

# Outcomes-driven models will change retail Rx

By **Rajeev Kapoor, Bob O'Meara & Todd Huseby**

The yearlong battle between Express Scripts Inc. and Walgreen Co. highlighted the zero-sum nature of the traditional relationship between retailers and payers. We also see it as marking the beginning of the end of that limited way of doing business — the last battle in a decades-long war.

The war over reimbursement rates has been dwarfed by a background in which aggregate health care spending is rising out of control. The old system is not working. Today, spurred on by the Patient Protection and Affordable Care Act (ACA), the system of health care delivery is changing. Its future will involve greater inclusion, patient-centered care, continuity of care and more outcomes-based reimbursement approaches.

We believe the effect of these changes on the retail pharmacy industry will be dramatic and well beyond current expectations, but this is not because of the volume of new customers covered by insurance. Rather, the new approach will trigger massive upstream changes in health care that will alter the very role of pharmacies. Although we believe that patient-centered care will ultimately be good for patients — indeed, we've concluded that it has to be, because every other model has proved unsustainable — we also believe that success will depend on retail pharmacies productively maturing into their new roles.

Why? Because in a patient-centered care paradigm, the overarching value of retail pharmacies is their extraordinary access to patients. To the extent that retail pharmacies are configured and aligned to help providers and payers turn this access into outcomes, their value — and compensation — will increase.

This, the first of a two-part series, explains how the upstream changes will alter the game for retail pharmacies. In the second part we will explore in more detail the anticipated changes within the retail pharmacy industry.

## New business models

Accelerated by such macro changes as aging populations and the influence of new technologies, today's transformation of health care is requiring that revenue flows be bundled, that care delivery come from an ecosystem, and that profits result from improving outcomes rather than delivering volumes of services.

The transformation will have profound impacts on the business models of every player across the health care contin-

um, as summarized in Figure 1.

ACA creates new incentives and responsibilities, which will lead to new behaviors. The industry's four Ps — providers (including pharmacies), payers, patients and pharmaceuticals — will rebalance, bringing greater accountability to each segment. In the new system, pharmacies, pharmacy benefits managers, hospitals and even patients have increased incentives to work together to maximize patient health.

Because of greater transparency — with publicly available data ranking providers on their success at various outcomes — providers will keep focused on high performance and patients' satisfaction levels. But they will also seek to reduce costs across their entire networks. And although under the old system they would have cut costs by seeking to maximize utilization at the expense of other stakeholders, a larger insured population now allows them to specialize in some activities while outsourcing oth-

and nurse-practitioners — who have the skills and aspirations to make greater contributions to health care.

Finally, and not least important, retail pharmacies need revenue. Payment reform will reduce product/transaction-based reimbursements as the continuum of care shifts toward outcomes-based metrics. What \$4 generics started, outcomes-based reimburse-

macy. The traditional focus on scripts metrics (e.g., scripts per person-hour or scripts per store) will become much less relevant. The new focus will emphasize patient insights and experience to capture a greater share of the patient's health care needs.

Pharmacies will therefore have the opportunity to provide broader services — starting with drug/therapy compli-

macies can take advantage of their captive audience — for example, suggesting a blood pressure check while the patient is there to pick up another prescription.

The pharmacy brings all of this together by collecting, analyzing and acting upon vast amounts of data. For chain pharmacies, insights gleaned from structured data, unstructured data and patient behavior can help suggest complementary services, recommend O-T-C remedies and otherwise improve the care that patients receive from their coordinated health care team.

The rise of social media has highlighted the power of sharing rather than suppressing information. We will see the benefits of shared data in coordinated care. And we will also see that winning pharmacies take fullest advantage of all the data that is available to them to attract, serve and retain patients.

## Business implications

As patients increasingly see pharmacies as health care destinations, with an increased role for services, pharmacies will need to adapt — more rapidly than many are prepared for. They must increase infrastructure investments (including new designs and layouts), deploy new technologies and better utilize both information and pharmacist access.

The change and industry's response are coming quickly. We already see “green shoots” emerging. Walgreen Co. has announced participation in three ACOs, citing its desire to help provider partners expand primary care capacity by taking advantage of resources available at its stores.

Thus, although the shift to outcomes-based models suggests any number of specific “how” questions for retail pharmacies — how to make the shift to services, how to choose ACO partners, how to enhance patient relationships — the first step for retail pharmacies must be to gain thorough understanding of “what” in their new role in a rebalanced health care continuum.

The zero-sum war based upon costs is ending. Pharmacies must become prepared for the coming era of coordinated clinical services that are offered at retail.

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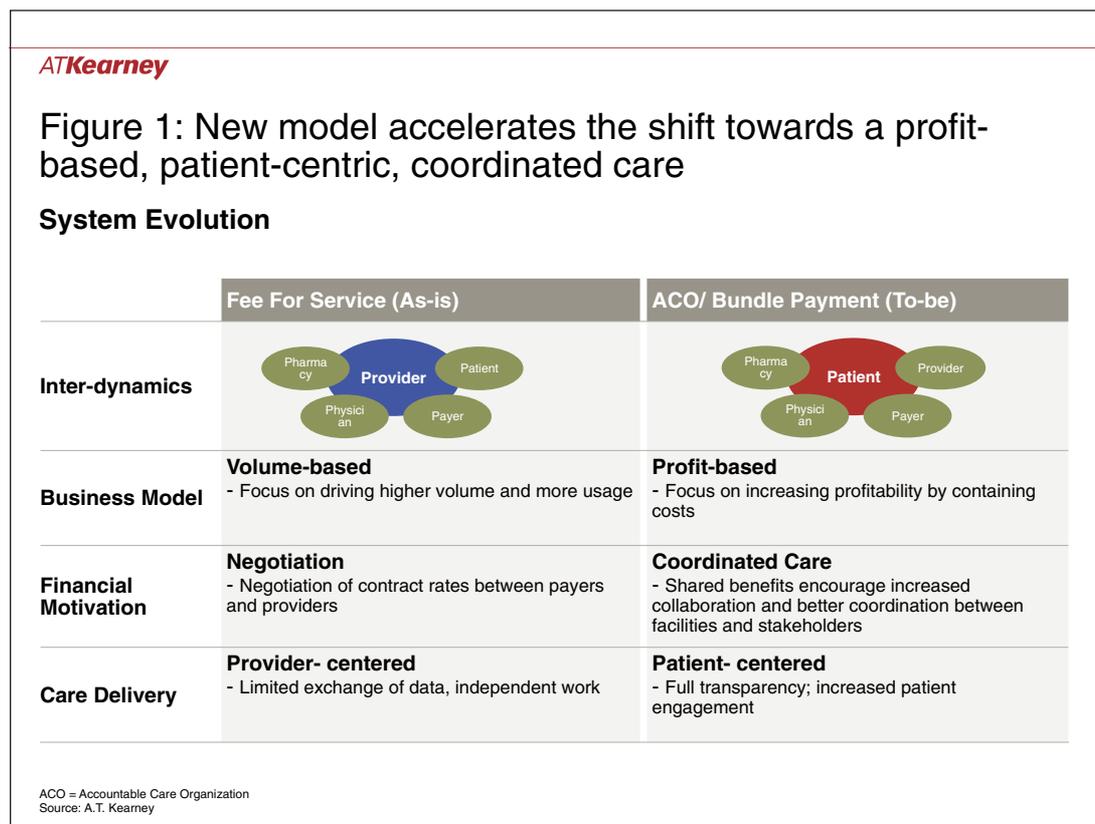
**The zero-sum war based upon costs is now coming to an end.**

ment will finish. Past revenue streams will be threatened by product commoditization (at the low end) and an increased role for biosimilars (at the higher, specialty-drug end). Filling these voids will be growing services that we believe will cascade down from upstream.

This shift to services achieves cost savings while driving quality health outcomes. The

ance and expanding into care coordination, disease management and medical counseling — as a partner in achieving health care outcomes.

For example, a key factor in effectiveness is ensuring that patients take their medications correctly. Under the old system, beyond driving refills, nobody had incentives to make sure that happened. But now



ers to lower-cost providers. This is where pharmacies are uniquely positioned.

## Pharmacies offering services

Who can best provide such functions as preventive screenings and follow-up, urgent care, nursing and physician assistant care, or care in the home? Patients are already comfortable receiving health care services at retail pharmacies. Retail pharmacies are conveniently located, often have nationwide reach, stock a variety of medications and wellness products, and have employees — including Pharm.D.s

combination of ethical drugs, over-the-counter remedies, technology-enabled innovation and in-person services delivered by pharmacies can help avoid hospitalizations or expensive visits to doctor's offices. Thus, well-positioned pharmacies, correctly configured to the outcomes-based environment, are in position to reduce overall health care costs by playing a bigger role in health care delivery — and in that comes their new source of value.

## Leveraging patient relationships

Of course, this is a huge transformation for the phar-

the provider — being rewarded by an Accountable Care Organization (ACO) for performance in taking care of a population — may want the pharmacy to partner in guaranteeing effectiveness of compliance with the therapy.

Pharmacies can do so by leveraging their close relationships with patients — that source of value that we described above. Pharmacies can use phone-based reminder apps, enhanced patient portals, automatic refills or Bluetooth-enabled bottles to improve compliance or otherwise encourage good patient behavior. Furthermore, phar-