

## Exploring the Relationship Between Price and Competition Among Physician Practices

Article By:

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The latest from the **Journal of the American Medical Association** (JAMA) is a thematic issue organized around a prominent topic in healthcare: price, cost, and competition. Contributing to the debate is an article titled, “Physician Practice Competition and Prices Paid by Private Insurers for Office Visits.”<sup>[1]</sup> The study is of particular interest because, as the authors note, evidence on the relationship between price and competition in the context of physician services (as opposed to hospitals or insurance companies) is fairly limited.

Using data from 2010, researchers examined two relationships: between physician competition and prices paid by private preferred provider organization for ten types of common office visits in counties across the country, and the change in both competition and prices between 2003 and 2010. Competition was measured using the Herfindahl-Hirschman Index (HHI)—a standard metric of concentration that considers the number of firms and their respective market shares. (Higher HHI values indicate greater market concentration.)

What were the findings? As one might expect, the study found considerable variation in the level of competition across counties and specialties, as well as variation in price across counties. Depending on the specialty, the level of competition observed in areas at the 90th percentile of the HHI distribution was associated with prices between \$5.85 (orthopedics) and \$11.67 (internal medicine) higher than in areas at the 10th percentile. In addition, price increases between 2003 and 2010 were greater in areas that started off less competitive, as compared to initially more competitive areas. For some specialties, declining competition in areas that were initially more competitive was also associated with greater price increases. These patterns, the authors write, suggest that physician practices in areas of low-competition may be able to negotiate more significant price increases over time.

While an ongoing exploration of the relationship between prices and competition is important, it is equally important to acknowledge that a study such as this faces several limitations, such as difficulty characterizing physician organization and measuring practice concentration.

Implications are further constrained by the limited scope of the analysis. The study does not, for example, account for considerations, such as quality, that may justify higher prices. Moreover, associations for prices paid by preferred provider organizations are not necessarily generalizable to a

risk-based reimbursement environment. Given that much of the country is moving from volume- to value-based reimbursement, in which payment is based upon risk, performance, and quality, it is possible that past performance is not an indication of future performance.

Other articles published in this issue of JAMA explore the association between hospital conversions and clinical as well as economic outcomes, the association between price transparency and claim payments, and how expenditures per patient differ between physician- and hospital-owned physician organizations in California.

*This post was written with contributions from Rachel Landauer.*

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[1] Baker LC, Bundorf M, Royalty AB, Levin Z. [Physician Practice Competition and Prices Paid by Private Insurers for Office Visits](#). JAMA. 2014;312(16):1653-1662.

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