

Lowering royalties jumpstarts specialty business

By AMANDA BALTAZAR

Following several challenging years for Medicine Shoppe, it seems the retailer has finally found a sweet spot again with franchise members. As might be expected, that sweet spot is its operators' bottom lines.

The volume of specialty prescription drugs passing through Medicine Shoppe and Medicap Pharmacy stores has tripled in the past six months. Sparking that growth was a decision last year by Medicine Shoppe International to lower its royalties on these medications. And that has a ripple effect on the core pharmacy business, as well.

Since specialty pharmacy represents high-cost drugs, franchisees resisted accepting these prescriptions due to the previous royalty paid to Medicine Shoppe International, MSI president Terry Burnside told *Drug Store News*. "By lowering the royalty, MSI is not only capturing these specialty prescriptions, but other scripts for these patients and their families."

This new incentive for selling specialty drugs is just one of a whole suite of services that MSI announced at its annual meeting last June and continues to roll out steadily.

These services, which the franchisor dubs specialized care centers, focus on four areas: specialty pharmaceuticals, diabetes, long-term care and compounding. Each is run independently, with diabetes being the most fully developed to-date.

MSI launched its diabetes specialized care centers last July and now has the offering available in 74 stores. The chain is starting to target areas with high concentrations of people with diabetes, such as Texas, Christina Ellegood, director of diabetes care, explained. By the end of June, the franchisor plans to have around 175, especially in Florida, Ohio and Iowa, with more to follow.

The diabetes specialized care centers offer educational meetings and one-on-one interactions with pharmacists, as well as training on such diabetes products as blood glucose meters and insulin pumps. "The centers allow patients to meet one-on-one with their pharmacist once a month, instead of typically seeing a physician every three or four months," Ellegood said.

Each store also will run a program allowing customers to upload information from their glucose monitors, run reports and transmit the infor-

mation to their physicians.

MSI chose to grow its diabetes center first because there was the greatest need, Ellegood said, with 20.8 million people with diabetes—a figure that is anticipated to rise dramatically. "Physicians alone won't be able to provide the one-on-one support that people with diabetes need. That is why we require our diabetes specialized care centers to be certified through diabetes certification

courses online or in person, and we ask them to keep up to date."

The long-term care and specialty pharmacy components are just getting off the ground and will be launched this year, according to Burnside.

The goal in long-term care is to develop better relationships with the owners of long-term care facilities, thus increasing sales and profits, said Jeff Foreman, vice president of pharmacy solutions.

"You can be a health care provider, providing quality pharmacy services in the long-term care arena, which is so desperately needed," he added. Through this program, MSI will offer free services such as an intranet forum and a toll-free hotline for franchisees' questions and discounts on products, training materials and consulting services.

Specialty pharmacy, Foreman said, will help stores to better take care of people with chronic diseases such as multiple sclerosis, rheumatoid arthritis and HIV. The total specialty market is estimated to be growing at around 15 percent annually, so this will help MSI capture new business, he explained.

The compounding specialized care center "is a return to the basics and it's also an opportunity to provide enhanced customer services and care. It allows MSI franchisees to provide individualized solutions for customers." Compounding, Foreman said, allows you to create strengths that aren't commercially available or to create drugs in a different form—a liquid for people who have trouble swallowing pills, for example. "It differentiates us from our competitors," he said.

Because of all this internal activity, MSI's store counts were down a little in 2006. "We knew as we reinvented ourselves, that we'd focus on



Medicine Shoppe International expects store counts to grow next year, and some 35 new units would include in-store retail clinics like those already operating in nine stores.

the growth of our existing pharmacies because we can't focus on everything at once," Burnside explained. He expects the number of stores to begin growing again this year, but slowly and in specific areas. In recent years, MSI had struggled to maintain the total size of its franchise group, as longtime members reached retirement age and chose not to renew. Meanwhile, it

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had become incumbent upon MSI to examine closely its offering and fee structure to ensure that it had created an attractive-enough value proposition to its franchisees.

Another area that MSI is growing is the number of in-store retail clinics it operates. So far it has nine Corner Care Clinics operating in Indiana, Ohio, Illinois and upstate New York, with another 35 planned for the next six to nine months.

The clinics are operated through an alliance with MindGent Healthcare Services, and it's expected that they will bring around 30 percent more customers into stores, according to Foreman.

"We're looking at where there's a need in the community, such as a lack of urgent care or no hospital in a county. We're trying to fill a need," he said.

MindGent operates the clinics and is responsible for all aspects of them, said Julie Beckner, president and chief executive officer of MindGent. The company has experience in this arena, having installed many clinics in hospitals.

The clinics require less than 100 square feet of space, so are of minimal impact to Medicine Shoppe locations and cost very little to install. They are staffed by nurse practitioners, who focus as much as possible on patients, Beckner said. To allow them to do this, all supplies are ordered electronically and most stocks are replenished automatically.

Rounding out its new offerings, MSI is encouraging its franchisees to join the PDX common technology it is deploying across its network. "It's a technology that's built for a chain-like mentality. We help stores manage their data on a day-to-day basis and we want to be able to do that centrally to free the pharmacist up to interact with the patient," Burnside said.

Headquarters: St. Louis
2006 sales: \$2.6 billion
% change vs. 2005: 0%
No. of stores: 1,384
Avg. store size: 1,800 square feet
Rx sales: \$2.5 billion
% of sales from Rx: 97%
Sales per store: \$2.74 million

Source: *Drug Store News*, company reports

Medicine Shoppe