

Wal-Mart Targets Pharmacy Benefits

By ANN ZIMMERMAN and BARBARA MARTINEZ *The Wall Street Journal January 24, 2008*

Wal-Mart Stores Inc. is stepping into the lucrative pharmacy-benefits arena, in a move likely to shake up a field that has been dominated by just a handful of players.

In a speech yesterday before 7,000 Wal-Mart store managers at a meeting in Kansas City, Mo., Chief Executive Lee Scott said Wal-Mart is initiating a pilot program to help "select employers ... manage how they process and pay prescription claims."

Pharmacy-benefit managers, or PBMs, are the companies behind the cards that insured patients present at drugstores in order to fill their prescriptions. Most U.S. employers contract with PBMs to provide prescription-drug coverage to their workers, and in exchange, the PBMs promise to negotiate lower prices from retail pharmacies and obtain rebates from drug manufacturers. PBMs also may own their own mail-order pharmacies, and increasingly make much of their profits from big markups on generic drugs.

A record number of blockbuster drugs are going generic, fueling strong profits and rising revenue among the PBMs. CVS Caremark Corp. is expected to report revenue of \$76.13 billion for 2007, while Medco Health Solutions Inc. is expected to post revenue of \$44.7 billion and Express Scripts Inc. \$18.4 billion, according to Morgan Stanley. Combined, the three companies processed or filled 387 million prescriptions in the third quarter of 2007.

Wal-Mart could take a chunk of that; the company is already the third-largest pharmacy in the U.S. in terms of sales, after CVS and Walgreen Co.

"Our conversations with employee-benefit managers suggest they're open to alternative approaches, so there's room in the marketplace for a different type of offering," says David Veal, PBM analyst at Morgan Stanley. "As the U.S. economy gets tougher, employers are going to look for new ways to control costs, and Wal-Mart will find a receptive audience" for new solutions to high drug prices. But, he notes, Wal-Mart will still have convincing to do. "Traditionally, employers are risk-averse; they're hesitant to move just on price."

In recent years, the Bentonville, Ark., retailer has attempted to increase sales by offering less-expensive medical products and services. Wal-Mart also began opening medical clinics in some of its 4,000 U.S. stores. And it helped spearhead an effort with other corporations to create a system of electronic medical files. Wal-Mart expects all of its employees' medical files to be electronic by 2010.

In 2006, Wal-Mart announced it was selling \$4 prescriptions for hundreds of generic drugs to the public. The program didn't affect PBMs very much because many of the \$4-prescription buyers were people without drug coverage, observers say. The company

currently offers more than 350 prescriptions for \$4. Other retailers were forced to match Wal-Mart with their own \$4 offerings.

But now, Wal-Mart seems to be aiming directly at PBMs' bread and butter: the employers that provide drug insurance to millions of workers.

Wal-Mart wouldn't name the companies, and details of how this would be achieved were sketchy. But Mr. Scott said that by taking out unnecessary costs he believes Wal-Mart can save employers more than \$100 million this year alone.

A Wal-Mart spokesman said one possibility would be to have a company contract with Wal-Mart to fill all or at least a majority of employee prescriptions.

Wal-Mart wouldn't specifically say it was getting into the PBM business. "We know the ways we operate help customers save money and we think we can do that for employers. This is an opportunity to be in that space," said Wal-Mart spokesman Nick Agarwal.

One of the ways Wal-Mart is exploring lowering employer health-care costs is through its \$4 generic prescription drugs.

Mr. Scott said the retailer also would seek partnerships with doctors and other providers to increase the number of electronic prescriptions Wal-Mart fills to eight million from about 1.6 million by the end of 2008.