



The Pharmacy Solution

An Expanding Role for Pharmacies in Healthcare Delivery



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EXECUTIVE SUMMARY

Convenient retail pharmacies with trusted staff could play an important part in expanding access to healthcare while driving down cost. However, to make a truly transformative impact on healthcare, pharmacies must overcome structural barriers and explore new business models.

Pharmacies can build on convenience, consumer loyalty, and clinical expertise to serve diverse patient populations. One approach is to help healthy customers, or those at risk of becoming ill, to remain well. Another is to reach out to the growing number of chronically ill with compliance and disease management programs. Some players may choose to develop self-sustaining networks of pharmacies and clinics. Others will integrate tightly into the broader medical

system, exchanging information and referrals and directing patients to the most convenient and appropriate site of care.

As innovation and reforms empower the pharmacy to take on a greater role in the nation's healthcare system, the entire healthcare ecosystem—providers, payors, government, and patients—will have an opportunity to help shape that role and share in the benefits.

WHERE PHARMACIES ARE HEADED

Whether or not the current health reform efforts succeed, they have brought into sharp focus the severity of two issues: the spiraling cost of healthcare and the substantial unmet need for care. These issues are unlikely to be resolved in the near future. However, an unexpected player with the power to drive significant change may be as close as the corner drugstore. We believe that pharmacies are uniquely positioned to help meet the top two goals of reform: providing convenient, expanded access to medical care and controlling costs.

Pharmacies—many of them operated by large publicly traded companies such as Walgreens, CVS, and Walmart—have already begun to

reach beyond their traditional role as pill dispensers to meet new demand from patients. Consumers, who have become more responsible for their own medical care in recent years, are turning to retail pharmacies for help in managing medical conditions and their out-of-pocket healthcare spending. Walmart's US\$4 generic drugs program, for example, which offers a wide range of prescription medication and 1,000 over-the-counter medications at \$4 for a 30-day supply, has had a major impact on making medication more affordable—especially because other pharmacies have quickly followed suit.

The innovation does not stop at pricing. Drugstores are experimenting with in-store clinics, wellness programs, health screenings, and disease management services. In one notable program, the city of Asheville, N.C., has been using local pharmacists to provide free counseling and coaching to diabetes patients, generating substantial savings and health improvement. More recently, the U.S. Health

Resources and Services Administration launched a similar experiment dubbed the “Patient Safety and Clinical Pharmacy Services Collaborative” in an attempt to integrate evidence-based clinical pharmacy services into the management of high-risk and high-cost patients.

There is no question that pharmacies could play an even greater role in providing a wide range of basic healthcare services in a convenient, cost-effective way. But to reach their full potential to ease the current healthcare crisis, pharmacies will have to overcome certain barriers. Some of these constraints, such as limits on the level of service that pharmacies can provide, have been imposed by regulators. Others are self-imposed and are designed to accommodate physicians and health insurers. In the current reform climate, these barriers are likely to erode, resulting in new opportunities for the pharmacy to become a critical partner in the restructuring of healthcare.

ADVANTAGES AND CONSTRAINTS

In the current environment, where easy access to cost-effective care is paramount, the pharmacy offers four significant advantages.

1. *Trust.* Patients already have more contact with pharmacists than other healthcare providers and appear to greatly value their pharmacists' advice. A 2007 Booz & Company survey found that pharmacists ranked first in patient trust when it came to getting information about pharmaceuticals, ahead of consumer organizations such as Consumers Union (publisher of *Consumer Reports*), doctors, and government officials.
2. *Access.* The pharmacist is highly accessible. There is a pharmacy within 2.36 miles of any U.S. consumer, on average, according to the National Association of Chain Drug Stores. In

addition, in many areas, at least one local pharmacist is available 24 hours a day, with no appointment needed.

3. *Skills and services.* Pharmacists are highly trained health professionals, knowledgeable about a range of medical conditions and capable of delivering some advisory, diagnostic, and treatment services. An increasing number of pharmacies also have a retail clinic on the premises, staffed by a nurse practitioner licensed to perform a range of primary care services and, in some cases, write prescriptions.
4. *Cost.* Retail pharmacies operate in a highly competitive business environment, and are already acting to lower the nation's cost of prescription medications by promoting generics. Pharmacy-based

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retail clinics could often treat patients at a lower cost than physicians' offices could for the same conditions. Most recently, pharmacies have been playing an important role in providing cost-effective immunizations, whereas 85 percent of physicians find immunization reimbursements inadequate.

Unfortunately, these four advantages are not being fully leveraged today, owing to a number of constraints. One set of constraints is *regulatory*. The range of services that pharmacists (and clinic-based nurse practitioners) are allowed to perform is limited, and it varies by state. One historical reason for this constraint is the concern for patient safety, but in many cases political pressure from physician groups also plays a role.

Other constraints are *structural*. For example, because healthcare providers in the U.S. are typically reimbursed based on the number of visits rather than on outcomes, physicians and hospitals have limited incentive to collaborate with pharmacists and other stakeholders to address issues such as patient compliance with drug regimens.

Another obstacle to integrating pharmacies more closely into the healthcare delivery system has been *technological*. Although pharmacies, insurers, and physicians are moving toward establishing better electronic records, many of these systems remain independent of one another and often provide only partial information about a patient. Without a full clinical record and a physician interface, the pharmacist is limited in his or her

ability to advise or refer the patient appropriately.

Finally, some of the constraints are *self-imposed*. Pharmacy companies have been hesitant to expand their range of services for fear of alienating prescribing physicians. They also face some growing pains in making the transition from the traditional pharmacy business to new formats. Pharmacy-based retail clinics have not yet proven profitable. In addition, a substantial investment will be required for pharmacies to upgrade technology, facilities, and staff to be able to offer a broader range of services. Many pharmacies are also not set up to bill insurance companies for providing services because medication benefits are typically handled by different systems and agreements than are services.

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CURRENT OPPORTUNITY

Fortunately, many of these obstacles may be minimized or removed as the economic and regulatory environment evolves. The *structural barriers*, for example, may be addressed through the adoption of pay-for-performance reimbursement schemes for providers. Under this model, providers are compensated for results rather than number of visits, thus increasing the incentive for physicians and hospitals to collaborate with pharmacists on improving patient compliance.

Expanded use of electronic medical records (EMRs) was a critical element of the U.S. government's Health Information Technology stimulus package and could have a powerful impact on the operation of pharmacies as they address the *technological barrier*. The government has created incentives and a regulatory framework for adoption of portable, interoperable EMRs. These records will make it easier for pharmacists to work with physicians, hospitals, and insurers to make the overall system more convenient and cost-effective, while improving health outcomes overall. Other new forms of technology—such as expert systems that provide information about disease and treatments, more

portable and afford telemedicine—will also enable pharmacists to perform a larger number of screenings and consultations in retail clinics more conveniently and at a lower cost than traditional medical facilities can.

Finally, the pharmacy itself might become more tightly integrated into the healthcare delivery system and relax some of its *self-imposed barriers* as the new care delivery model emerges. This model is likely to be more patient-centric and integrated, relying on a medical team to deliver care. In such a model, the patient would be steered toward the most appropriate clinician and location depending on the nature of the health problem. Most pilot programs currently providing team-based care include a pharmacist as part of the team. For smaller physician practices—which make up a significant segment of providers—the pharmacist could be involved virtually, perhaps working at a nearby retail pharmacy and accessible via telemedicine. As these barriers recede, the pharmacy could occupy several positions within the evolving healthcare system to become a more valuable and integral player.

SEGMENT-BASED STRATEGIC ALTERNATIVES

As pharmacy companies plan for the future, they will need to first choose between two approaches for serving different patient segments consistently.

The first approach (Retail Health Center) is to build retail health centers that focus on healthy and at-risk individuals and that deliver a range of health and wellness services, such as health risk assessments, counseling, smoking cessation programs, and ongoing tracking of risk factors. This health maintenance function could be executed in partnership with employers and government payors that seek to manage the health of large populations. This approach could also expand into the adjacent domains of nutrition and weight management, well-being, and beauty products and services. Consumer products companies could partner with pharmacies to deliver compelling value propositions in this sphere.

A large retail footprint, trusted patient–pharmacist relationships, and in-house trained clinicians are the key assets in this approach. Our analysis shows that pharmacies equipped with retail clinics could handle health issues that would otherwise be responsible for up to 10 percent of physician and emergency room visits.

The second approach (Friendly Health Coach) is to concentrate on compliance and comprehensive disease management for the chronically ill. This population continues to grow, and more people are being forced to

deal with multiple chronic conditions. Disease management (DM) companies are tackling the issue head-on, but their efforts have not been fully satisfactory for the public or commercial payors. (Medicare, for example, has canceled its DM demonstration programs, and more commercial payors are bringing the DM function in-house.) Once again, the pharmacy is well positioned to tackle this issue, offering face-to-face interaction with a trusted clinician instead of the phone-based intervention used by disease management companies. Starting with compliance programs and expanding into medication therapy management and disease management, pharmacies could help payors keep their chronically ill populations from becoming sicker.

The magnitude of this issue is difficult to overestimate. Diabetes—a debilitating chronic illness with an annual cost to the economy of \$174 billion—has a medication compliance rate of less than 50 percent. Addressing it would benefit everyone: patients, payors, pharmacies, and pharmaceutical manufacturers. Patients would receive better and more consistent care and greater support for staying on prescribed treatments. Offering more services would allow the pharmacy to address the seasonality issue that makes retail clinics unprofitable today. Finally, targeting patients with counseling, disease management, and compliance programs could drive greater market share and customer retention.

NETWORK-BASED STRATEGIC ALTERNATIVES

Once each pharmacy company has determined the patient segment on which it wants to focus, it will need to determine the extent to which it will integrate into the healthcare system. We see the emergence of two potential models.

The first model (Shadow Network) is to create a shadow, or parallel, network, in which some pharmacy companies would string together a cohesive set of retail- and employer-based sites in which they offer a range

of products and services, providing shorter wait times for individuals and lower costs of care for employers. This network would be independent of the traditional care-delivery system, relying on the conventional system for prescriptions but seeking to replace it for a subset of patients with limited health needs. Walgreens, for example, is attempting to create its own healthcare network, delivering care in Walgreens stores, at the employer site, at home, or even inside a hospital.

The second model (Integrated System) is for pharmacy companies to move toward more integration with the existing system, rather than operating in parallel with it. Given adequate physician support, a hybrid network could emerge, with pharmacies serving as accessible retail outposts for

large healthcare systems. In this role, pharmacies would perform a triage function, offering basic care to some and referring the rest to their primary care physician or specialists. Making use of the EMR network, the process would be seamless for the patient. As the pharmacy generates traffic for physicians via referrals, health systems would generate traffic for the pharmacy by directing their low-acuity emergency room patients there for quick, high-quality, cost-effective service. Walmart, always a company to watch, appears to be moving in this direction, having defined its niche and contracted with local hospital networks. Its commitment to integrated care can also be seen in its recent move to provide electronic medical record software to physician practices.

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IMPLICATIONS FOR STAKEHOLDERS

As pharmacies carve out new and expanded roles in the healthcare delivery system, four key stakeholders—regulators, pharmaceutical companies, providers, and payors—should seek to accelerate the process and create new opportunities through collaboration.

For regulators, increasing coverage for the uninsured is a laudable goal, but increasing access is more difficult. As newly covered individuals flood into the already strained system, it will take all hands on deck to meet the increasing demand. This will require a relaxation of some of the constraints currently placed on pharmacists and pharmacy-based retail clinics. Regulators should create the optimal conditions to allow innovations in pharmacy cost and access to flourish.

For pharmaceutical companies, pharmacies represent an important potential ally. As pharmacy chains deploy compliance programs and more complex disease management protocols, pharmaceutical companies stand to gain a great deal. Noncompliance reduces the effectiveness of medication regimens and can lead to acute

episodes and complications. Achieving greater compliance could be a genuine win for pharmaceutical companies, pharmacies, payors, and of course patients.

Pharmaceutical companies also stand to benefit as pharmacies offer more diagnostic services. For example, there are more than 6 million undiagnosed diabetics in the United States, and pharmaceutical companies have launched massive efforts to promote testing. Pharmacies could aid both parties, gaining valuable clients and helping patients avoid complications thanks to early detection. Pharmacies and retail clinics will likely become essential alternatives for making specialty drugs part of a broader disease management effort. Both CVS and Walgreens are moving in this direction. This would give pharmaceutical companies a new channel and would provide consumers with a more convenient way to access care.

For healthcare providers, offering better quality of care, greater cost-effectiveness, and more successful outcomes will be increasingly important, and of increasing concern to the regulators that oversee them. For example, after a *New England Journal of Medicine* report revealed that 20 percent of Medicare patients are re-hospitalized within 30 days of discharge, the government announced it would evaluate hospitals based on readmission rates. Because noncom-

pliance plays a large role in avoidable readmissions, pharmacists, with their high level of engagement with patients, may be able to play a role in lowering readmissions. As noted earlier, the pharmacy could also become a diagnostic and triage facility, referring patients to providers as well as handling after-hours needs and low-acuity emergency room overflow.

For healthcare payors, reducing the cost of care will remain a challenge, and pharmacies are well positioned to play an important role. A recent Medco Health Solutions study showed that every \$1 spent on improving compliance returned \$7.10 for diabetes drugs, \$5.10 for cholesterol drugs, and \$4 for blood pressure medication. Payors are already partnering with pharmacies on pilot programs aimed at improving compliance. Payors are also beginning to recognize and leverage the credibility of the pharmacist with patients and are starting to use the pharmacy as an engaging channel for delivering health and wellness messages, coaching, interventions, and other services.

In a reform debate full of hard decisions, whether to empower the pharmacy should not be a difficult choice. The pharmacy of the future could take the current assets of trust, access, skill, and cost to the next level. Regulators, pharmaceutical companies, providers, and payors should be prepared to help this evolution and benefit from it.

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