

# 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

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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.

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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

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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:

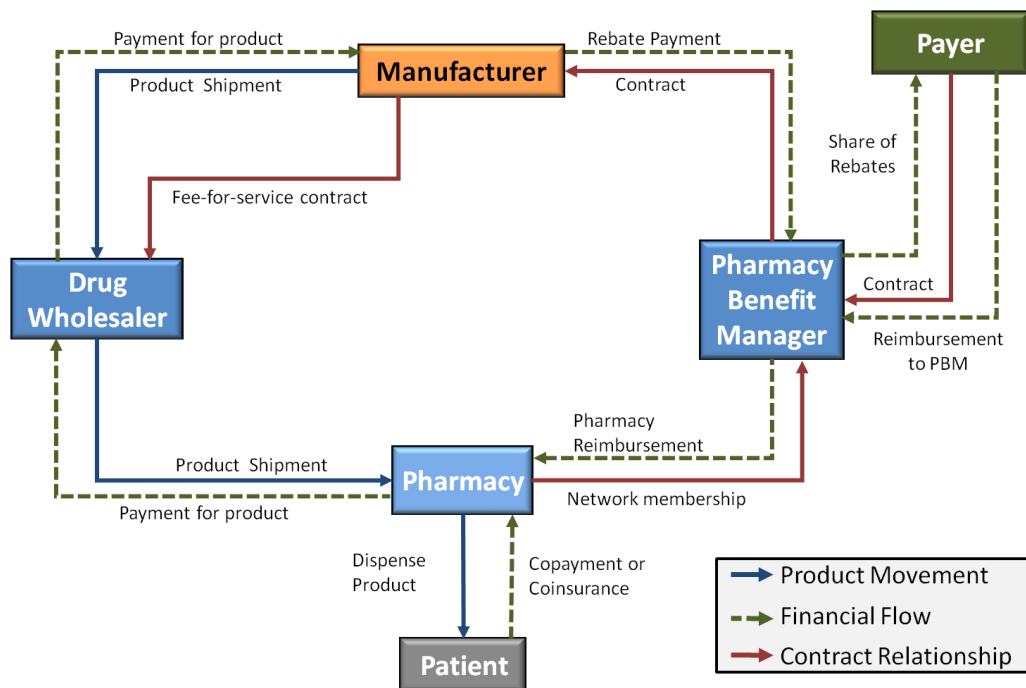
- Increase your understanding of key industry trends, such as the fast-growing specialty drug market and emerging cost-plus reimbursement models
- Illuminate business strategies in the industry by explaining the complex ways retail and mail pharmacies earn profits from pharmaceutical products
- Improve 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

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Summary.....	1
Chapter 1: Industry Overview .....	7
Products Dispensed by Pharmacies.....	7
Industry Structure.....	9
Overall Market Share by Company.....	11
Market Share for Specialty Pharmaceuticals.....	13
Clinics and Other Healthcare Services.....	16
Chapter 2: Changes in Pharmacy Industry Structure .....	19
Overall Growth .....	19
Growth by Dispensing Format.....	21
Recent Growth Trends.....	24
Independent Drugstores .....	25
Mail-Order Pharmacies.....	27
Chapter 3: Prescription Prices and Top Drugs.....	30
Traditional Drugs .....	30
Specialty Drugs .....	32
Consumer Copayments and Coinsurance.....	33
Chapter 4: Relationships with Pharmacy Benefit Managers.....	36
PBM Industry Overview.....	36
Role and Function of PBMs for Plan Sponsors .....	38
Retail Pharmacy Participation in PBM Networks .....	39
Pharmacy Networks .....	39
PBM-Pharmacy Relationships.....	40
The Efficiencies of Pharmacy Networks .....	40
PBM Compensation for Pharmacy Networks.....	41
Pharmacy Services Administration Organizations.....	42
Chapter 5: Pharmacy Reimbursement by Third-Party Payers.....	44
The Basics of Pharmacy Reimbursement .....	44

Reimbursement Methodologies.....	44
Service Fees .....	45
Reimbursement for Brand-Name and Specialty Prescriptions.....	46
Reimbursement for Generic Prescriptions .....	47
Cost-Plus Methodologies.....	49
Average Acquisition Cost.....	50
Direct-to-Payer Acquisition Cost .....	52
Average Manufacturer Price .....	53
Average Sales Price.....	54
Reimbursement of Mail-Order Pharmacies .....	55
Chapter 6: Relationships with Pharmaceutical Wholesalers.....	58
Wholesale Suppliers to Pharmacies .....	58
Purchasing Strategy of Smaller Pharmacies .....	60
Pharmacy Buying Groups .....	61
Self-Warehousing Chains and Mail-Order Pharmacies .....	62
Chapter 7: Pharmacy Profitability .....	65
Overall Drugstore Gross Margins .....	65
Gross Margins on Prescriptions.....	66
Gross Profits from Brand-Name Prescriptions .....	68
Gross Profits of Brand vs. Generic Prescriptions.....	69
Lifecycle Profits for Generic Drugs .....	71
PBM Profits from Network and Mail Pharmacies.....	73
Chapter 8: Economic Trends and Outlook .....	76
Pharmaceutical Market Growth .....	77
Summary.....	77
The Outlook for U.S. Pharmacy Spending .....	77
Projected Growth in Drug Trend .....	79
Payment for Prescription Drugs Under Healthcare Reform.....	80
Capturing the Specialty Opportunity.....	82
Summary.....	82

The Shift to Specialty Drugs.....	82
The Boom in Specialty Dispensing.....	83
The Medical Spend Opportunity .....	85
Preferred and Limited Pharmacy Networks .....	90
Summary.....	90
Pharmacy Network Models.....	90
Preferred Networks .....	91
Limited Networks .....	93
Limited Networks for Specialty Drugs .....	94
Outlook.....	96
Risk and Reward from the Generic Wave.....	99
Summary.....	99
The Generic Wave .....	99
Retail Pharmacy Generic Price War.....	100
Payer-Led Margin Compression .....	101
The Impact of New Prescription Reimbursement Benchmarks .....	104
The Benefits of Average Cost Benchmarks for Pharmacies .....	104
Lessons from Cost-Plus Reimbursement for Specialty Drugs.....	105
The Downsides of Cost-Plus Reimbursement for Pharmacies .....	107
Endnotes.....	110

## LIST OF EXHIBITS

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Exhibit 1: Health Plan Criteria for Identifying a Specialty Drug, 2011 .....	8
Exhibit 2: Overview of U.S. Pharmacy Market, 2010 .....	9
Exhibit 3: Average Annual Number of Prescriptions per Pharmacy, 2010.....	11
Exhibit 4: Largest U.S. Pharmacies Ranked by Total Prescription Revenues, 2011.....	11
Exhibit 5: Prescription Revenue Share by Chain, Top 20 U.S. Markets, 2011 .....	13
Exhibit 6: Pharmacy Revenues from Specialty Pharmaceuticals, by Company, 2010.....	14
Exhibit 7: Leading Specialty Reimbursement Hub Providers .....	15
Exhibit 8: Channels to the Patient for Specialty Drugs.....	16
Exhibit 9: Actual vs. Desired Work Activities for Pharmacists Working Full-Time .....	18
Exhibit 10: U.S. Prescriptions, Annual Total and Growth, 2000-2010.....	19
Exhibit 11: U.S. Pharmacy Revenues, Annual Total and Growth, 2000-2010 .....	20
Exhibit 12: Drugstore Revenues vs. U.S. Retail Sales, 2000-2011:Q3 .....	20
Exhibit 13: Share of Revenue Growth by Dispensing Pharmacy Format, 2000 vs. 2010 .....	21
Exhibit 14: Number of Pharmacies by Dispensing Format (Thousands), 2000 vs. 2010 .....	22
Exhibit 15: Average Prescription Revenue per Pharmacy Outlet, 2000 vs. 2010.....	23
Exhibit 16: Median Wait Time to Fill a Prescription, by Dispensing Format, 2010 .....	23
Exhibit 17: Number of Prescriptions by Dispensing Format, 2009 vs. 2010 .....	24
Exhibit 18: Prescription Revenues by Dispensing Format, 2009 vs. 2010 .....	25
Exhibit 19: Number of Independent Pharmacies, 1990-2010.....	26
Exhibit 20: Pharmacy Franchise and Marketing Programs of Large Drug Wholesalers .....	27
Exhibit 21: Adjusted Mail Prescriptions, Annual Total and Growth, 2000-2010.....	28
Exhibit 22: Average Pharmacy Revenue per Prescription, Brand vs. Generic, 1990-2010 .....	30
Exhibit 23: Top 10 Brand Drugs by Retail Pharmacy Dollars, 2010 .....	31
Exhibit 24: Top 10 Generic Drugs by Retail Pharmacy Dollars, 2010 .....	31
Exhibit 25: Top Specialty Therapy Classes and Specialty Drugs, 2010 .....	32
Exhibit 26: Drug Trend, Traditional vs. Specialty Drugs, 2010 .....	33
Exhibit 27: Out-of-Pocket Spending, Retail Sales of Prescription Drugs, 1970-2020.....	33
Exhibit 28: Average Copayments by Prescription Drug Tier, 2000-2011 .....	34
Exhibit 29: Rate of Prescription Abandonment by Copayment .....	35
Exhibit 30: U.S. Retail Prescription Claims, by PBM, 2012E .....	37
Exhibit 31: Medicare Part D PDP Enrollment, by Parent Organization, 2011 .....	37
Exhibit 32: Largest Pharmacy Services Administration Organizations, 2011 .....	43

Exhibit 33: Average Reimbursement for Specialty Drugs, by Channel, 2011.....	47
Exhibit 34: Benchmark Drug Price vs. Pharmacy Invoice Price, 2010 .....	48
Exhibit 35: Brand Reimbursement Rates, Retail vs. Mail-Order Pharmacies, 2011.....	55
Exhibit 36: Percentage of AWP Billed to Employer, Retail vs. Mail-Order, 1999-2011.....	56
Exhibit 37: Generic Reimbursement Rates, Retail vs. Mail-Order Pharmacies, 2011 .....	56
Exhibit 38: Drug Wholesaler Sales by Type of Customer, 2010 .....	59
Exhibit 39: Drug Distribution and Related Revenues at Big Three Wholesalers, 2011 .....	59
Exhibit 40: Market Share with Smaller Pharmacies, by Wholesaler, 2011 .....	61
Exhibit 41: Pharmacy Buying Groups and Wholesaler Relationship .....	62
Exhibit 42: Overall Gross Margins for Pharmacies and Drugstores, 1993-2009 .....	65
Exhibit 43: Overall Gross Margins for Drugstores, 2010 .....	66
Exhibit 44: Average Prescription Gross Margins at Independent Drugstores, 2006-2010 .....	67
Exhibit 45: Average Prescription Gross Margins at Independent Drugstores, By Payer, 2009.....	68
Exhibit 46: Estimated Gross Profit from a Brand-Name Prescription, 2000-2010.....	69
Exhibit 47: Share of Pharmacy Revenues, by Channel Participant and Drug Type, 2010 .....	70
Exhibit 48: Pharmacy Profits During the 180-Day Generic Exclusivity Period.....	73
Exhibit 49: PBM EBITDA per Equivalent Script, by Channel and Drug Type, 2011.....	74
Exhibit 50: Growth in National Health and Prescription Drug Expenditures, 2010-2020.....	77
Exhibit 51: U.S. Spending on Retail Prescription Drugs and Healthcare Reform, 2009-2020.....	78
Exhibit 52: Drug Trend Forecasts, 2011-2013 .....	79
Exhibit 53: Source of Payment for Retail Sales of Prescription Drugs, 1970-2020 .....	80
Exhibit 54: Fastest-Growing Private Specialty Pharmacies, 2011 .....	84
Exhibit 55: Public Payer Share of Selected Specialty Drugs in Retail Pharmacies, 2010.....	85
Exhibit 56: Medical Benefit vs. Pharmacy Benefit Spending on Specialty Drugs .....	86
Exhibit 57: Channels to the Patient for Specialty Drugs with White Bagging .....	88
Exhibit 58: Infused Therapy Sourcing at Oncology Practices, 2011 .....	89
Exhibit 59: Projected Brand Revenues Lost Due to Generic Launches, 2011-2021 .....	99
Exhibit 60: Distribution of Per-Unit Weighted Average AMPs, September 2011 .....	102
Exhibit 61: Medicare Part B Spending on Office-Administered Drugs, 1997-2009.....	105
Exhibit 62: Wholesaler and Provider Profits from a Specialty Generic Injectable Drug.....	107