

# The Total-Store Pharmacy Solution

**Multiple complex forces are shaping the retail pharmacy challenge. To ensure collective, long-term profitable growth, manufacturers and retailers need to work collaboratively to create genuine value for shoppers.**

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**R**etail pharmacy continues to have significant top-line potential. The aging population, therapeutic advances extending lives, and increased access for seniors benefiting from the Medicare Reform Act all bode well for continuing the +13% average annual increase in prescription drug sales.

This growth is under ever-increasing scrutiny from managed care and employer payers. Pharmaceutical costs are a small part of U.S. healthcare expenditures (10%), but represent a disproportionate share (20%) of increased costs. This has placed pharmaceutical cost containment efforts into high gear, squeezing retail pharmacy margins thinner and thinner.

Industry experts predict pharmaceutical costs will double by 2007 and may exceed medical spending within 20 years—a forecast sure to drive further cost controls and force inefficient operations out of the market.

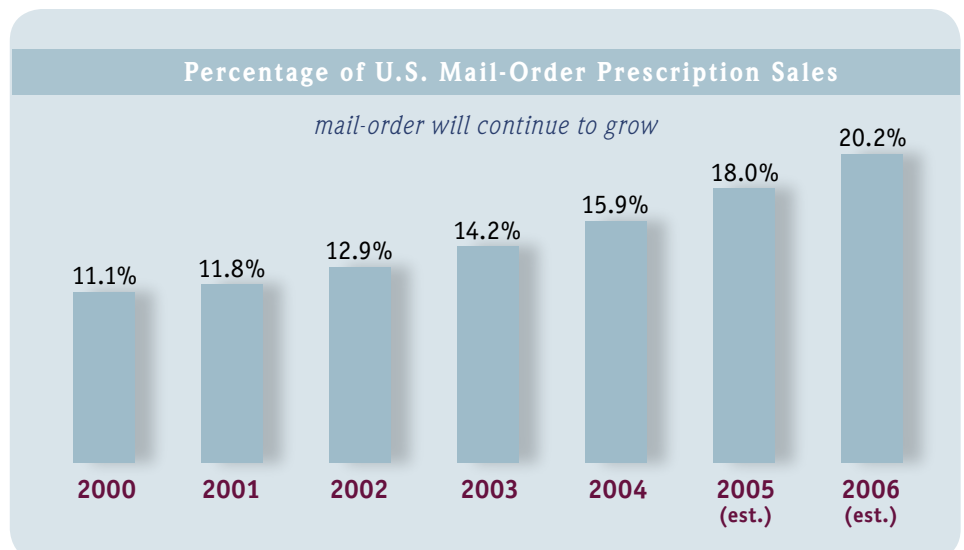
The growth of mail-order Rx represents an additional significant challenge facing retail. Centralized supply chain, claims processing and three-month Rx's create a highly efficient prescription-fulfillment model for mail-order.

But that is just the cost of entry; these organizations are also equipped to provide superior customer service. Mail-order pharmacies can provide concurrent drug utilization review, resulting in a higher safety and efficacy profile. Add web- and telephone-based direct-to-consumer service, and the result is a highly efficient, safe and effective delivery system.

In addition, mail-order pharmacies can collect extensive data on all of their patients, not just those who opt in for shopper loyalty programs. The sophisticated operators can combine this fundamental knowledge with in-depth dialogue from patients who order via the telephone and online. Together, this means, mail-order has an advantage in understanding who buys what, when, and most importantly, why.

Why should manufacturers care about this? Because in this low-margin environment, only the chains with highest store volumes will survive. A few highly consolidated and powerful pharmacy retailers will emerge and only those manufacturers that bring differentiated solutions to drive profitable growth will win out over the competition.

Percentage of U.S. Mail-Order Prescription Sales



Source: Industry estimates

Driving incremental sales on higher margin over-the-counter drugs and health-and-beauty products is the key to retail pharmacy health and an opportunity for consumer goods and pharmaceutical manufacturers to lead.

### A “Shopper-Centric” Solution

The convenience of the “total store” is the key weapon retail pharmacy has to compete against mail-order operations. In a recent study conducted by GMDC, 79% of shoppers said they desire “one-stop” shopping for their health management needs. This translates to an opportunity to broaden category definitions from Rx “drug classes” to integrated total condition (Rx and OTC) healthcare management, and provide solutions to consumers that span all of their needs.

Consider the low-hanging fruit:

- Nearly half of consumers who fill a prescription do not buy anything else.
- Few consumers remain compliant with doctor-recommended guidelines for their chronic prescription medicines.

These opportunities speak to the need to better understand the retail shopper and identify the levers to close the sale.

Where to begin? Start with the highly prevalent categories that also represent the highest shopper value. These are categories with the most highly prescribed medications and have sufficient critical mass to merit the creation of differentiated programs (see examples on the right).

Creating an integrated approach to holistically marketing to these shoppers carries some significant challenges. Today, pharmacy is rarely linked to merchandising approaches in the front of store and organization “silos” create artificial barriers to an integrated approach. Retailers need to re-think organizational barriers from focusing on traditional product categories to a shopper-centric approach.

Similarly, the role of the pharmacist can be better leveraged. Many retailers, focused on throughput and efficiency, do not provide the pharmacist the opportunity to act as a health-care provider. Shoppers value the pharmacist and the opportunity for the pharmacist to improve patient care will also result in an improved market basket. →

### Examples of Categories with High Shopper Value

| Integrated Category | Prescription Medications                                       | OTC concomitant products                                | Supporting Services  |
|---------------------|--|---|--|
| “Heart Healthy”     | Anti-hypertensives<br>Cholesterol                              | Aspirin<br>Vitamins<br>Low-fat foods                    | Cholesterol testing<br>Walking clubs                                     |
| Allergies           | Antihistamines<br>Nasal-inhaled steroids<br>Asthma medications | OTC antihistamines<br>Nasal decongestants<br>Analgesics | Seasonal allergy alerts<br>Safe home education<br>Nutritional counseling |
| Women’s Health      | Birth control<br>Osteoporosis<br>Menopause                     | Feminine hygiene<br>Skin care<br>Vaginal anti-fungal    | Aging support  |
| Obesity             | Diabetes medications<br>Heart medications                      | Low-sugar foods<br>Nutritional supplements<br>Footcare  | Nutritional counseling<br>Exercise<br>Diet planning                      |

### The Shopper Immersion Puzzle

