

# THE HMO INDUSTRY: EVOLUTION IN POPULATION DEMOGRAPHICS AND MARKET STRUCTURES

## Abstract

With the exception of Kaiser, HMOs in the 1970s were predominantly locally sponsored organizations serving limited geographic markets. National HMO firms proliferated in the 1980s so that today they compete among themselves and with local HMOs in most metropolitan areas of the United States. Along with the growth of national firms, the mid-1980s saw an increase in HMO mergers, acquisitions, consolidations and bankruptcies (Freudenheim 1988). What was once termed the “HMO movement” is now universally, and sometimes cynically, referred to as the “HMO industry” (Gruber, Shadle, and Polich 1988).

The dynamics of change within the HMO industry have been chronicled in yearly published reports (or “snapshots”) and sporadic coverage of newsworthy events, such as the dissolution of Maxicare Health Plans (Pincus 1988). However, analyses of HMO industry changes have focused primarily on overall growth in enrollment and in number of HMOs (see, for instance, Gruber, Shadle, and Polich 1988). In this article, we extend these analyses, employing a population ecology framework and a longitudinal data set covering the years 1978–1989. We begin by discussing the changing environment for HMOs over the past decade and critiquing the existing literature on the determinants of HMO growth, entry, and exit. Then we present data related to the evolutions of HMO organizational demographics and market structures during this period. First, we describe the overall development of the industry, with an emphasis on HMO entries, exits, mergers, and acquisitions. We follow this with an analysis of changes over time in the distribution of HMOs, both by type of HMO (e.g., individual practice association) and by national versus local HMO sponsorship. Data are also presented concerning changes in local HMO market structures over time. A concluding discussion focuses on factors that may influence future patterns of changes in the HMO industry.

## Full citation:

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