



WALGREENS: "AMERICA'S PREMIER
PHARMACY"
LIVING UP TO ITS SELF IMAGE

Lowell J. Anderson

This is a pat on the back for Walgreens for its public and professional leadership.

It is not about Express Scripts (ESI) -- ESI is just doing what PBMs normally do.

Walgreens has chosen to reject the contract offered by Express Scripts and will remove itself from the Express Scripts' network by 1 January 2012.

I have no idea what the dollars are in the negotiation. It really doesn't matter to me because it is not so much the why as it is the how. They effectively told the world that there was a reimbursement even they could not accept. They have managed to save some contracts because of the relationships and contracts with employers. By the time this is printed they may have even have come to terms with ESI.

In the meantime it will have caused concern or inconvenienced a lot of Walgreen's customers. But those several millions might just get a feel for the economic facts of life in the prescription business. Its stock is down 30% since they announced the disagreement in June. That is a lot of money -- so even the investor community might understand.

I know that contrary to conventional wisdom, chains do reject contracts for a variety of reasons. We rarely hear of these rejections because it is good business to keep contract negotiations close. They usually do not broadcast these decisions to either the public or broadly to the profession.

Pharmacists in independent practice understand that they have little bargaining clout when it comes to negotiating contracts with pharmacy

benefit managers and managed-care organizations. In spite of the often repeated assertions by these organizations that contracts are negotiated, the independents are usually told to “take it or leave it,” should they try to negotiate. More often than not, to “leave it” is not an option for the independent and smaller chains.

The chains, however, may negotiate with some degree of success because the PBMs and MCOs need their distribution channels; and one negotiation may result in several thousand outlets. I suspect that many of the chain/PBM contracts have even have kept pace with the rising costs of dispensing even if not fully recovering dispensing costs. Certainly that is not the case with independents, where (in Minnesota) there is a whole generation of pharmacists who have not experienced the thrill of having a PBM increase a dispensing fee.

As partial justification for its action, Walgreens cites pharmacy services that are currently not compensated.

With growth in prescription-drug sales slowing, Walgreens and other major retail pharmacy chains hope to boost revenue by offering new health-care services. In addition to filling prescriptions, they now help patients manage their medications. For example, Walgreens’ pharmacists advise customers on appropriate doses and try to switch them to cheaper generic alternatives when possible.

“Our product is not a pill; our product is a health outcome,” says Walgreens’ Chief Executive Greg Wasson.

Express Scripts’ response thus far: A pill’s a pill, and Walgreens doesn’t deserve more money than other pharmacies for telling patients how to take them. If Express Scripts did agree to pay more, Walgreens would become its most expensive pharmacy, raising client costs “for essentially doing the same thing as everyone else,” says spokesman Brian Henry.ⁱⁱ

Re-read that Express Script response – it is telling! Mr. Henry, ESI spokesman’s assertion that “A pill’s a pill” clearly reflects a philosophy that a prescription medication is merely a product that requires

distribution. Evidently ESI has little corporate concern about whether or not the “pill” achieves the desired outcome – the outcome that its employer customer is paying for.

On the plus side Mr. Henry does recognize that “everyone else” does provide information. Of course they don’t pay “everyone else” either.

I imagine that this was a much-researched decision by Walgreens as there are very real costs and market considerations. I have no doubt that the Walgreens’ assessment was that signing the offered contract would not be a financially responsible and defensible decision. Ultimately, they must answer to the Walgreens’ stockholders.

Mr. Wasson, Walgreens’ CEO, said in an analyst conference call: “The terms Express Scripts offered us, including rates that were below the industry average cost to provide the prescription, were not in the best interest of our company, our customers, our employees or our shareholders.”ⁱⁱⁱ

ESI is in a sticky spot here also. If it does agree to a contract with Walgreens that assigns a value for what “everyone does for free” it will provide an opportunity for other pharmacy providers to seek similar treatment that recognizes the value of pharmacists services in their next contracts.

Corporate courage – sometime hard to distinguish from tough negotiating, but still courage – is a rarely seen attribute today. I think that the pharmacists of America should support the courage of Walgreens. When the Express Script member transfers a prescription because of this contract disagreement, the receiving pharmacist should talk to the member about the importance of compensation for valuable services and compliment Walgreens for its courage. And also how their employer and its PBM has chosen to not pay for these services. The Walgreens’ pharmacists, I hope, do likewise when their patients ask about the contract.

Walgreens, by some estimates, may lose 10% of prescription volume over this. Are the independents and other chains prepared to take a stand with similar costs? Our history is that we do not. And, of course,

that is why the fee schedules are what they are. When pharmacy owners and managers read these contracts it should be with the same question that Mr. Wasson addressed: are these contracts “in the best interest of our company, our customers, our employees or our shareholders.”

Personally I commend Walgreens for its actions -- Both for rejecting a contract that was not in its interests or the interests of the customers it serves. Even more importantly for bringing the issue to the professional, public and investor communities.

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ⁱ Walgreens website

ⁱⁱ “Walgreens seeks payment for customer counseling in Express Scripts battle”
The Wall Street Journal, 25 October 2011

ⁱⁱⁱ Medill Reports, Shaina Humphries, 15 November 2011