new rules : retail
The Hometown Advantage
Reviving Locally Owned Business

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INDEPENDENT PHARMACIES ON THE REBOUND

After more than a decade of decline, independent pharmacies are beginning to make a comeback. Last year, 244 new independent pharmacies opened, according to the National Community Pharmacists Association (NCPA). By comparison, the top three pharmacy chains had a combined increase of 234 stores last year. Walgreens posted a net gain of 344 new stores, CVS was up 35 stores, and Rite Aid had a net loss of 145 stores.

The increase in independent pharmacies is a sharp turnaround from the last decade. The US lost about 1,500 independents annually during the first half of the 1990s. The decline slowed to about 450 per year in the late 1990s. Altogether, more than 11,000 independent pharmacies closed in just ten years.

Today, independents number about 25,000 and account for 44 percent of the retail prescription market. They consistently outscore their competitors on consumer surveys. According to a study released this week by Wilson Health Information LLC, consumers who fill their prescriptions at local pharmacies report significantly higher levels of satisfaction compared to those who patronize chain, supermarket, and mail order pharmacies. Customers of independents are more likely to return and to recommend their pharmacy to friends.

Several other studies have reached similar conclusions. In 1999, Consumer Reports found that independents outrank their competitors in personal attention, speed of dispensing, and the quality of medical information provided.

A big factor behind the rising number of independent pharmacies, according to Todd Dankmyer of the NCPA, is the growth of prescription sales. Driven by an aging population and an array of new drugs, prescriptions are expected to increase from 2.7 billion in 1999 to 3.7 billion in 2004. Prescription sales account for 83 percent of the average independent's revenue, compared to only half of the income of chain drug stores, which depend more heavily on sales of convenience items.

Another factor is that many independent pharmacists have developed successful healthcare specialties. Some, for example, serve as consultants to nursing homes or make house calls for patients with specific illnesses or needs, such as HIV/AIDS or IV drug infusions. Others offer compounding, a method of combining different drugs in custom

doses and forms. All of these specialties, notes Dankmyer, are too labor intensive and uniquely oriented to the local market for chain pharmacies to bother with.

Buying cooperatives have also aided independents. Most locally owned pharmacies now belong to one of about 30 local and regional purchasing groups, which negotiate with drug manufacturers for volume discounts. Although pharmacy buying groups have been around for about 15 years, they are more important now than ever. HMOs have dramatically reduced the reimbursement rates for pharmacies. On most drugs, pharmacists net extremely thin margins and the added cost savings provided by buying cooperatives has become especially critical.

Some buying groups are now operating as third party networks, which negotiate with large employers to provide pharmacy benefits through their network of stores in much the same way as the major chain pharmacies.

Although chain drugstore expansion continues to be an issue, the biggest threat facing independent pharmacies, according to Dankmyer, comes not from chains, but mail order companies. Mail order pharmacies currently capture 15 percent of prescription spending and their share grew 24 percent last year.

Pharmacy benefit management companies (PBMs), which contract with HMOs to provide pharmacy benefits, often create economic incentives to shift consumers to mail order. They may, for example, require a substantially lower co-pay if the consumer purchases by mail rather than through a retail store. Their motivation? The top three PBMs, which cover two-thirds of all insured Americans, own their own mail order companies.

The NCPA is working to pass state equity laws that require PBMs to make co-pays equal regardless of the type of pharmacy the consumer chooses. The legislative fight has been an uphill struggle, but has succeeded in a handful of states, including Arkansas, Illinois, Mississippi, Missouri, and Tennessee. Repeated efforts to pass a federal equity law have failed.

Given the range of healthcare services provided by retail pharmacies, the shift to mail order may not be in the best interests of patients' overall health. "Once you level the playing field, nobody chooses mail order," contends Dankmyer. "Unless consumers are economically coerced into using mail order, they far prefer a retail pharmacy."

-- National Community Pharmacists Association: http://www.ncpanet.org

-- Wilson Rx Pharmacy Survey: http://www.wilsonrx.com/news.htm

-- Examples of pharmacy equity laws can be found on the New Rules web site at http://www.newrules.org/retail/pharmequity.html.