

Leader's initiatives battle declining margins

By AMANDA BALTAZAR

The past six months have been busy for Leader pharmacies. Margins are declining, due partially to higher prescription volumes from Medicare Part D and the aging population, leading the network of about 3,500 pharmacies that fall under the Cardinal Health umbrella to undertake a number of new initiatives.

One of the biggest of these is growing front-of-store sales. "Chains have managed to do this and we think independents can, too," said Steve Lawrence, senior vice president of retail and alternate care marketing for

Cardinal Health. Some Leader stores, he pointed out, have managed to grow front-of-store sales from 9 percent to 10 percent of total sales to 15 percent to 20 percent by focusing on providing promotional materials that align with nationwide programs, such as National Heart Health Month, to drive consumer traffic.

Chain stores have an advantage over independents, Lawrence explained, because they usually have the key retail locations and broader marketing programs. So, Leader is expanding its front-end offering to help even the playing field, particularly to offer more seasonal items. Because private label is another source of high-margin items for retailers, Leader carries a broad line of these products and almost all Leader member stores carry them, he said.

Like many in the industry, Leader also is growing in-store traffic through retail clinics. A partnership with Corner Care Clinic so far has resulted in the opening of 12 clinics in the last six months, the first debuting in the last quarter of 2006.

"It's the whole concept of expanding your health care footprint in the local community," Lawrence said. "We realize that clinics aren't neces-

sarily an 'if you build it, they will come' type of offering. Once they're in place, the services need to be marketed in order to be successful.

Leader pharmacies also are growing business outside of the stores, by moving into the long-term care arena. Many stores are starting to provide local nursing homes with such services as reviewing patient charges and emergency medications off-hours.

Another area of growth is specialty pharmaceuticals. "The key is that most of the specialty business today is going into mail order, but we're trying to keep most of it at the local pharmacy because specialty patients have a lot of needs, overall, and having access to a local pharmacist is very important," Lawrence pointed out.

Leader hasn't forgotten its store owners' need to increase margins, either. It's helping members claim their third-party reimbursements faster through offerings like ProfitLeader and reconciliation services. "For many pharmacies, as much as 2 percent of to-



Though mail order dominates specialty pharmaceuticals, Leader pharmacies are working to grow in the segment by ensuring specialty patients have access to their local pharmacists to address their needs.

tal third-party reimbursement is going unpaid, underpaid or misdirected," Lawrence stated. "In the face of rising volumes and shrinking margins, every penny counts."

Leader also has consolidated its tiers of service to simplify business for these owners. It has switched from two membership levels, each of which had an array of a la carte services, to five levels of service with bundled offerings.

Leader

Headquarters:
Dublin, Ohio

2006 sales: \$16.1 billion

% change vs. 2005: 14%

No. of stores: 3,500

No. of stores with Rx: 3,500

Avg. store size: 2,500 sq. ft.

Rx sales: \$13.65 billion

% of sales from Rx: 85%

Sales per store: \$4.6 million

Source: Drug Store News, company reports

Health Mart builds muscle in leaps and bounds



McKesson's Health Mart franchise program appears to be the fastest-growing pharmacy network in the country, having quadrupled in store count in 2006.

By JIM FREDERICK

The fastest-growing retail pharmacy network in the country appears to be the booming franchise makeover program offered by McKesson Corp.

That program, called Health Mart, capped its fiscal year March 31 with \$1.7 billion in sales and a coast-to-coast network of roughly 1,300 independently owned drug stores operating under the Health Mart banner. The logo has been around since before McKesson purchased the Texas-based FoxMeyer distribution company in the early 1990s, but over the past two years Mc-

Kesson has completely redesigned and recharged Health Mart's retail concept and mission and is promoting it to retail pharmacy customers with an almost missionary zeal as the best way to compete in a chain-dominated, ruthlessly competitive market.

The results have been explosive. In 2006, the franchise chain quadrupled in store count. Health Mart now is the nation's largest pharmacy franchiser, edging Medicine Shoppe out of the top spot—although Medicine Shoppe still has more stores if its international operations are included—and is racing to build a universally recognized pharmacy banner that its backers say will be synonymous with extra customer service and high levels of pharmacist-delivered care.

"We're signing up close to 100 stores a month," said Stefan Linn, Health Mart president and senior vice president of marketing for McKesson Pharmaceutical. "It's growing very

rapidly, and I think it's a good testament to the proposition that what Health Mart brings to the table works."

What the program offers is many of the advantages that give retail chains a leg up in the marketplace—managed care contracting services, marketing and advertising tools, front-end programs and operational support, combined with a consumer-tested logo, store design and décor package.

Those services all are designed to "help independent pharmacists reinforce their unique role as community health care advisors that provide exceptional counseling, patient education and wellness support at price points similar to chain pharmacies," according to McKesson.

"One of the reasons for the growth is that people realize this isn't just a program," asserted Andy Burtis, vice president of marketing services for McKesson Pharmaceutical. "This is a corporatewide commitment to independent pharmacy, and every month there's the release of a new benefit to Health Mart franchisees. There's something in it for every type of independent."

For their part, added Linn, inde-

pendent pharmacy owners who want to join the franchise should display "the mindset to be committed to pharmaceutical care, and to leveraging the network of pharmacies to deliver better care."

On a practical level, franchisees must adopt the Health Mart logo and elements of the décor package and the front-end merchandising programs, as well as be willing to participate in the third-party prescription plans that Health Mart Systems contracts with. To operate on the Health Mart service platform, owners pay a

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Headquarters:
San Francisco

2006 sales: \$1.7 billion

% change vs. 2006: 300%

No. of stores: 1,300

No. of stores with Rx: 1,300

Avg. store size: 1,000 sq. ft.
to 10,100 sq. ft.

Rx sales: \$1.3 billion

% of sales from Rx: 77%

Sales per store: \$2.6 million

Source: Drug Store News, company reports

Health Mart