2011-12 Economic Report on Retail and Specialty Pharmacies

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Pembroke Consulting, Inc.

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Full Report available at

http://www.pembrokeconsulting.com/pharmacy.html


About the Author

Adam J. Fein, Ph.D., is the founder and president of Pembroke Consulting, Inc., a management advisory and business research firm based in Philadelphia.

Dr. Fein is one of the country's foremost experts on pharmaceutical economics and channel strategy. He consults with clients in the pharmaceutical and healthcare industries. Eleven of the 15 largest biopharmaceutical manufacturers have called on Dr. Fein for his experience, analyses, and insights to help them improve profitability and make better strategic decisions. He offers clients the perspective and judgment for solving challenging business problems in today's evolving healthcare environment.

Dr. Fein inspires audiences to think strategically with his fact-based and entertaining keynote speeches. He has presented to more than 55,000 executives across a wide range of industries.

Dr. Fein has published hundreds of academic and industry articles and writes the popular and influential Drug Channels website (http://www.DrugChannels.net). The media frequently seek his industry expertise, and he has been quoted in such leading national publications as *The Wall Street Journal*, *The Financial Times*, *The New York Times*, *Pharmaceutical Executive*, *Drug Benefit News*, and many others.

Dr. Fein earned his doctoral degree from the Wharton School of Business at the University of Pennsylvania and a B.A., *summa cum laude*, from Brandeis University. He lives in Philadelphia with his wife and their two children.

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Read Dr. Fein's Drug Channels website for regular updates on the industry.

DrugChannels
Expert insights on pharmaceutical economics and the drug distribution system

INTRODUCTION AND GUIDE TO THE REPORT

The pharmacy industry continues to expand and change. In 2011, Americans filled more than 4 billion prescriptions at 60,000 retail and specialty pharmacies. Total industry revenues will be nearly $275 billion.

The *2011–12 Economic Report on Retail and Specialty Pharmacies* provides an up-to-date, fact-based analysis of the pharmacy channel and its interactions with other participants in our healthcare system. I have synthesized a wealth of statistical data, research studies, and my own unique business consulting experience into a definitive, nonpartisan state-of-the-art resource.

This year's report—42 pages longer than the 2010-11 edition—includes expanded coverage of specialty pharmaceuticals, new market data, and more-detailed analyses of reimbursement trends. It is the most complete resource available for analyzing the economic and business issues within the U.S. pharmacy industry.

The *2011–12 Economic Report on Retail and Specialty Pharmacies* will:

- Increase your understanding of key industry trends, such as the fast-growing specialty drug market and emerging cost-plus reimbursement models
- Illuminate business strategies in the industry by explaining the complex ways retail and mail pharmacies earn profits from pharmaceutical products
- Improve your ability to negotiate and collaborate successfully with the pharmacy channel
- Validate and challenge your assumptions about the risks and opportunities facing the industry

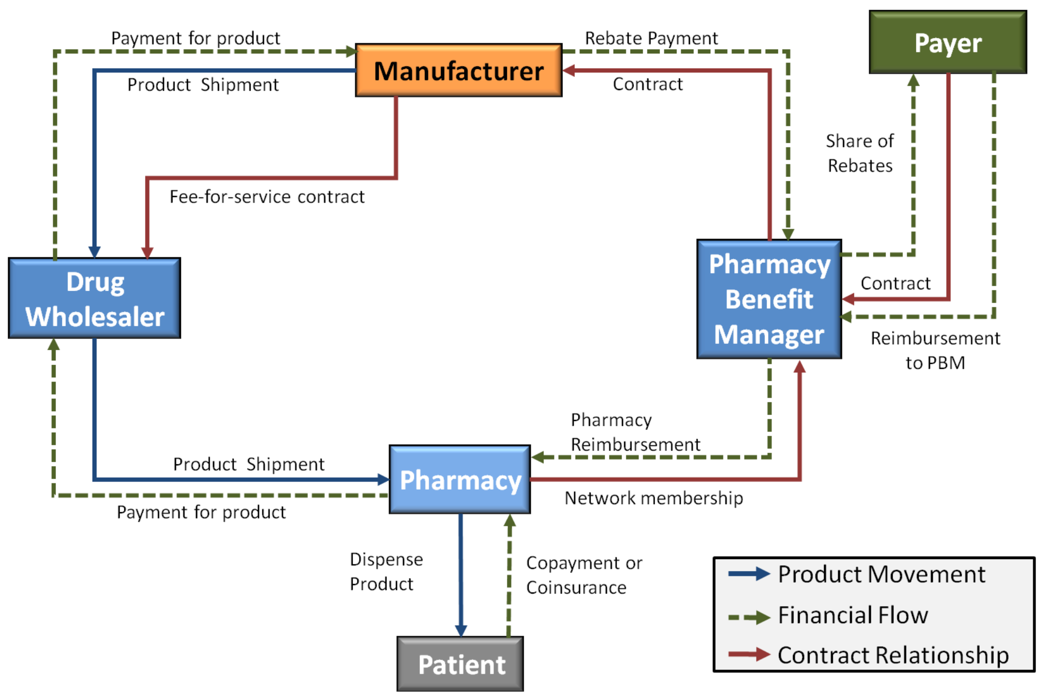
This report will give you the latest facts and understanding about the complex interactions within the U.S. pharmacy distribution and reimbursement system (pictured on the next page), such as:

- **Product movement**, which covers bulk distribution from pharmaceutical manufacturers to the drug wholesalers that supply pharmacies. A pharmacy marks the final step in which a prescription is dispensed to a patient.

- **Financial flows**, which transfer money from third-party payers to Pharmacy Benefit Managers (PBMs), who in turn reimburse pharmacies. Funds flow to manufacturers via pharmacies, which purchase drugs from wholesalers.

- **Contractual relationships**, which govern the relationships between payers and PBMs; PBMs and pharmacies; pharmacies and wholesalers; wholesalers and manufacturers; and manufacturers and PBMs.

The U.S. Pharmacy Distribution and Reimbursement System



The *2011-12 Economic Report on Retail and Specialty Pharmacies* analyzes the economic relationships between and among the industry's participants in eight major chapters:

- **Chapter 1: Industry Overview** (page 7) explains the different pharmacy business models, identifies the biggest retail and specialty pharmacies in 2011, quantifies pharmacy dispensing of specialty drugs, and discusses the latest retail clinic trends.

- **Chapter 2: Changes in Pharmacy Industry Structure** (page 19) analyzes the industry's recent growth trends, including the differences among dispensing formats, the slowdown in mail-order dispensing, and the surprising resilience of independent pharmacies.

- **Chapter 3: Prescription Prices and Top Drugs** (page 30) presents average prescription prices, analyzes consumer copayments, and lists the top-selling brand-name, generic, and specialty drugs.

- **Chapter 4: Relationships with Pharmacy Benefit Managers** (page 36) reviews and quantifies the crucial role of PBMs in pharmacy economics given the prominence of third-party payment for prescriptions.

- **Chapter 5: Pharmacy Reimbursement by Third-Party Payers** (page 44) explains the latest methodologies used to compute a pharmacy's revenue from a brand-name, generic, or specialty prescription. This chapter compares and contrasts traditional list price methods with emerging cost-plus approaches.

- **Chapter 6: Relationships with Pharmaceutical Wholesalers** (page 58) explores the interactions of pharmacies with their primary suppliers of drugs. It explains the acquisition cost dynamics for smaller pharmacies and self-warehousing chains and large mail-order pharmacies.

- **Chapter 7: Pharmacy Profitability** (page 65) unites the reimbursement and cost discussion from the previous three chapters by presenting the latest data on pharmacy profitability. This section documents overall drugstore profitability, pharmacy margins for prescriptions, and the profit differences between brand and generic prescriptions. We also present new estimates of the source of a PBM's profit per script.

- **Chapter 8: Economic Trends and Outlook** (page 76) analyzes five significant trends that will impact the retail and specialty pharmacy industries:
  - Pharmaceutical Market Growth
  - Capturing the Specialty Opportunity
  - Preferred and Limited Pharmacy Networks
  - Risk and Reward from the Generic Wave
  - The Impact of New Prescription Reimbursement Benchmarks

Please contact me if you have any questions or comments about the *2011–12 Economic Report on Retail and Specialty Pharmacies*.

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CONTENTS

LIST OF EXHIBITS