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Business Finance

Independent Pharmacies Promote the Value of Their Patient Contact to the Pharma Industry

Although beset by less-than-friendly federal reimbursement policies, independent pharmacies are maintaining their viability for pharmaceutical delivery—*By George Miller*

IN THE VAST OCEAN THAT IS U.S. HEALTHCARE, there may be no business that has such a combination of medical knowledge, patient interaction and small-business entrepreneurship as independent pharmacies. They deliver high-tech pharmaceuticals; they deal with onerous Medicare regulations; they have more contact with patients than doctors do; and yet they worry about keeping sidewalks and windows of their storefronts clean and stocking the right seasonal candies.

The pharma industry, broadly speaking, spends relatively little time focused on independent pharmacies, simply because they are so dispersed and so numerous; the Big Three wholesalers have addressed this by rolling up thousands of independent pharmacies into semi-franchises or buying networks for pharmaceuticals. But in the coming world of “health management” and retail health clinics, they might play a vital role in delivering healthcare and maintaining pharmaceutical market shares.

According to IMS Health’s analysis of pharmaceutical distribution channels, independent pharmacies rank No. 3 in terms

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pharmacy customers, which helps them communicate regarding a particular disease state, for example. "It's what the suppliers are looking for," he says. "We think we've carved a niche with the independent pharmacies."

Things weren't always so cozy between big drug wholesalers and independent pharmacies. "The wholesaler/independent pharmacy relationship has become more of a partnership than it was eight to ten years ago, when it was probably perceived as being more adversarial," says Jay Williams, VP for marketing management at Cardinal Health's retail pharmacy business.

Williams's colleague, marketing director Rob Schlissberg, notes that independent pharmacies, as customers of wholesalers, have changed in multiple ways over the past few years.

"Margins are down and they need to generate new revenues to compensate. Independents are also looking for ways to improve efficiency. They need to make up the dollars they've been losing over the past few years, and they need to make sure they're being reimbursed every penny they're owed."

Reimbursement challenge

Reimbursements have become a particular challenge for resource-stretched independents, especially given rules surrounding Medicare payments. "For independents, the biggest pressure is from government. It holds Medicare reimbursements; sometimes for 30 or 45 days," says Grigg. "There

are challenges that we deal with on a regular basis. The Good Neighbor franchise program introduced in July provides coaching for pharmacies. We become expert eyes on their business, for financial as well as program matters," he says.

McKesson's AccessHealth managed care division, which provides third-party contracting, holds some 9,000 contracts with more than 70 pharmacy benefit managers (PBM)s and a portfolio of Medicare Part D plans.

Williams of Cardinal Health also puts reimbursement among the top needs expressed by independents. Focus groups have indicated that their evolving needs fall into four areas: reimbursement, streamlining operations, creating alternative revenue streams, and increasing patient market share.

"Because 95% to 96% of some retail independents' business is in prescriptions, they need to make sure they're collecting every dollar of reimbursement they're owed, especially in a world where they're competing with WalMart's \$4 prescriptions, Walgreen's prescription club and other retail pharmacy giants who've followed suit," Williams says. "We help with negotiations with PBMs, and on the operations side, so they can still spend time with their customers."

Monitoring payback

Drug makers—like all businesses today—are closely gauging the money they spend. "They haven't done a good job of getting a payback on their marketing expenditures," says Huckle of Pharmacy First. He says he

sees independents as best positioned to provide manufacturers a predictable return from their marketing investments because they are more flexible in their relationships than their retail-drug competitors.

One example he cites is Merck's MAP program. The drug maker paid an additional fee to the pharmacy for stocking, says Huckle. "But it did nothing, and the program was dropped," says Huckle. "Manufacturers saw it as paying out with no return."

The Pharmacy First focus is at the dispensing end, says Huckle, and at the ultimate outcome end: patient compliance, and maintaining market share. "Those things can be calculated at the manufacturer level as return on investment."

Another example: prior to FDA allowing the generic version of Abbott's thyroid medication Synthroid, Pharmacy First boasted the top sales program for the drug, including the chains. But with the FDA ruling, Abbott canceled the program. "After five or six months, we continued to demonstrate that our network pharmacies weren't transitioning to the generic, as was happening in the chains," says Huckle. "We tried to keep patients on that product. As a result, Abbott did re-open the program to us."

Speed to shelf

Also important to manufacturers, according to Canning of Health Mart, is speed to shelf, particularly during product launches. "We can cut in a new product in 30 days normally, or in some cases within 5 days, to

all 2,000 of our independent Health Mart stores," Canning says. When manufacturers intend to turn on advertising at a specific time, literature and displays must be at the pharmacies just before then. "Historically, it's been more of a challenge for independents to ensure that product promotions are implemented on time because of lack of resources," says Canning. "However, Health Mart takes care of this for them—ensuring that all 2,000 pharmacies are consistent in access and execution. This has substantial value for manufacturers."

The help of big wholesalers comes at a good time for independents. "A lot of these guys went to pharmacy school," says Schlissberg of Cardinal, where the emphasis is on medical knowledge and not necessarily business acumen. "They look to us to provide the tools and services that can help them run their businesses better, more profitably, and more efficiently."

Canning of Health Mart notes that half of independent pharmacy owners are over the age of 55. The company announced a program in January to assist pharmacists in succession planning—either transitioning store ownership to an associate, or selling to a like-minded independent pharmacist. A new website, RxOwership.com, has been opened and, depending on the specifics of each business, McKesson could provide some financial assistance to a buyer.

McKesson is also supporting a pilot program, with the University of Wisconsin healthcare system, to expand the role of pharmacists in medication management. The program is expected to develop measurable results over the next few years in better patient care. "With these results, we hope to

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convince payers of the value of supporting independent pharmacists' role, through lower overall healthcare costs," says Canning. "The program is being designed so that it can be rolled out nationally when the pilot results are in."

Besides hoping to get a legislated anti-trust exemption, NCPA is looking to pharmacists playing a larger role in medication management and patient adherence, according to spokesman Norton. Existing programs like the Medicare Part D medication therapy-management reimbursement, or the requirement for pharmacists' oversight of dispensing at long-term care facilities (see *Pharmaceutical Commerce*, Oct 2008, p. 1) can be the "building blocks" for new initiatives, he says. **PC**
