

New Era Begins for Drug Chains

NEW YORK — Chain drug retailing in 2014 continued to be shaped by two powerful trends: industrywide consolidation, which produced what was hailed as the first global pharmacy chain, and the delivery of neighborhood health care outside of traditional medical settings, which grew at an accelerated clip.

Where the trends converge is in retailers' recognition that health services can become a bigger part of the business, especially in the United States, where the Affordable Care Act is expanding access to preventative care.

A promise of the merger of Walgreen Co. and Alliance Boots GmbH is that an increased prominence of pharmacy is coming not just to the United States but around the world.

"We will have the potential to do more than anyone else in this space to improve the affordability and accessibility of health

The pharmacy business has gone global in a big way

care globally," Stefano Pessina, executive vice chairman and acting chief executive officer of Walgreens Boots Alliance Inc. (WBA), said last summer as Walgreens said it would complete its two-step acquisition of Alliance Boots, a process started in 2012. "We will not only have the scale and reach to be a defining force in both primary and consumer health care all around the globe," Pessina said, "but we will also have a platform into new markets that can deliver us new sources of growth for many years to come."

WBA is reaching into the community with such programs as Walgreens WellTransitions, a collaboration with hospital systems aimed at helping patients understand prescribed medications

DISCOUNT STORE PERFORMANCE

SALES		
	Results*	% Change vs. '13
Discount Store Sales	\$704.1 bil	+4.1%
Average Sales per Store	\$32.8 mil	—
Discount Industry Net Profits	\$15.5 bil	+9.2%
Net-to-Sales Ratio	2.2%	+4.8%

STORES		
	No. of Units**	% Change vs. '13
Total No. of Discount Stores	21,480	+1.1%

*Sales figures for the supercenters operated by Walmart and Target Corp. include only general merchandise totals.

**Store total includes supercenters operated by Walmart, Meijer Inc. and Target.
Source: Racher Press research

during their hospital stay and remain adherent to medication regimens once back home.

Health care services represent new profit centers for drug store retailers at a time when pharmacy margins and government reimbursements are under pressure.

In another sign that health care is going retail, the nation's second-largest drug store chain underwent a major rebranding last year to signify its transformation from a chain drug store to a neighborhood health care center. Cigarette sales were discontinued at its 7,700 drug stores nationwide and the company formerly known as CVS Caremark Corp. changed its name to CVS Health.

The switch comes as CVS expands its customer base to include health plans, doctors and hospitals. CVS executives acknowledged that selling tobacco products made it tougher to present the company as a partner with the health care industry.

"For our patients and customers, health is everything, and CVS Health is changing the way health care is delivered to increase access, lower costs and improve quality," Larry Merlo, president and CEO of CVS Health, said in September in announcing the

name change and the phase-out of tobacco sales.

Rite Aid Corp., the third-largest drug store chain in the United States, continued to diversify with its recent agreement to acquire pharmacy benefits manager Envision Pharmaceutical Services LLC as well as its ongoing rollout of RediClinic in-store clinics.

A study published last month by the Robert Wood Johnson Foundation and Manatt Health, a division of consulting firm Manatt, Phelps & Phillips LLC, found that rapid growth in retail health clinics is leading to more partnerships with primary care medical facilities. The report says that the health systems to date have formed more than 100 partner-

Rx's role in health care is expanding

ships with retail health clinics.

"Since emerging on the health care landscape more than 15 years ago, retail clinics have become common," the report says. It counted 1,800 sites among the six largest retailers (Rite Aid, CVS, WBA, Kroger Co., Walmart and Target Corp.), and said the sites logged 10.5 million visits in 2012, or about 2% of primary care encounters in the United States. That's up from 1.5 million visits in 2007.

By 2008, most retail clinics accepted insurance, both commercial and Medicare, and 60% accepted Medicaid, according to the report, which noted that Medicaid expansion through ACA has helped lower the proportion of uninsured Americans from 16% in 2009 to 12.9% at the end of 2014.

"[Retail clinics] see about 10 to 30 patients per day, offer low prices, from \$40 to \$75 a visit, and aggressively manage their supply chain," the report said. Margins are low, the researchers noted, but so is overhead, and a clinic can generate up to \$500,000 a year in revenue.

CHAIN DRUG PERFORMANCE

SALES		
	Results	% Change vs. '13
Chain Drug Store Sales	\$289.1 bil	+5.8%
Average Sales per Store	\$11.5 mil	+36.9%
Chain Drug Net Profits	\$4.34 bil	+13.6%
Net-to-Sales Ratio	1.5%	+7.1%
Total Drug Store Sales	\$383.4 bil	+5.7%
Independent Drug Store Sales	\$94.33 bil	+3.9%

STORES			
	No. of Units	% of total	% Change vs. '13
Total No. of Drug Stores	44,761	100%	-0.03%
Chain Drug Stores	25,066	56%	+0.8%
Independent Drug Stores	19,695	44%	-1.1%

Source: Racher Press research