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Riding the wave of the aging population

James Frederick

No pharmacy retailer is more determined to ride the age wave than Walgreen Co. The nation's top drug chain is doing its best to get out in front of what surely will be an explosion in prescription drug utilization as the number of Americans older than age 65 booms from 1-in-8 today to 1-in-6 by 2020.

"Our nation's over-65 population is growing four times faster than the population as a whole," enthused Chairman and Chief Executive Officer David Bernauer. "Our attitude is, 'Why shouldn't they all have a Walgreen pharmacy?'"

Prescription sales comprised more than 63 percent of Walgreens' total store revenues in fiscal 2004--compared with 62.0 percent in fiscal 2003 and 59.8 percent in 2002--and that share of sales rose to 65 percent in the first quarter of the current fiscal year. What's more, said President and Chief Operating Officer Jeff Rein, "That's going up 1 to 2 percentage points a year" as prescription utilization rates, per-store prescription counts and drug prices continue to soar.

Nevertheless, both Rein and Bernauer told Drug Store News they aren't concerned about so many of Walgreens' eggs being in one low-margin basket. "Even though front-end margins are higher, we're still able to achieve a profit through our pharmacy sales," said Rein.

Indeed, overall gross profit margins rose to nearly 27.5 percent of Walgreens' total revenues in the first quarter ended Nov. 31, 2004, and the pharmacy was a significant contributor, Bernauer reported. Driving the company's solid earnings engine, he said earlier this year, are "solid prescription and general merchandise sales, as well as our second straight quarter of significantly higher gross profit margins."

The improving bottom line also came despite the fact that tightfisted third party reimbursement systems now account for 93 percent of all prescriptions dispensed at Walgreens counters. As such, the company's recent performance clearly attests to its growing ability to leverage its rising store counts and market penetration throughout the United States in contract negotiations with third party payers and its ability to walk away from prescription provider contracts that don't yield a profit. Over the past year and a half, company officials have taken a very public stand on the issue, drawing a clear line with prescription benefit managers and health plan sponsors. Last December, for instance, Walgreens announced that as of Jan. 1 it no longer would fill prescriptions for state of Ohio employees under a money-losing contract.

Behind Walgreens' ability to wring net earnings from its massive prescription volumes: constant efforts to improve pharmacy efficiencies through smarter workplace design, more intelligent workflow processes and new technology that shifts as much of the mechanics of prescription dispensing as possible to pharmacy technicians and to automated counting, pouring and labeling systems. The company also credits its pharmacists' efforts to switch patients to generic drugs, which lower top-line

sales at the pharmacy counter, but yield higher margins.

Among the factors Bernauer attributed to the company's recent improvements in profitability were the growth in generic drug introductions and Walgreens pharmacists' ability to drive higher generic substitution rates. "Generics are a winner for all parties: patients, payers and Walgreens," he added, despite what he calls "the generic drug conundrum.

"We saw 17 generic introductions last year, and generics now account for approximately half the prescriptions we fill," Bernauer noted in a report to shareholders. "That's good news. Financially, we love them: They're good for our bottom line. But because generics are less expensive, they also lower our sales line. This, in turn, distorts our expense ratios."

The use of technology to keep up with steadily mounting prescription counts is absolutely crucial, say company officials. Prescription sales rose another 14.4 percent in the 2005 first quarter, with same-store pharmacy sales up a solid 11.3 percent, outpacing the growth of mail order pharmacy. More important, overall prescription counts continue to surge as the population ages and Walgreens captures a growing share of the total market for dispensed medications. Last year, the chain filled 443 million prescriptions--roughly 14 percent of the U.S. total, up from 13 percent the previous year--and company leaders have made no secret of their plan to boost that share of total U.S. prescriptions dispensed to 20 percent over the next decade.

In support of that effort, Walgreens has just agreed to purchase robotic dispensing systems from technology vendor Parata Systems (see related story on page 72).

To sustain its momentum at the pharmacy counter, the chain continues to roll out new services to educate patients about disease states, medicines and lifestyle choices and to make it easier for them to turn to Walgreens for their prescription needs. More of its pharmacies are open around the clock--nearly 1,400--than all of its competitors combined. Recently, the chain launched ExpressPay, which automatically charges a patient's credit card when the patient picks up a prescription.

Walgreens also offers prescription labels in 14 languages, as well as large-type directions and drug information for visually impaired patients. Its Intercom Plus pharmacy system also automatically notifies patients by phone or e-mail to let them know when their prescriptions are ready. That pharmacy system, which is fully interactive, allows patients to pick up their prescriptions from any store, whether the prescription was ordered in the store, through the chain's mail service or via its Web site.

The chain also was the first in the United States to launch a comprehensive program to ease the billing and adjudication burden for patients enrolled in the Part B Medicare benefit program, thus making it easier for the estimated 5.6 million seniors with diabetes to obtain testing supplies and leave the complicated billing process to Walgreens. "We filled approximately 600,000 Medicare Part B prescriptions in fiscal 2004," noted a company report. "Nearly 80,000 were for patients new to Walgreens."

On the patient education front, Walgreens.com offers Mayo Clinic Health Information services, including online articles on disease states, healthy living and self-care. "Walgreens Health Corner," a weekly television health program, reaches a potential audience of 56 million homes through WGN

Superstation. And last year, the chain formed an alliance with the American Library Association to promote both libraries and pharmacies as health information sources. A program called "Be Well Informed @ Your Library" includes Walgreens-sponsored brochures and health seminars conducted by Walgreens pharmacists at libraries in 10 cities this year.

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