

# ***Pharmacy Intervention***

**S**eparate conversations I've had of late with two friends — one a physician, the other a real estate/site selection consultant — sparked near-identical opinions from both when offering their views on the next chapter of food retailing reinvention. Loosely translated, they believe that supermarkets banking on vigorous growth with in-store pharmacies would be wise to reconsider.

While pharmacies have been an embedded component of the combination food/drug store format for the better part of 30 years, the shifting sands of intense drug channel competition, the proliferation of preferred network providers, and other related shifts yet to be revealed in tandem with the Affordable Healthcare Act portend further transformative changes for pharmacy operations, atop others already in progress — all of which will make it that much more difficult for supermarkets to compete.

The influx of new generic drugs and fewer patient health care visits contributed to a 3.5 percent decline in per capita U.S. spending on medications last year, according to the IMS Institute for Healthcare Informatics. IMS' "Declining Medicine Use and Costs: For Better or Worse?" report, released in May, found that total dollars spent on drugs in the United States (\$325.8 billion in 2012) declined 1 percent year over year as a result of decreased use of branded drugs, greater availability of lower-cost generics — which now account for 84 percent of all prescriptions — lower levels of price increases, and reduced spending on new medicines.

Patients with insurance paid higher deductibles, co-payments and co-insurance for their overall health care, but prescription drug co-pays for most patients declined, the report revealed. The average pharmacy co-pay also decreased by \$2 to \$121 in 2012, with patients filling 72 percent of all retail prescriptions with a co-pay of \$10 or less.



"The cost curve for medicines was clearly bent in 2012, for better or for worse," said Murray Aitken, IMS' executive director. "To some extent, this is a harbinger of more efficient use of our health care resources, but it also reflects a decline in utilization that may be the result of under-treatment and an imbalance between prevention and care."

Veteran supermarket industry analyst and site selection expert Bob Gorland, VP at Clark, N.J.-based Matthew P. Casey & Associates, says his firm frequently advises many grocery clients to avoid adding in-store pharmacies to future stores.

"Supermarket pharmacy is tough. Most stores are flat at best in sales and scripts, while many are unprofitable," says Gorland, noting that some traditional food retailers are heeding his firm's cautionary counsel — but not all. "Some chains are still putting them in, regardless of the extreme levels of competition" from drug store chains and mass merchants, which continue to gain market share at the expense of all other formats in a vigorous battle for sites that shows no signs of abatement any time soon.

While Gorland acknowledges that several well-established supermarket chains, including H-E-B, Giant Eagle and Wegmans Food Markets, remain competitive with their pharmacy operations, "we are reminding clients to look at Whole Foods, Market Basket and Trader Joe's, which do not have pharmacies and which have no problem attracting customers and strong sales gains. A low-volume pharmacy," he adds, "can rapidly damage a store's bottom line."

On the cusp of what's largely considered to be the most transformative period in U.S. health care, understanding the implications of in-store pharmacies in today's retail slugfest is clearly critical when weighing the long-term ROI against unprecedented changes in health care, pharmaceuticals, pricing, products, services, labor, training and, of course, ever-escalating competition. **PG**

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