



STATE OF THE RETAIL PHARMACY INDUSTRY

**PRESENTED TO TEAMSTERS LOCAL NO. 727
BARGAINING COMMITTEE**

APRIL 19, 2016



- Pharmacy practice is evolving and retail sector has changed significantly over the last 10-15 years.
- Number of independent or small business community pharmacies are down from 24,861 in 2000 to 22,478 today. (See <http://www.ncpanet.org/home/independent-pharmacy-today>)
- Clinical Services increasing as the industry moves towards a “health and wellness” model.
 - Immunization and Inoculations.
 - Counseling (MTM, CMR, Lifestyle Coaching).
 - Specialty drugs are expected to be the single greatest cost-driver in pharmaceutical spending over the next decade. The cost of specialty drugs is rising rapidly, increasing from approximately \$55 billion in 2005 to \$1.7 trillion in 2030. (See <https://judiciary.house.gov/wp-content/uploads/2016/02/Balto-Testimony-1.pdf>)



- Consolidation on all fronts:
 - Retail Pharmacies
 - Pharmacy Benefit Managers (“PBM’s”)
 - Hospital and Healthcare Networks



United Health Care + Catamaran

Rite Aid + Envision Rx

CVS + Omnicare

CVS + Target

Walgreens + Rite Aid

Kroger + Roundy's (Mariano's)

Anthem + Cigna

Centene + Health Net

Humana + Aetna



- PBM's have a tight grip on our market and are driving the headwinds in our business.
- The three major PBM's have approximately **80% of the market**. Since 2003, the two largest PBM's—Express Scripts/Medco and CVS Caremark— have seen their profits increase by almost 600% from \$900 million to almost \$6 billion. (See <https://judiciary.house.gov/wp-content/uploads/2016/02/Balto-Testimony-1.pdf>)



- **Exclusion from networks is costly.**
- “Vertically Integrated Entities” dominate & dictate terms of engagement.
 - What does this mean? Think CVS/Caremark, now CVS Health – they do more than just fill bottles, **they address the overall health and wellness of each patient.**



- PBM's increasingly restrict networks for specialty patients and force them to use the PBMs' own specialty pharmacy and increasingly restrict Part D networks. (See <https://judiciary.house.gov/wp-content/uploads/2016/02/Balto-Testimony-1.pdf>)
- Increased rate and DIR (reverse rebates) concessions to continue participation in preferred or limited networks.
- Aggressive attitude by top-3 PBMs when rates are challenged:
 - The dominant PBM's are able to force consumers to use their own specialty pharmacies through restrictive networks. (See <https://judiciary.house.gov/wp-content/uploads/2016/02/Balto-Testimony-1.pdf>)
 - Thus we have limited (if any) leverage and, "the rate is the rate, take it or drop out.....your choice."



- As shown above, exclusion from a top-3 PBM network would cause severe damage to our business.
- Example: Walgreens tossed out of Express Scripts network (8,700+ stores).
 - Walgreens is still not able to fill Tricare scripts since their disagreement with Express Scripts over 4 years ago.



- Continuation and growth of these trends could eventually lead to Osco being shut-out of entire sectors of the market.
- How?
 - Walgreens has about 8,216 pharmacies and is about to add 4,000 via the Rite-Aid deal.
 - CVS has about 7,765 pharmacies and is looking to add more.
 - Just like the existing PBM's, they will likely seek to form their own networks and shut-out the competition, including Osco.



WHAT OUR COMPETITORS ARE DOING

- Changing hours of retail operation.
- Offering diverse menu of health and wellness services beyond just filling scripts.
- Continued consolidation in effort to exert greater control over the market (i.e., CVS and Target; Walgreens and Rite-Aid).



- Where do we go from here?
 - Our goal it to be preferred in every network.
 - Expand services – CMR's, MTM, immunizations, community outreach, health fairs, etc.
 - We must have the best service level offering.
 - We must be as convenient as our competition.
 - We must explore opportunities to improve efficiencies.