



A digital prescription for change

BY MARK BROHAN

Drugstores are seeking to lock in loyal online healthcare shoppers with a wider variety of easy-to-use services.

Consumer behaviors can be hard to change. That explains why the majority of consumers still head to their nearby drugstore to fill or refill a prescription.

But drugstores are increasingly digital—and they're not just for prescriptions. And if Amazon.com Inc., Walgreens Co., CVS Health and some well-funded digital pharmacies have their way, digital drugstores will soon transform from mainly offering prescription order and pickup or delivery services into online healthcare shopping malls.

Because drugstores—and the pharmacists who work there—often have close relationships with their customers, many consumers give their druggists a lot of steady business. For example, 55% and 40%, respectively, of web shoppers on Walgreens.com and CVS.com are repeat buyers, says e-commerce measurement firm Connexity. That significantly outpaces the 33% median rate of repeat buyers among the top 1000 web merchants ranked by Internet Retailer on Top500Guide.com, according to Connexity.

With established customers, online drugstores of varying sizes want to lock in loyal online healthcare shoppers with a wider variety of easy-to-use services that include complete prescription drug management systems, along with the ability to see doctors online, buy or renew health insurance, get health and wellness advice, receive digital coaching and shop for a growing array of health, beauty and other over-the-counter products.

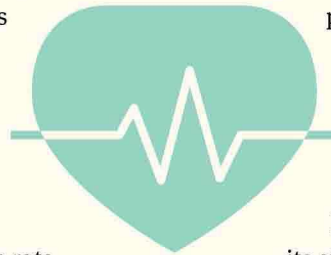
Two of the largest pharmacy companies

—Walgreens and CVS—both have aggressive plans to turn their current drugstore-focused e-commerce operations into diversified digital healthcare delivery service systems. For instance, to bolster its offerings, CVS Health in December agreed to acquire health insurer Aetna Inc. for about \$67 billion.

CVS, Walgreens and others, including Amazon, are building digital healthcare services that aim to give consumers one-stop healthcare shopping opportunities, says Arun Ghosh, principal at advisory firm KPMG LLC. “Pharmacies need to capture the consumer online and offline at the point of sale,” he says.

Amazon also is building up its healthcare base, although the company has yet to formally announce plans to get into the prescription drug business. Amazon, which already sells thousands of over-the-counter health and beauty products on Amazon.com, last year filed and was approved for wholesale drug distribution in at least 13 states.

More recently, Amazon, in conjunction with Warren Buffett's Berkshire Hathaway Inc. and JPMorgan Chase & Co., in February announced plans to form a new healthcare services company aimed at using data, digital and e-commerce technology. The companies' goal is to use their combined purchasing power to lower medical costs for their collective 1 million employees and, perhaps, eventually to provide the same services to other companies. “Perhaps no company has been as consistently disruptive as Amazon,” says Kate McCarthy, a Forrester Research Inc. healthcare analyst. “It has set its stakes on healthcare next.”



Digital prescription drug sales in the

United States total roughly \$3.3 billion, says Eric Kinariwala, CEO of Capsule Inc., a 2-year old digital pharmacy. That's roughly 1% of the overall market. But the online share of prescription drug sales is poised for aggressive growth, he says. “We're just beginning to scratch the surface of this market,” Kinariwala says.

The pharmacy market is already digitally connected to consumers—at least on the front end. Walgreens, for example, has an advanced e-commerce system that's increasingly focused on mobile devices. More than 50 million customers have downloaded the Walgreens app, which allows shoppers to submit and refill prescriptions, and the drugstore chain offers online prescription orders and refills at about 8,100 locations in the U.S., the retailer says. About 200 million of the 1 billion prescription orders Walgreens processes each month are completed online. Walgreens' goal is to turn its substantial e-commerce base and digital drugstore business into a diversified digital healthcare services delivery company.

That's a strategy Walgreens began pursuing in earnest three years ago. Now, the drugstore chain is adding new digital healthcare delivery services. For

example, NewYork-Presbyterian, one of the nation's largest public health systems, and Walgreens are collaborating to deploy a consumer telehealth program. A patient can use a kiosk in a Walgreens store to go online and connect with an emergency room physician who can provide an exam through a high-definition video-conference connection.

For now, the program is limited to a single kiosk with telehealth capability at one store in Manhattan. However, the retailer plans to add additional locations this year.

"NewYork-Presbyterian will be the first local health-care provider to collaborate with us on our evolving telehealth and digital strategy," says Greg Orr, the retailer's divisional vice president for digital health.

Walgreens is tying digital healthcare delivery services very closely to its vast network of stores. That's an omnichannel approach that's well established in retailing but relatively new to healthcare.

CVS Health also is pursuing a similar

one-stop shopping approach for digital healthcare delivery services. But unlike Walgreens, Amazon and other current competitors, CVS is in the midst of acquiring Aetna to offer consumers a combination of health, wellness and insurance services online or through the CVS drugstore network of 9,700 stores.

When the deal closes in the second half of the year, the combined CVS and Aetna program will operate one of the healthcare industry's largest digital delivery systems. Once both companies have completed a multiyear systems integration plan, the CVS/Aetna digital healthcare platform will serve 65 million patients, generate 1 billion automated calls and texts to patients annually and handle 55 million email messages each year, CVS says.

"This transaction fills an unmet need in the current healthcare system—whether in the community, at home or through digital tools," says CVS CEO Larry Menlo.

The big drugstore chains and potentially new players such as Amazon see pharmacy customers as a large customer base that wants to comparison shop and purchase and manage their healthcare online. For example, 66% of consumers would consider seeing a doctor online and even more consumers would prefer a video doctor's visit if the visit resulted in a faster prescription refill, according to a recent survey of 2,100 consumers by Harris Poll and telehealth services provider American Well.

The survey found that 78% of consumers are willing to have a video visit with a doctor. What's more, even though big drugstore chains offer multiple ways to fill prescriptions online and talk to pharmacists, it can still be a waiting game before customers receive their prescription. It still takes, on average, about 45 minutes before a prescription is ready for pickup or delivery. About 40% of consumers also must make a return trip to the drugstore to pick up their order because the drug was out of stock and more than one-third of prescriptions are never picked up, says digital pharmacy startup Capsule.

Sheer size and loyal customers alone

might not be the only way to carve out market share in the emerging digital drugstore market. Several well-funded online drugstores such as Capsule and PillPack are banking on e-commerce and better pharmacy management technology, in combination with fast delivery, to carve out a niche.

In New York, Capsule is attempting to build a lasting e-commerce business. Capsule won't disclose details about its first years in business, including web sales, prescription orders or the number of doctors the online pharmacy is working with. But in New York, a state with 4,300 licensed pharmacists located in independent pharmacies, hospitals, clinics, chain drugstores, discount and warehouse retail outlets and grocery stores, Capsule promises customers it will deliver prescriptions in about two hours for free to customers living in Manhattan and the other boroughs. "60 minutes is the typical time a lot of New Yorkers wait to have a prescription filled," Kinariwala says.

The company has raised \$20 million to expand its online pharmacy business that not only processes and delivers orders quickly, but also builds digital relationships with customers to better track the medicines they are taking, answer questions about the drugs and to work with doctors and hospitals on better medical adherence—a healthcare industry term for the \$300 billion worth of problems that arise annually because patients don't properly take their medication.

In Manchester, New Hampshire, PillPack also is building a digital pharmacy with a niche that helps patients order, reorder, properly take and track multiple prescriptions at once, says founder and CEO T.J. Parker.



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Five years ago, Parker, a second-generation pharmacist, launched PillPack, which now operates in 49 states. PillPack's sales total \$100 million and the company has about 40,000 consumers. In September, a ranking by Forbes estimated that PillPack could be valued as a \$1 billion company inside five years.

PillPack claims to make it easier and

faster for consumers to get prescriptions filled. PillPack manages multiple prescription medications for customers by pre-sorting, packaging and delivering the drugs—all with a 24/7 pharmacy staff that can be contacted either online or via phone. Every two weeks, customers receive a personalized package containing pre-sorted medications, along with a recyclable dispenser and any other medications that cannot be placed into packets, like liquids and inhalers. Each shipment includes a medication label that explains what each pill is and how it should be taken.

In addition to pre-sorting medications, PillPack coordinates refills and guarantees all medications will ship on time. Online tools allow customers to track their shipments, refills and co-pays. In late 2017, PillPack rolled out a redesigned website and drug prescription management technology called PharmacyOS, which PillPack says gives consumers better and faster ways to handle multiple prescriptions for chronic diseases that often require patients to take several pills at once.

PillPack and Capsule have plenty of competition among companies trying to use digital healthcare technology to build and operate a virtual drugstores or provide related delivery services. For example, DeliverCareRx provides home delivery of prescriptions and ongoing prescription refill management services to chronically ill, low-income, case-managed and managed-care organization patients. It has raised more than \$13 million. And NURX.com uses

telemedicine to enable doctors to prescribe and deliver birth control, emergency contraceptives and HIV prevention medications. The San Francisco-based company has raised \$7 million to date.

Other notable startups include Zipdrug.com, which offers medication delivery on-demand by app or phone, and Phil.com, an online prescription management and delivery platform that partners with pharmacies.

However, startups face a stiff challenge because traditional pharmacies—especially CVS and Walgreens—have the biggest base of online customers, and they can leverage those existing relationships to drive more prescription sales and other digital healthcare services. That explains why they are rapidly adding more convenient services. For example, CVS in December introduced free, same-day delivery for prescriptions and certain over-the-counter items in Manhattan. In 2018, it will expand same-day delivery to Miami, Boston, Philadelphia, Washington, D.C. and San Francisco.

And every digital pharmacy—big or small—must prepare for the looming shadow of Amazon and its entry into the prescription drug business. "It's a certainty Amazon will be coming into the pharmacy business," McCarthy says.

Amazon could impact the online drugstore market in multiple ways, say e-commerce research analysts. With a pharmacy distribution license in 13 states, Amazon could launch its own drug delivery business or, with its deep pockets, it could buy another mail-order drug company with expertise in the pharmacy market. Additionally, with its acquisition of Whole Foods Market, Amazon now has a network of 470 stores in which it could set up pharmacies or pickup points in addition to a mail or same-day delivery operation. Prescription drug delivery also could add yet another convenience factor for Amazon Prime members, among Amazon's most frequent and loyal shoppers.

Even the notion of competing head-to-head in the drugstore business against Amazon has lots of retailers getting serious about diversifying their healthcare delivery services

"It's 'game on' for a lot of pharmacies that want to keep up with the digital expectations consumers have for faster and better ways to manage their prescriptions," says KPMG managing director Mike Wolf. ●