

# Wal-Mart's \$4 drug plan has not had intended effect

by Robert Cohen and Beth Fitzgerald *The Star-Ledger* April 22, 2008

Stephanie Reddick is between jobs, hasn't had health insurance for the past year, and three months ago was diagnosed with diabetes.

Now, Reddick buys diabetes and blood pressure pills at Wal-Mart, where she pays only \$4 for a month's supply of each drug under a program launched by the giant discount retailer in September 2006 and since imitated by a number of competitors.

"I can't believe this is actually available for \$4," said the 31-year old Union Township woman. "It shocks me to go to the pharmacy counter and only pay \$8 for two bottles of pills. It's amazing. I don't know what I would do without this."

When Wal-Mart unveiled its \$4 generic plan, the drug industry trembled. The world's largest retailer has the economic muscle to destroy competitors and transform industries.

Eighteen months later, it's clear Wal-Mart's generic discount program has benefited consumers with low incomes or without insurance; forced some competitors to respond with similar discount plans; and has been a factor in the overall trend toward increased usage of cheaper generic drugs.

But analysts say the overall impact on the drug industry has been relatively small, given the \$286.5 billion in prescription drug sales last year.

Wal-Mart says it has saved patients \$1 billion compared with its old pricing scheme, noting in a company statement nearly 30 percent of the \$4 prescriptions have been filled by customers without insurance. Industrywide, about 10 percent of prescriptions are filled by patients without insurance coverage.

Drew Nannis, a spokesman for the senior advocacy group AARP, said "making drugs affordable is a positive development." But he said programs like Wal-Mart's do not deal with the rising prices for the top-selling 220 brand-name prescription drugs.

"The problem is the dramatic increase we see on the brand-name side of things," Nannis said.

That hasn't stopped competitors such as Target and K-Mart, supermarket chains including Pathmark, and chain drugstores like Walgreens from quickly responding with their own discount plans for generic drugs.

These moves have coincided with a push by health insurers and pharmacy benefit managers to negotiate lower prices with drugmakers, and to steer patients away from branded medicines toward the growing list of generic drugs.

## THE TRICKLE DOWN

All of this is having an effect on drug prices.

While brand-name prices rose 7.4 percent in 2007, the Bureau of Labor Statistics has reported overall drug price inflation, including generics and brand-name medicines, was only 1.4 percent last year. That was the lowest rate since 1973 -- in large part because of the wider availability of lower-cost generics.

Wal-Mart's \$4 plan includes 361 generic drugs -- copycat versions of brand-name medicines that have lost patent protection -- across a range of therapeutic classes. Wal-

Mart spokeswoman Deisha Galberth said the company has seen growth in sales, but provided no specific data.

Burt Flickinger III, managing director of Strategic Resource Group, a retail consulting firm, said Wal-Mart initiated its program as a "loss leader" to draw traffic to its stores and increase its business, but added it has not had as much of an impact as the giant retailer had hoped because of the quick response by competitors and because of the company's broader marketing problems.

"There was a modest gain for Wal-Mart, but not the meaningful gain they expected," Flickinger said.

Pam Goodfellow, a senior analyst for the consumer intelligence firm BIGresearch, said Wal-Mart still trails Walgreens and CVS in the prescription drug business, but has "strengthened its overall position in the past year," and has experienced growth with consumers who have household incomes of less than \$50,000 a year.

"It's no surprise their move is paying off with lower-income consumers, especially during turbulent economic conditions," said Goodfellow.

Richard Weiss, owner of Center Pharmacy in Hillside, said the Wal-Mart program "truthfully has had more of an effect than I'd like to admit."

While initially seeing little fallout, Weiss said he has been receiving more calls lately from doctor's offices asking for a transfer of patient prescriptions.

"A lot of people want to take advantage of the cost savings, but they don't understand that all of the prescriptions are not \$4," Weiss said of the Wal-Mart plan. "Yet they take their prescriptions there and get them filled anyway. It's quite a good ploy."

## **A QUESTION OF INFLUENCE**

Craig Johnson, president of Customer Growth Partners, a consumer and retail consulting firm, said the \$4 prescription program has at least marginally expanded Wal-Mart's share of the script business and brought more people to their stores.

"There is absolutely no doubt Wal-Mart has been saving people money. Whether it is hundreds of millions of dollars or a billion dollars, it is clearly a real win for consumers," said Johnson.

Precise data on Wal-Mart's market share is not available, but a recent analysis by IMS Health, an industry research firm, did not show any significant market shifts for the pharmacy business because of the \$4 generic program.

Tiffani Bruce, a spokeswoman for Walgreens, said the drug chain continues to see market share growth and "hasn't seen any impact from the Wal-Mart program."

"We think one of the reasons is that a strong percentage of our patients have insurance -- about 95 percent of them," Bruce said. She said many of the insurance plans have small co-pays, sometimes as low as \$5.

Bruce said there is not enough price differential for insured customers to switch, especially since Walgreen has more store locations and more hours of pharmacy service per day.

The spokeswoman noted Walgreens has a discount card program and a \$12.99 plan for a 90-day supply of about 400 different generic drugs that competes with Wal-Mart's offer.

The National Association of Community Pharmacists was most vocal when Wal-Mart first announced its \$4 program, calling it a "cynical attempt to gain maximum public relations while providing minimal value to patients."

Lisa Miller, a spokeswoman for the association that represents 24,000 independent pharmacies, said the plan used at Wal-Mart and other chain outlets covers only about 1 percent of the total number of prescription drugs available.

And despite the recent experience at the Center Pharmacy in Hillside, Miller said a nationwide survey of community drug stores found only 11 percent of the pharmacists knew of any customer who filled a script with Wal-Mart.

"We don't feel like its drawing patients away from our stores," she said.