



U.S. Representative • 9TH CD, New York • Brooklyn-Queens

ANTHONY D. WEINER

Report

RITE AID? WRONG FOR MANY

*A Study of the Impact of Chain Pharmacies on
Neighborhood Pharmacies 1990 - 2003*



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Executive Summary

For years, the mom and pop pharmacy has been a staple of neighborhoods throughout New York City. It's a place where people can go to receive needed medications from pharmacists they know and trust, at affordable prices, offered with uniquely personal service. And it's a place that traditionally has been as much a part of a neighborhood's fabric as the corner deli, fire house or barber shop.

Sadly, all of that is changing. In recent years, mom and pop pharmacies all over the City have been squeezed out by bigger and more powerful chain stores like Duane Reade, CVS and Rite Aid.

To quantify this phenomenon, my office surveyed pharmacy trends both in the City and nationwide. Among the key findings:

- In 2003, there are 447 fewer neighborhood pharmacies in New York City than in 1990, down from 1,619 to 1,172--a decrease of 28%.
- In 2003, there are 434 more chain pharmacies in New York City than in 1990, up from 165 to 599 -- an increase of 263%.
- The number of chain pharmacies in the City has increased at a rate more than 7 times the national average (chains have risen only 35% nationally).
- Chains have seen the highest rate of growth in the Bronx -- up 433%, while neighborhood pharmacies have seen their largest decline in Staten Island -- down

44%.

These findings raise two questions: Why is this happening and why should we care?

As for the first question, New York is simply caught up in a national trend. Clearly the Goliaths are gobbling up the Davids' market share, and mom and pop increasingly can't compete. The trend is exacerbated in New York largely in part to Walgreen's decision in the 1990's to enter the City's \$7.5 billion drug store market. Not long after, Duane Reade undertook an ambitious expansion to make itself more attractive for a buyout from, you guessed it, Walgreens. Once they started expanding, other chains followed suit and New York's drug store arms race had begun.

As for the question of why we should care, there are three reasons. First of all, chain pharmacies charge more for prescription drugs. One recent study showed that the average NYC chain store charges \$901.28 for a monthly supply of 10 drugs, while independent stores' charge on average \$831.62.

Secondly, the quality of service is dramatically lower at chain pharmacies. A recent *Consumer Reports* survey found that 88% of community pharmacy customers were very satisfied or completely satisfied with their experience, compared with a 58% satisfaction rate for chain-store customers.

Finally, this issue is about more than saving a few bucks or service with a smile, it's about the changing face of New York for the worse. Many of these chains are pharmacies in name only. These stores sell prescription drugs, but often as an afterthought, pegging their profits to things like beach balls, potato chips and magazines. On the other hand, independent pharmacies are an essential ingredient to New York City's unique flavor. They serve as a tie that binds customers to their surrounding neighborhood.

If this trend away from community pharmacies toward chains continues, New York City will be worse off. That is why I will be introducing legislation to give independent pharmacies more authority to bargain collectively with insurance companies, in addition to providing community pharmacies with higher reimbursement rates from Medicaid than chains that are convenience stores first and pharmacies second. If these measures are enacted, it will be better for community pharmacies, better for consumers, and in the end, better for New York City.

Findings

Finding #1: From 1990 to 2003, the number of chain pharmacies in New York City increased by 263%, while the number of community pharmacies saw a 28% decrease.

	# of stores in 1990	# of stores in 2003	Difference	% Change
Chain Pharmacies	165	599	+ 434	+ 263
Community Pharmacies	1,619	1,172	- 447	- 28

Finding #2: From 1990 to 2003, each borough witnessed a significant increase in its chain store population, with the highest increase in the Bronx -- up 433%

	# of stores in 1990	# of stores in 2003	Difference	% Change
Staten Island	20	47	+ 27	+ 135
Bronx	12	64	+ 52	+ 433
Manhattan	42	202	+ 160	+ 381
Queens	56	158	+ 102	+ 182
Brooklyn	35	128	+ 93	+ 266

Finding #3: From 1990 to 2003, each borough witnessed a significant decrease in its community pharmacy population, with the largest drop in Staten Island -- down 44%.

	# of stores sin 1990	# of stores in 2003	Difference	% Change
Staten Island	57	32	-25	- 44
Bronx	282	186	-96	- 34
Manhattan	409	274	-135	- 33
Queens	340	259	- 81	- 24
Brooklyn	531	421	- 110	- 21

Finding #4: Four chains account for 85% of the city's chain pharmacies, with Duane Reade accounting for more than 1/3 of the chains in the City.

Rank	Name	# of Stores
1.	Duane Reade	203
2.	Rite Aid	153
3.	CVS/Hook SuperX	92
4.	Eckerd/Genovese	61

Finding #5: Nationally, there was a 31% increase in chain store pharmacies from 1991 to 2002, while the number of community pharmacies dropped 35%.

	1991	2002	Difference	% Change
Chain Pharmacies	26,992	35,451	+8,549	31% increase
Community Pharmacies	30,503	19,479	-11,024	35% decrease

Finding #6: Community Pharmacies offer lower prices and better service than chains.

- According to a nationwide survey by *Consumer Reports*, the average price for a 30-day sample of five drugs at a typical community pharmacy was \$470. At a chain pharmacy, the price was \$481.
- According to a study of New York City Drug prices by NY State Assemblyman Jeff Klein,

the average price for a 30-day supply of 10 drugs was \$831 at community pharmacies. That same suite of drugs cost \$901 at chain pharmacies.

- 88% of community pharmacy customers were very satisfied or completely satisfied with their experience, compared with a 58% satisfaction rate for chain-store customers. (Source: *Consumer Reports*)
- When a drug was out of stock, independents were able to obtain it within one day 80% of the time vs. 55% for chains. (Source: *Consumer Reports*)

Finding #7: The diversity of products that chain drug stores sell and the chains' bargaining power is enabling them to squeeze independent pharmacies out of the market.

According to industry experts, chains manage to push mom and pops out of business for two reasons: the diversity of products they sell, and their huge, national bargaining power.

Pharmacies have traditionally occupied a niche in our society closer to hospitals than discount warehouses, and with good reason: we go to pharmacies to get the right prescription; we go to a warehouse for a better price on apple juice. That's why it is so important that we get the personalized service that traditional mom and pop pharmacies provide.

Duane Reades, CVS's and Eckerds are much more warehouse and much less pharmacy. Chain pharmacies generate a higher percentage of their revenues from pens, notebooks, snack foods and toys, than do independents. In fact, according to one estimate, prescription drugs make as little as 35% of chain revenues.

For community pharmacies, prescription drugs make up a much larger slice of the revenue pie – accounting for 83% of gross revenues.

With the increased competition of chains, which often lure in customers with the promise of cheaper toothpaste, and get them to buy their prescriptions while they wait, many community pharmacies just can't generate enough revenue from prescription drug sales to stay afloat.

In addition, chains are using their size and bargaining power to their advantage. First, pharmacies stock their shelves with drugs purchased from wholesalers, which allow all pharmacies to buy drugs at reduced prices. When a customer buys that drug from the pharmacy through a prescription drug plan, the insurer reimburses the pharmacy a portion of the Average Wholesale Price (AWP). For example, if a drug's Average Wholesale Price is \$200, and the pharmacy buys it for \$164, and then gets reimbursed \$170 from the customer's prescription drug plan, the mom and pop makes \$6 off that prescription, in addition to any prescription it charges.

Chain pharmacies use their large, national profiles to negotiate with insurance companies to get the best prescription drug reimbursement deals, often to the exclusion of all other

pharmacies. So in the example, the chain would be able to get reimbursed more than the mom and pop's \$170.

To the contrary, each individual mom and pop pharmacy, with only its local presence, has to fight that much harder just to get inferior reimbursements in a continuing struggle to stay open.

What Can Be Done to Save Mom and Pop Pharmacies?

To avoid the extinction of mom and pop pharmacies, we have to ensure that they can compete in the prescription drug benefits market. That is why we need to pass the *Save our Community Pharmacies Act*.

This bill would facilitate reimbursement rates that would enable community pharmacies to better compete with chain pharmacies.

Each state currently sets its own reimbursement rates for prescriptions covered by Medicaid, which accounts for an estimated 30% of all prescriptions filled. The *Save our Community Pharmacies Act* would require that a pharmacy must receive 70% or more of their gross revenues from the sale of prescription drugs in order to receive the full Medicaid reimbursement from the state. Pharmacies that generate less than 70% of revenue from prescription drug sales will be reimbursed at only 80% of the full reimbursement. The savings would be redirected to increased reimbursements for pharmacies which derive 85% or more of their gross revenues from prescription drug sales. This reimbursement would be capped at Average Wholesale Price minus 2%.

Antiquated antitrust laws have also allowed insurers and health plans to unilaterally dictate terms and conditions of insurance contracts with community pharmacies for their patients. The *Save Our Community Pharmacies Act* would allow independent pharmacists to jointly negotiate with health plans without fear of automatically violating antitrust laws.

Methodologies

NATIONAL FIGURES

Sources:

National Association of Chain Drug Stores (NACDS) provided numbers for the national trend from 1991 to 2002, adapting definitions from the North American Industry Classification System (NAICS).

Definitions:

- Community Pharmacy: same as the NAICS “Independent Drug Store,” which is one with ≤ 3 pharmacies.
- Chain Pharmacy: a drug store ≥ 4 pharmacies (for profit and open to the public). Our definition of “Chain” store for the national trend figure includes NAICS “Chain Drug Stores” plus NAICS “Supermarket Pharmacies” and NAICS “Mass Merchant Pharmacies.”
- Mass Merchant Pharmacy: a pharmacy, as operated within a discount department store, other general merchandise stores, or warehouse clubs and supercenters
- Supermarket Pharmacy: a pharmacy, as operated within supermarkets, which is defined by NAICS as “establishments... primarily engaged in retailing a general lien of food, such as canned and frozen foods; fresh fruits and vegetables; and fresh and prepared meats, fish, and poultry.”

Methodology:

NACDS already compiled information for each year from 1991 to 2002.

NEW YORK CITY FIGURES

Sources:

Data provided by the New York State Board of Pharmacy.

Definitions:

Chain Pharmacy: any by the same name with ≥ 4 pharmacies in NYS

Community Pharmacy: the remaining stores (1, 2, or 3 stores in the NYS)

Methodology:

Given two lists of all licensed pharmacies in New York State up to September 2003 (name, address, date opened, date closed), staff:

1. Combined the lists
2. Eliminated all stores that closed before 1990
3. Eliminated all stores not located in NYC
4. Separated the data into two spreadsheets according to our definitions for "Chain" stores and "Community" stores (any by the same name with ≤ 3 pharmacies)
5. Separated the data by borough.

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