

Health Research Institute *Spotlight*



May 2016

The pharmacy of the future

Retail pharmacies face shrinking margins in their core business and tougher competition in a shifting health industry. Yet these companies have the opportunity to redefine themselves as central players—and critical partners—in the New Health Economy.

Anemic reimbursements and industry consolidation are forcing retail pharmacy companies to look for new sources of revenue. Yet beyond tweaking the business model, there's also a rare opportunity at hand. Thanks to their copious assets and a shifting industry, retail pharmacies have the chance to redefine themselves, seizing more central roles as key players and partners in the New Health Economy.

Retail pharmacies are physically ubiquitous. CVS Health alone operates a pharmacy within three miles of 80% of Americans. The company is also ubiquitous in the lives of its customers, especially those with complex chronic conditions, who go to 10 office visits a year, on average, but fill three times as many prescriptions.¹

Consumers have been quick to adopt retail pharmacies big and small as their neighborhood sources of flu shots, strep tests and ear checks, along with milk, mascara and even maki rolls.² Research suggests they would embrace more services if they were offered.³

And yet, pharmacies are just beginning to leverage their assets and develop business models to relieve the pressure of filling more scripts, more quickly, at a lower cost. This is happening against a backdrop of dramatic change in the health industry. The very value chain is being re-engineered by powerful global drivers—downward pressure on costs, increasing prevalence of chronic

diseases, an aging population, surging consumerism, the embrace of value-based models, the arrival of new entrants and transformative advances in technology. These forces are creating opportunities for retail pharmacies.

To paint a portrait of the present and future of retail pharmacies, PwC's Health Research Institute (HRI) interviewed executives from Fortune 50 drugstore companies, big box retailers, supermarket chains, startups, prescription benefit managers and others. What emerged is a picture of an industry at a crossroads, but with three strategic opportunities: Become a health hub for consumers, deliver new value to traditional partners and new entrants and master the "last mile" to meet consumers where they are both virtually and physically.

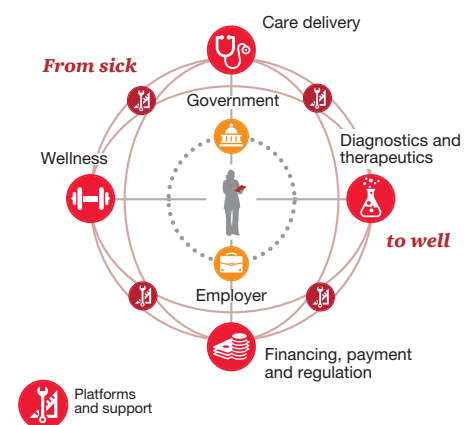
PwC's Strategy& projects that industry innovators will capture \$160 billion in annual revenue in the US by 2025, including \$76 billion by retail clinics and urgent care centers, \$66 billion by consumer brands, \$11 billion by data firms and \$7 billion by population health firms.⁴ That doesn't include \$307 billion in US wellness spending by 2025.⁵

Retail pharmacies are positioned to tap these markets, assembling them into an ecosystem revolving around consumers with the help of traditional players and new entrants (see figure 1).⁶

"The pharmacy of the future is not just a place to pick up prescriptions," said Brian Tilzer, CVS Health's chief digital officer. "Increasingly, it will be the healthcare hub for the community with all of the products and services needed to manage daily healthcare needs from one convenient access point."

Figure 1: The coming plug-and-play health ecosystem

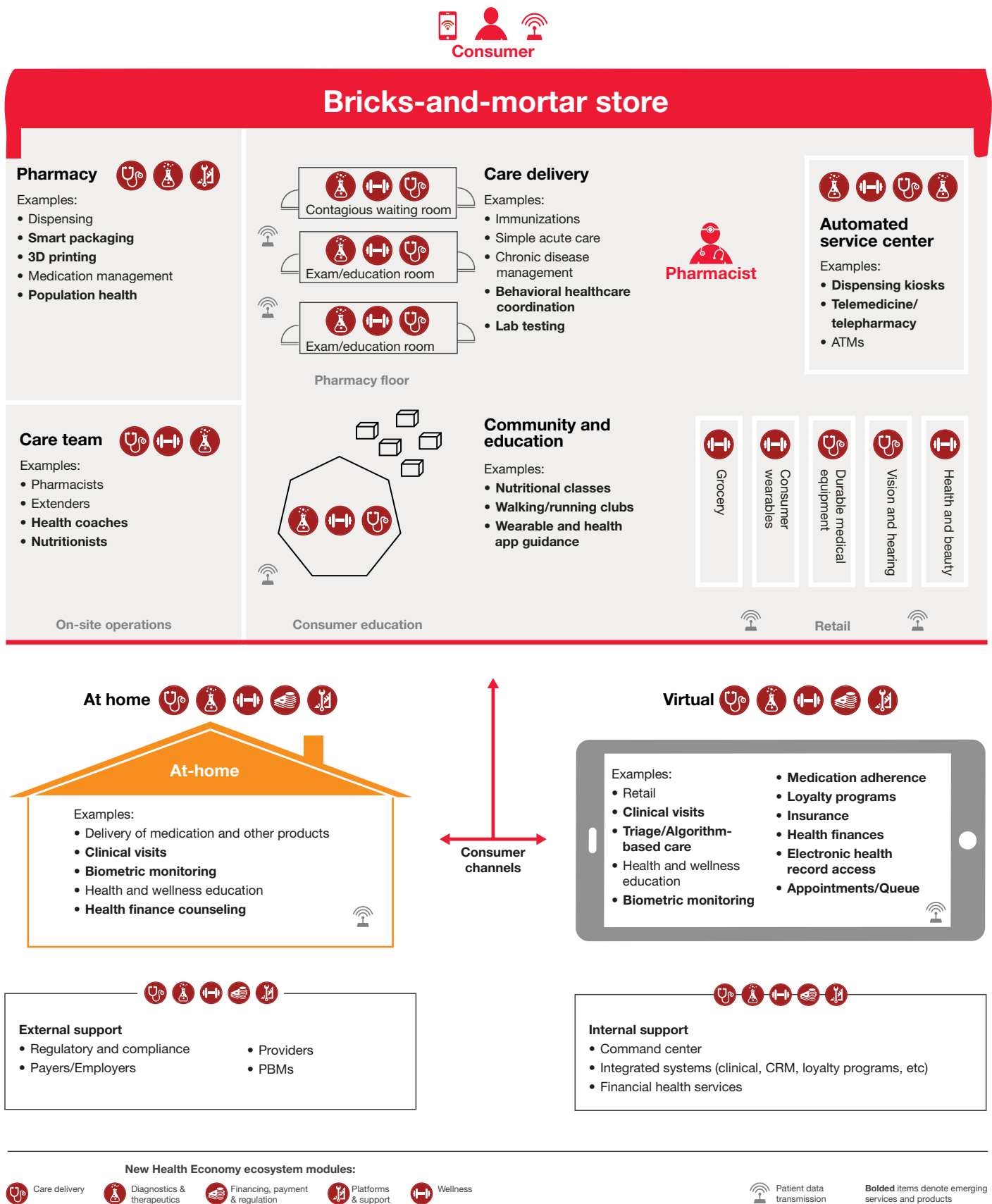
Global forces are transforming the siloed traditional health industry into a plug-and-play ecosystem of modules serving the consumer. Retail pharmacies can play in many parts of the ecosystem, or offer the consumer access to much of it.



Note: Each module includes a distinct value chain, set of capabilities and regulations

Source: PwC Health Research Institute, "The coming plug-and-play health ecosystem," 2015.

Figure 2: The pharmacy of the future: The health ecosystem within a short drive, or the swipe of a finger



The hub

The pharmacy of the future is not a monolith, but a convener of plug-and-play partners—traditional and new entrants—serving consumers as their “health hub” (see figure 2). For example, a retail pharmacy company could bring together an employer, a local health system and a company such as InstyMeds or MedAvail Technologies Inc., to deploy pharmacy-branded automated drug-dispensing kiosks on the employer’s campus, perhaps along with telemedicine-equipped tablets. “We can complete that continuum, making it easy for the consumer to pick up her medications and treat her condition,” said Ed Kilroy, CEO of MedAvail Technologies Inc., which operates 25 MedCenter kiosks in the US and Canada.

In the hub model, the consumer looks to her neighborhood drugstore for primary care, prescriptions, point-of-care diagnostics, insurance, financing and insight into how to be well and stay well (see figure 2). She depends on her retail pharmacy to alert her to innovations—from 3D-printed medications to wearable biosensors—and provide access to them, when she is sick and when she is well.

The retail pharmacy uses her medical records and other data to anticipate her needs, helping her manage her health, her spending and other parts of her life, too. The company meets her needs seamlessly, in the store, at home, through her mobile devices. She feels loyalty and is likely to remain a customer for decades.

There is reason to think consumers would embrace the expansion of retail pharmacies into the broader ecosystem. Consumers have shown they will rapidly adopt neighborhood drugstores as providers of new services, citing conveniences such as ample parking and long hours of operation and features that are rare in healthcare but common elsewhere, such as on-demand service and more transparent pricing, according to interviews with industry executives.

During the most recent flu season, 25% of flu vaccinations administered to American adults were given in retail settings. Ten years ago, 7% were.⁷ Over that same decade, the percentage of US consumers who said they had visited a retail clinic climbed from 10% to 35%, according to HRI surveys.⁸

New value through partnerships

A focus on value in the healthcare system—the US Centers for Medicare and Medicaid Services aims to link 50% of Medicare fee-for-service payments to quality or value through alternative payment models by 2018—is prompting insurers, healthcare providers, employers, medical device makers, pharmaceutical companies and others to examine cost and quality. The retail pharmacy could be a new, critical partner in achieving these goals, offering services such as medication management, round-the-clock glucose monitoring and personalized health education. “So many goals take place outside the physician’s office and are best directed by the pharmacy,” said Sherri Keeth, Sam’s Club director of health and wellness managed care. “How do we come to the plate and say, ‘We can absolutely help you.’”

Through a small business exchange it built with Aetna, Sam’s Club offers plan members a program that gives them rewards in the form of Sam’s Club gift cards and promotions for healthy products for making healthy choices related to fitness, finance and health, Keeth said. “It’s a small step, but these programs will grow tremendously,” she said. “We hear it from the employer side, the [accountable care organizations] side, and we also hear it from the electronics team and the fresh food team and the plans themselves.”

Delhaize America, which operates 187 pharmacies in its approximately 1,300 Hannaford and Food Lion supermarkets, launched a pilot program in one store that

teams newly-diagnosed diabetics with pharmacists and dieticians, who walk the store with them and offer advice on meal planning for their disease and pharmacy services. “Customers love it,” said John McGrath, Delhaize America vice president of pharmacy. “They ask about the next scheduled classes, and those classes fill up.” The critical question? How to show value to potential partners. “It is on the grocery store pharmacy to show value first,” McGrath said.

SmartStory Technologies is aiming to improve drug adherence and healthy behaviors through short sequential videos paired with analytics seamlessly pushed to pharmacy customers through their mobile devices. Prompting consumers to fill their scripts and educating them about their medications could lead to better patient outcomes and savings for employers and healthcare systems, while increasing revenue for pharmacies.

These strategies also could help pharmacies build relationships with their customers. “The most effective way to grow is to think about that last virtual mile of consumer engagement by converting point-of-sale transactions into value-adding mobile experiences, right at the height of interest and time of need,” said SmartStory President C. Lloyd Mahaffey.

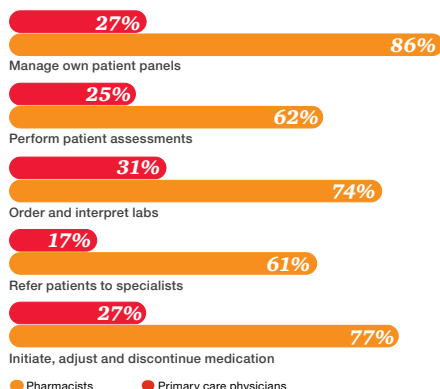
The “last mile”

Consumers are looking for seamless, integrated omnichannel experiences. Mastering the “last mile,” physically and virtually, will be critical for the health industry, and retail pharmacies are in great positions to help fill that void. This means building—or plugging in—digital tools and services to help consumers find care, prevent or manage illness, control costs, understand their conditions and obtain drugs and devices wherever they are. It also means connecting everything with smart analytics that can personalize health services and education. Digital giants have the potential to make significant impacts.⁹

Figure 3: Pharmacists are eager to dive into primary care

Pharmacists would love to take on expanded duties, but many of their physician colleagues do not share their enthusiasm.

Percentage of pharmacists and primary care physicians who agreed that pharmacists should be able to perform the following functions:



Source: PwC Health Research Institute clinician survey, 2015

Many pharmacy companies' digital tools focus on convenience, helping consumers save spots in line or book appointments at retail clinics, refill prescriptions with a single swipe or seamlessly transmit identification, insurance and payment data. Digital health tools, such as Proteus' "digital medicine" or CellScope's smartphone otoscope, remain mostly promising considerations. Yet embracing these innovations, and pulling them together into a seamless, anywhere, anytime service for consumers is on the horizon.

"I think there is more opportunity than barrier," said CVS Health's Mia Ferrara, director of digital strategy and innovation. "The biggest barrier is that we are not capitalizing on the opportunities—not moving fast enough. It's just a question of how can we get the many unknowns to knowns as quickly as possible."

Implications

- **Meet the new MVP.** One of the most valuable assets in delivering value-based solutions is the pharmacist, consistently named among the most trusted professionals in the health industry yet largely relegated to dispensing activities in the US. Additional automation and other strategies could free pharmacists to join primary care teams, providing medication management and other valuable services. In a 2015 survey of clinicians, 75% of primary care physicians said they wanted pharmacists to perform medication management and other related services for their patients. Pharmacists told HRI they are ready to do more (see figure 3).

This expanded role for pharmacists is familiar outside the US. In Alberta, Canada, pharmacists who obtain special certification can prescribe and adjust medications, with few limitations. This broadening of the pharmacist's role greatly expanded access to care in the province, said Jeff Leger, executive vice president of pharmacy and healthcare at Shoppers Drug Mart, Canada's largest retail pharmacy chain. Consumers embraced the model, Leger said, confirming what the company found in market research conducted in 2013: six in 10 consumers were confident about going to a pharmacist for minor conditions.

In the US, a few states – notably California and Oregon – have given pharmacists limited prescribing authority. Lawmakers in several other states are considering similar laws. Pharmacists enjoy the broadest powers in five states - Montana, New Mexico, Vermont, Oregon and California.¹⁰ An examination of state regulations shows a steady drift toward broadening pharmacists' authority.

- **Culture change is the elephant in the room.** Healthcare is a human process dependent on co-production of the experience by the healthcare provider and the patient. Disruption and innovation offer the promise of a brighter future, but only so far as they can bring the human elements of the process along for the ride. Strategies will succeed or fail based on how well clinicians and patients are trained to accept and co-produce the new healthcare ecosystem. Organizations must take responsibility for the continuum of care from the education and training of the pharmacist to the behavioral and lifestyle changes of the patient. Effective and sustainable outcomes will not exist without those investments.
- **Whitespace is the new black: data, technology and analytics.** Delivering a convenient, coordinated and seamless consumer experience beyond the four walls of the retail pharmacy store will require data integration, core technology advancement and advanced analytics practices. Although these areas are not the most tangible, they are the single most important factor in achieving the future vision of pharmacy and healthcare more broadly. Investments in this space could return positive dividends.
- **Consumer expectations are rising.** Healthcare's shift of more risk to the consumer, coupled with its deeper dive into retail settings, solidifies the consumer as a lynchpin for business success. Consumer needs, preferences and engagement will rule the future of pharmacy, meaning speed, variety and convenience will reign. Tools that have classically been used in consumer-facing industries, such as customer segmentation and targeting, and trade-off analyses for experience design development, will need to be applied more liberally to a healthcare setting to determine what, why and how services are delivered.

Endnotes

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About this research

This report is based on research conducted between February 2016 and April 2016. HRI conducted interviews with industry executives and analyzed more than 10 years of clinician and consumer surveys to unearth changes in attitudes toward care delivery in a pharmacy setting. Healthcare market projections are based on a proprietary model by PwC Strategy& and wellness market projections are based on a previous HRI analysis using reports from PwC, trade associations, IBISWorld, research2guidance, Baird and Marketdata Enterprises. Minor adjustments were made to these totals using CPI data to account for the years since the original analysis was conducted.

About the PwC Health Research Institute

PwC's Health Research Institute (HRI) provides new intelligence, perspectives and analysis on trends affecting all health related industries. The Health Research Institute helps executive decision makers navigate change through primary research and collaborative exchange. Our views are shaped by a network of professionals with executive and day-to-day experience in the health industry. HRI research is independent and not sponsored by businesses, government or other institutions.

Acknowledgements

Brian Tilzer
Chief Digital Officer
CVS Health

John McGrath
Vice President of Pharmacy
Delhaize America

Ed Kilroy
Chief Executive Officer
MedAvail Technologies, Inc

Mia Ferrara
Director of Digital Strategy
and Innovation
CVS Health

Sherri Keeth
Director of Health and
Wellness
Managed Care
Sam's Club

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