician groups, one might argue that this could increase the physician groups' negotiating leverage, even if they negotiated separately. This could be the case, for example, if two physician groups were owned by the same hospitals (but still had separate contracts), since the hospital would benefit if one group failed to contract with the payer and, in response, some patients switched from that physician group to the other co-owned practice. This does not apply to McKesson's MSO business, however, since individual physician group customers do not financially benefit if their patients switch to another practice that is also a customer of McKesson. Rather, as discussed earlier, McKesson's practice management contracts do not incentivize physician group customers to maximize McKesson's profits (or revenue). Consequently, McKesson's physician group customers do not have an incentive to take potential patient substitution to other physician groups receiving practice management services from McKesson into account when negotiating with payers.

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65 John Nash (1950), "The Bargaining Problem," *Econometrica*.

66 McKesson can take advantage of scale economies in developing expertise in negotiation support and efficiently provide such services to its physician group customers. See Section 4.

7. Impact of potentially reducing the ability of McKesson's MSO businesses to compete

McKesson's MSO businesses operate within a federal and state regulatory environment that impacts how and whether they can provide practice management services to physician groups. In this section, we consider the impact of hindering companies like McKesson from competing to provide practice management services to physician groups. First, we consider the impact of a prohibition on practice management services offered by drug wholesalers such as McKesson. This prohibition has recently been proposed in the US Senate.[67] We then consider the impact of a less extreme regulatory change that would make it more difficult for drug wholesalers to compete to provide practice management services (but which would not prevent such competition). As discussed below, such regulatory changes would not only harm physician groups but would also likely accelerate the ongoing trend of physician group consolidation.

First, suppose a state (or the entire country) prohibited drug wholesalers from also providing practice management services. A direct impact of such a change would be a lessening of competition for practice management services. Certain providers (such as McKesson) would no longer be allowed to compete at all, while the remaining providers would have less incentive to compete as aggressively since they would be bidding against a more limited set of competitors.

Physician groups considering outsourcing of practice management services would be directly harmed by reduced competition to provide those practice management services. Those who would have chosen McKesson or another wholesaler-owned MSO would no longer be able to select their preferred vendor and instead would have to choose their best remaining alternative. While physician groups who would have selected a non-wholesaler MSO would still be able to select their preferred vendor, they would still likely be harmed by the less intense competition between the remaining vendors who would have an incentive to bid less aggressively when faced with fewer competitors.

Those physician groups who would have selected a wholesaler-owned MSO but-for this potential change in regulation would instead select their next best alternative. For some physician groups, their next best alternative would be being acquired (or employed) by another physician group, hospital system, or payer that would limit or eliminate their clinical autonomy. These alternatives involve physician consolidation, which would not have occurred for physician groups that would have

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[67] In February 2026, Senator Josh Hawley and Senator Elizabeth Warren introduced the "Bill to Break Up Big Medicine" which, among other changes, would prohibit wholesalers such as McKesson from having an MSO business and would require them to divest their existing MSO businesses. See, https://www.hawley.senate.gov/hawley-warren-introduce-bill-to-break-up-big-medicine and https://www.warren.senate.gov/newsroom/press-releases/warren-hawley-introduce-bipartisan-bill-to-break-up-big-medicine. A related approach would be regulatory changes that prevent the growth of MSO businesses owned by wholesalers. See, for example, Rachel E. Sachs (2026), "Lowering Health Care Costs for All Americans: An Examination of the Prescription Drug Supply Chain," Statement before the Committee on Energy and Commerce Subcommittee on Healthcare, U.S. House of Representatives at 20-21, available at https://docs.house.gov/meetings/IF/IF14/20260211/118954/HHRG-119-IF14-Wstate-SachsR-20260211.pdf.

remained independent by outsourcing practice management services to a wholesaler-owned MSO. Thus, a likely implication of reduced competition for practice management services is increased physician concentration, and potentially reduced competition for physician services. As discussed earlier, the provision of practice management services from MSOs such as McKesson has reduced the costs associated with remaining an independent practice and consequently has countered the trend towards physician group consolidation. Conversely, any potential prohibition of companies like McKesson from providing practice management services would have the opposite effect and likely accelerate the ongoing trend towards physician consolidation.

As discussed earlier, the provision of practice management services from MSOs such as McKesson has reduced the costs associated with remaining an independent practice and consequently has countered the trend towards physician group consolidation.

While not allowing wholesaler-owned MSOs like McKesson would have a larger impact on MSO competition and physician consolidation trends, other changes in regulation that would make it more difficult for wholesaler-owned MSOs to compete would likely have similar (but smaller) effects. The reason is that if such MSOs have higher regulatory-induced costs, they will have an incentive to internalize those costs when bidding and consequently bid less aggressively in response to those higher costs. This would both directly harm physician groups and increase the likelihood that they would select to receive practice management services from other physician groups or hospitals.

The competitive impact of prohibiting (or limiting) wholesaler-owned MSOs would likely have other impacts on MSO competition. Such a change could, for example, require (or incentivize) the divestiture of wholesaler-owned MSOs. To the extent a divestiture buyer would be a competing (non-wholesaler owned) MSO then this would result in a reduction in the number of competitors (and the associated implications discussed above). If a divestiture buyer would not be a competing MSO or if a wholesaler's MSO business would be spun off as a standalone company, then the number of competitors would remain the same. Nonetheless, as discussed below, such alternatives would still have a competitive impact if the capabilities or cost structure of the buyer or standalone business would be more limited (compared to pre-divestiture when the MSO business is wholesaler-owned).

Suppose, for example, that McKesson's MSO businesses were spun off as a standalone business. Some of the benefits of McKesson's MSO businesses described in Section 4 would potentially be reduced or eliminated. McKesson's standalone MSO business might be unable to provide the same range of services as it currently does since McKesson's MSO businesses rely, in part, on other McKesson businesses that also serve non-MSO customers, including drug wholesaling, support for clinical research, McKesson's real-world data business,[68] and the company's electronic health

[68] See, https://www.ontada.com.

records platform (as discussed earlier). The development of such capabilities by a standalone McKesson MSO business would require it to incur significant fixed costs that may not make economic sense due to economies of scale and scope. To the extent McKesson's standalone MSO business instead outsourced those capabilities to another vendor, it would likely have higher costs since that vendor would have a greater incentive to set prices above its own costs (compared to McKesson currently due to the elimination of double marginalization, as discussed in Section 4). A standalone McKesson MSO business with fewer capabilities or higher costs would be a less attractive provider, and a less effective competitor. This would harm McKesson's current and potential MSO customers since the remaining MSOs would have an incentive to bid less aggressively when faced with a less effective competitor.[69]

Sweeping regulatory change, such as an outright prohibition on wholesaler-owned MSOs, is a blunt instrument for addressing concerns that vertical integration may, in some circumstances, have negative effects on patient care. Even among those who have raised such concerns, there is an awareness that regulatory changes may have unintended consequences that proponents of a prohibition on wholesaler-owned MSOs would also likely oppose.[70] For example, as discussed earlier, limitations on wholesaler-owned MSOs are likely to accelerate the ongoing trend of physician group consolidation. Assessment of whether a particular agreement between an MSO and a physician group is likely to be problematic depends on the specific circumstances at issue. The Department of Justice's Antitrust Division and the Federal Trade Commission have decades of experience undertaking such analyses and are well-positioned to evaluate whether agreements between wholesaler-owned MSOs and physician groups are likely to have anticompetitive effects. For example, similar concerns were raised in recent FTC investigations of MSO transactions involving Cardinal and McKesson.[71] As such, there already exists a well-established mechanism and framework for review without the need for additional regulatory burdens that could, inadvertently, hinder competition and reduce the options available to physician groups.

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69 Reduced competition to provide practice management services may impact other services as well. As discussed earlier, this is likely to increase the ongoing trend of physician consolidation. Reduced competition to provide practice management services is likely to impact even those physician groups who remain independent. For example, lower quality practice management services may result in physician groups relying on those services to provide more limited or lower quality medical services, e.g., invest less in their own practice or offer fewer services, such as taking part in clinical research studies. Similarly, higher costs for physician groups would likely, in part, be passed through in the form of higher reimbursement for their services by payers, ultimately resulting in higher health plan prices.

70 See, for example, Hayden Rooke-Ley and Rachel E. Sachs (2025), "Pharmaceutical Wholesalers — Under-the-Radar Middlemen?," *New England Journal of Medicine* at 1360.

71 See, for example, "Re: McKesson's and Cardinal Health's Proposed Acquisitions of Oncology Practice Networks", September 26, 2024, letter from the American Economic Liberties Project, available at: https://www.economicliberties.us/wp-content/uploads/2024/09/2024-9-26-Letter-to-FTC-on-McKesson-and-Cardinal-Health-Proposed-Acquisitions-FINAL.pdf. The FTC chose not to take enforcement action for either transaction, but presumably only after careful evaluation of those specific matters. One of the authors of this paper worked on behalf of McKesson in the matter involving McKesson and Core Ventures, Florida Cancer Specialists & Research Institute's MSO.

8. Conclusion

Operating and administering a physician group has become increasingly complex over time, with a major consolidation of physician groups having occurred over the last two decades. This consolidation has occurred through mergers between physician groups, acquisitions of physician groups by hospitals and other healthcare providers, and the employment decisions of individual physicians. While such consolidation is one way to overcome the difficulties of running an independent physician group, it is not the only potential solution. An alternative approach is for a physician group to outsource practice management services to MSOs that are specialized providers of such services, like McKesson. Such MSOs directly solve the problem at issue, being able to efficiently run a physician group, but do not require broader changes that may be viewed as undesirable by the physician group, such as losing its independence or clinical autonomy.

We highlight six economic principles that underpin the value that McKesson brings to its physician group customers: (i) labor specialization; (ii) economies of scale; (iii) efficient outsourcing of services; (iv) expansion of provided services; (v) alignment of long-run incentives; and (vi) reduced procurement costs. These economic factors generate clear incentives for physician groups to contract with McKesson's MSO businesses by either reducing the cost and complexity of administering a physician group or by expanding the range of services offered by the physician group.

McKesson's MSO businesses operate in a competitive environment where prospective customers (physician groups) can turn to a wide range of alternative providers, including contracting with other MSOs or merging with (or becoming employed by) a hospital system, payer, or larger physician group. Consequently, McKesson must offer attractively priced, high-quality practice management services to be selected as a physician group's MSO.

We also explore potential concerns related to the vertical integration of McKesson's MSO businesses with the drug wholesaling services offered by McKesson. We conclude that such concerns are unlikely given McKesson's business model where, for example, it does not have clinical control over its physician group customers and offers drug wholesaling services similar to those provided by other wholesalers.

Finally, we consider the impact of potential regulatory changes that would hinder drug wholesalers like McKesson from competing to provide practice management services to physician groups. Physician groups considering outsourcing of practice management services would be directly harmed by reduced competition to provide practice management services. Moreover, such regulatory changes would likely have the unintended consequence of accelerating the ongoing trend towards physician consolidation.

9. About CRA's Antitrust & Competition Economics Practice

CRA's competition economists provide economic analysis and testimony in competition matters around the world. Many have served in government antitrust agencies and are members of premier academic, economic, and law faculties. Their experience extends to many industries, including healthcare, energy, computer hardware/software, retailing, telecommunications, aerospace and defense, entertainment, transportation, natural resources, sports, chemicals, pharmaceuticals, financial services, and consumer products. Read more about the practice **here**.

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