

The Resurgence of Independent Pharmacy

Executive Summary And Outline

The demise of independent community pharmacy has been greatly exaggerated. While facing pressures from pharmacy chains, mail order services and PBMs, a great number of independent community pharmacies have survived these headwinds to benefit from a post- big box store era. Herein, we address how 1) the current landscape benefits nimble independent community pharmacies, 2) margins have stabilized through both internal controls and external network adequacy requirements; and 3) diversification of services benefits independent community pharmacies.

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I. The Rise And Fall Of Big Box Store Pharmacies In Rural America

The first decade of the 21st century saw rapid expansion of big box stores into rural markets, many of which included pharmacies. According to the Bureau of Labor Statistics (BLS), the number of pharmacists employed at big-box stores peaked at more than 31,800 in 2012. At the time, big-box stores could treat pharmacies as loss leaders to pull in shoppers, making up that revenue through the sales of other goods. But as online sales and delivery of consumer goods, including prescription drugs, expanded, and reimbursement pressure intensified, big box stores saw less incentive to subsidize pharmacy services and greater need to reconfigure this space for more profitable retail. By 2019, the number of big-box pharmacists had dropped 43% to fewer than 18,000. Although the BLS no longer reports this number, analysis indicates an acceleration of this trend, especially in rural America.

Examples of this restructuring are not limited to rural America. In January 2021, Wakefern Foods Corp., the owner of the grocery chain ShopRite, indicated it would shut down 62 store pharmacies in the Northeast, selling its customer lists to CVS. Similarly, freestanding pharmacy chains have signaled a scale down of brick-and-mortar space. In November 2021, CVS indicated it would close ~900 stores over the next 3 years, nearly 10% of its locations. In December 2021, Rite Aid indicated it was closing 63 stores or 3% of its retail footprint.

Into this void, online pharmacy has been slow to penetrate and unlikely to serve as the sole solution due to supply chain and technological adoption limitations, plan access as well as network adequacy requirements. From a supply chain perspective, pharmaceuticals pose two critical interrelated challenges: 1) Unlike typical consumer goods, medication requires extra care at every step of the cold chain – particularly at the final mile, where damage is most likely to occur. Packages delivered in hot trucks or left outdoors in the summer or winter, for example, can render drugs ineffective or even

deadly. 2) Last-mile delivery is the most time-consuming and costly shipping stage. This is especially inefficient in rural areas with miles between each delivery point. From a technology adoption perspective, while the growth of internet and mail order pharmacies might suggest that geographical limits to access are no longer a concern, many rural residents do not have the technology, technical skills, and/or accessibility that these services require to ensure their medications are delivered in a manner that fits their needs. In addition, rural beneficiaries typically have less access to a variety of plan types compared to their urban counterparts, which further complicates patient adherence and medication management. Finally, pharmacy network adequacy requirements are not met simply by the geographic reach of virtual pharmacy. Thus, independent pharmacies may be more in demand by payors seeking to meet these network requirements and consequently may exert greater leverage or at least see less pressure on rates than they have over the previous two decades.

II. Rural Pharmacy Filling The Void

Whereas the National Community Pharmacists Association (NCPA) have reported a steep decline in independent community pharmacies, the National Council For Prescription Drug Programs (NCPDP) paints a different picture of slight growth in these independents even as the number of brick & mortar chains pharmacies decrease. Across the country, rural pharmacies are filling this void, playing an increasingly important role in the health of their patients. In some areas, pharmacists who were let go when big chains closed are now opening new drugstores, often in the same locations where large chains had driven them out of business. In other areas, pharmacy owners from neighboring towns are opening new branches. Without them, numerous communities would have been left without pharmacy services and payors stretched to meet pharmacy network adequacy requirements.

III. Cost Containment Takes Center Stage

This resurgence has come as independent pharmacies have adopted numerous mechanisms to survive, not only in the face of chain brick & mortar and online options but distributor cost considerations; these pharmacies typically pay more per prescription and sell a relatively lower volume of medications, resulting in a lower profit margin than chain pharmacies. Notably, these profit margins, while low, have remained stable and in some cases increased slightly as these surviving pharmacies retain leverage due to the above-mentioned network adequacy consideration. In addition, independent pharmacies' generic dispensing rates have matched those of the overall market.

Pharmacies are watching their key performance indicators (KPIs) most notably 1) labor, including payroll ratio and OTC \$/employee hour and Rx \$/employee hour, 2) net dollars/prescription and gross margin/Rx with a focus on profitable, neutral, as well as prescriptions which they are taking a loss and accompanying value in retaining these patients, 3) volume; and 4) front counter considerations including return to stock and inventory turns.

Hours in which the brick-and-mortar store is open goes a long way in cost containment, but no longer needs to be a standard tradeoff with accessibility. Traditionally, this has jeopardized patient convenience and served as a major impediment to new patient acquisition. To this end, automated prescription delivery systems are beginning to see test rollouts. For example, Pharmaself24 has installed their first automated prescription delivery robot in a pharmacy in Texas early this year.

IV. Expansion Of Services To Diversify Revenue

Pharmacy technology has moved beyond the faster, cheaper, more accurate phase associated simply with efficiency and onto providing new services that actually build sales:

340B Contract Pharmacy Services – Covered entities may establish agreements either through multiple contracts with individual pharmacies or through a single contract with a chain pharmacy that identifies the specific pharmacy locations that will support the covered entity's 340B program. The 340B Drug Pricing Program requires drug manufacturers to provide outpatient drugs to eligible health care organizations/covered entities at significantly reduced prices. The 340B Program offers eligible safety net health care providers access to low-cost medications, which allows them to expand the type and volume of care they provide to the most vulnerable patient populations.

Administration Of Long-Acting Anti-psychotic Injectable Medications – By becoming a recognized injection center, they will join a growing network of pharmacies and other healthcare facilities that are helping patients start and stay on long-acting therapy. There exists an industry program that offers comprehensive information and assistance to help patients stay on their long-acting injectable atypical antipsychotic medications, Invega Sustenna and Risperdal Consta. Patients can receive health care practitioner-ordered injections at a location such as pharmacy that may be more conveniently located for them.

Clinical Trials – Partnering with research entities that are contracted to recruit patients for clinical trials. Pharmacists have become a viable channel for education about clinical trial participation.

Compounding – There are many different degrees of compounding in a pharmacy setting, from nonsterile creams and tablets to sterile eye drops or other products. With increased attention on nutrition, this may include compounded nutritional supplements as well.

Expanded Diabetes Care Services – Medicare Part B provides coverage of DSME/T services for beneficiaries who have been recently diagnosed with diabetes, or were determined to be at risk for complications from diabetes.

Health Screenings, Immunization And Lab Testing – Over the past few years thousands of pharmacies have obtained a Clinical Laboratory Improvement Amendment (CLIA) waiver. While COVID tests are the driving force, other tests, such as flu, strep, cholesterol and A1c are common. In addition, COVID has led to a resurgence of interest in pharmacies for sites of immunization. This can include both the standard library of vaccinations and travel health as well.

Lifestyle Programs – Lifestyle services including weight, management and smoking cessation programs

Nutrition – With an increase in use and variety of nutraceuticals, clinically oriented independent community pharmacy owners are finding socially acceptable ways to alert their patients to nutrition depletion problems and suggest products that will address the issue.

Women's Health – Women's access to oral and trans-dermal contraceptives continues to expand throughout the United States by allowing pharmacists to furnish contraceptives. prepares pharmacists to take on this new duty of prescribing hormonal birth control.

V. Virtual Enablement Of The Independent Pharmacy

The majority of large pharmacy chains have been in the online retail space for several years, with services ranging from one-click prescription refills to fast COVID-19 vaccine scheduling. And while many local pharmacies would benefit greatly from offering such web-friendly services, many have historically lacked the resources to develop or maintain them.

It is notable that most independent pharmacies are members of Pharmacy Services Administration Organizations (PSAOs). These are run by distributors and negotiate on behalf of the pharmacies as a group with PBMs. Thus, these same distributors, such as McKesson, have stepped in to fill this void, piloting standardized e-pharmacy solutions that benefit from the distributor's national scale. These software as service solutions include telemedicine that allows pharmacists to serve as liaisons between patients and their physicians through a web and app-based patient portal as well as HIPAA-compliant two-way messaging consultations. Associated alert and refill reminder features help independent pharmacies ensure their patients are taking their medications as prescribed.

Along with virtual presence and associated potential for data collection, independent community pharmacies are learning to advertise more effectively as their suite of services expand beyond the conventional which their audience may be aware of. For example, geo-fencing combined with targeted text and email messaging can be used to connect with specific demographic segments in a cost-effective manner.

VI. Future Considerations

The future survival and growth of rural pharmacies depends on a mix of traditional pharmacy, services and digital-enabled solutions that piggyback on the rise of telemedicine. Target analysis in this environment requires an understanding of emerging federal regulatory and legislative policies impacting pharmacy, as well as health plan implications and strategic evaluation of market and landscape. Marwood's services span cost-containment, pharmacy dynamics from a Medicare, Medicaid and commercial perspective, as well as a strategic overlay to evaluate emerging opportunities.

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