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Robin Johansen started working at Fairhaven Pharmacy as a delivery boy in 1964 and has owned the store since 1991.

Independent pharmacies dig in, dig out market niche
Customer service remains key advantage for locally owned pharmacies

By Amanda Baltazar

Not too long ago, there was a local pharmacy on a corner of every small town in America. Inside, there was a friendly pharmacist who knew the names of his customers and their children, and sometimes even a soda fountain, where locals congregated and swapped gossip.

Take a stroll down Main Street USA these days and you'll see a very different picture, with seemingly omnipresent Rite Aids and Walgreens more predominant, not to mention grocery stores touting their pharmacy, and big box merchandisers like Wal-Mart and Target offering drugs for prices so low they're almost giving them away.

With a market like this, it's surprising the independent pharmacies survive at all, with the bigger players able to undercut them in almost every way. But survive they do, particularly in smaller towns in Northwest Washington, where they often remain a pillar of their communities.

Prescription headaches

Many pharmacists, in fact, say that the chains are not their biggest worry. A much more immediate concern are the insurance companies and the pharmacy benefit managers (PBMs) – third party administrators of prescription drug programs, who process and pay prescription drug claims. And since the prescription business typically constitutes between 80 percent and 95 percent of a drug store's business, the effect is huge.

"They dictate to us what to do," says Scott Mitchell, owner and pharmacist at Nooksack Valley Drug in Everson, since 1980. Twenty-five years ago, only 20



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percent to 30 percent of customers were covered by insurance, he points out, but now that figure is closer to 95 percent.

"We're limited in what we can do and the prescriptions we can fill. Some drugs we can't dispense because we'd lose money. And reimbursement doesn't come until a month down the road," he adds.

Doug McGillivray, owner and pharmacist of Sumas Drug, says reimbursement is his biggest headache. Some plans are exceedingly slow and can take up to six weeks to pay, he explains, which can leave him short of money since some prescriptions can reach more than \$1,000.

The PBMs and insurance companies have "almost complete control," according to Robin Johansen, owner and pharmacist of Fairhaven Pharmacy. "But pharmacies cannot get together and decide not to take a particular contract because that's restraint of trade and against anti-trust laws," he explains. "It's like a robber comes in and says 'Give me your money or your life.' You have a choice, but not really," he adds.

"It's not about what your doctor wants you to take, but about what the insurance company will pay for. And very few people will pay cash for something their doctor wants them to take, rather than get it free through their PBM."

PBMs can also prevent some patients from purchasing their prescriptions from independent pharmacies, by forcing them to use mail order, Johansen points out. And these companies are impossible to defeat. "All of these PBMs have had lawsuits filed against them, but they settle out of court and keep doing business in the same way," says Johansen, who doesn't expect this situation to change for another decade or two.

Chains of little worry

With all this to worry about, the chains aren't such a big problem.

"Chains aren't really competitors because as gas prices go up, people tend to stay local," says Mitchell. This works well for him, since he's the only pharmacy in Everson, a town of 1,500, and the nearest chain is a 30-mile round trip away.

"Sometimes it's good to have a chain nearby," says Jerry Willins, president of Holland Home Health, Mount Vernon, "because you get the traffic. Lots of chains don't really work on service, because they think it's better to keep customers waiting in the store so they buy more."

Nor have the drastic price cuts that a number of chain pharmacies have implemented on generic drugs really affected business. This practice began in September 2006, pioneered by Wal-Mart. The behemoth began offering a 30-day supply of a number of drugs for \$4 – a practice that was then adopted by a number of other chains including Target and Costco.

These reduced prices are not all they may seem, however. The generic drugs that are included are said to be drugs that are typically not taken for long periods of time, and tend to be inexpensive drugs and/or old drugs.

"A lot is hype and publicity [for the chains]. It's more of a marketing stunt than anything else," says Johansen. It's not likely to tempt his customers, however, because the cost of gas to drive to the chains would negate any savings. "I think people's time is more valuable than saving a few dollars."

Rich McCoy, owner and pharmacist (with his wife Marge) of Lopez Island Pharmacy, doesn't think he's lost any business due to these low prices. "We provide a level of service that you can't get for \$4," he says. "In [chain pharmacies], customers are a number. You stand in line, get your prescription and go."

Another problem with chain pharmacies, points out Johansen, are the constant interruptions, and because there's a shortage of trained pharmacists, leaving technicians to fill prescriptions. "This puts stress on the pharmacist who then has to check every prescription that a tech fills," he says.

Medicare hurdles

Another issue that pharmacists have had to grapple with fairly recently is the



Fairhaven Pharmacy has been in business since 1890 and in this location on Harris Avenue since 1929.



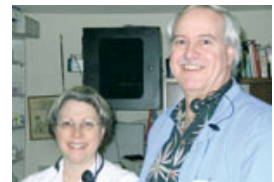
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Marge and Rich McCoy moved to Lopez Island in 1994 from Denver, to run Lopez Island Pharmacy.

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implementation of the Medicare Part D program. This program was launched in January 2006 to give Medicare beneficiaries (seniors) more access to prescription drugs. However, it meant a huge increase in the number of prescriptions pharmacists were filling and because of this, a massive backlog occurred in the reimbursement pipeline, causing hundreds of pharmacists across the U.S. to go out of business.

The problems have now been ironed out, says Mitchell, although it's not really helped his business since the volume of customers has increased, but sales haven't, because those prescriptions are so heavily reimbursed.

"Medicare Part D changed cash-paying customers into third parties who are reimbursed," says Johansen. "But, a lot more people who weren't customers now get prescriptions filled here. It adds a lot more stress and increases our chances for error, but doesn't bring in more money."

Medicare Part D forced McCoy to borrow \$80,000 in the first nine months after the program was implemented "just to stay in business" he says. "The first six to nine months of 2006 were the roughest months we've had in all our (29) years in business."

Trends in technology

Going forward, all of these pharmacists are likely to start relying much more on technology. There's a huge push by pharmaceutical associations to implement track-and-trace technology on drugs, to ensure that they are not fakes and so they can be followed through the supply chain.

Electronic prescribing (e-prescribing) is expected to be implemented in all drug stores with the belief that this will help prevent mistakes in prescriptions (doctors' handwriting all being the same when it is electronic) and will also allow pharmacists to easily look at patients' histories.

Johansen is reluctant to introduce e-prescribing, largely because of the costs, which he estimates at around \$2,000 for implementation and then an additional charge per prescription. He'd prefer to stick with his current method of receiving prescriptions by fax because there's no need to decipher doctors' handwriting. Faxes also prevent prescriptions from being phoned in, which are yet another interruption to his workflow.

He does see mistakes, and points out that as a pharmacist, he's the last person able to catch a mistake, but it's becoming harder for him to spot them, since he's busier every day.

McGillivray is also reluctant to move to e-prescribing, saying that it costs 5 cents to 9 cents per prescription, "which adds up in the long run." This money, he explains, is given to the company that processes the electronic prescriptions. Computerizing prescriptions can lead to other problems, he explains. "There are just as many mistakes as before, if not more, because [doctors] go so fast and pick from drop-down menus. I have to call doctors once or twice a day to check up on prescriptions."

McCoy does have the technology to handle electronic prescriptions, but so far receives hardly any, he says. He believes they do help cut errors, but sees himself as a proofreader, tweaking a physician's language to make it more comprehensible to the patient. A chain pharmacist, he says, may just process these prescriptions as they are, mistakes and all, when they don't have the time to read them. "They assume everything's correct, and we assume everything's wrong," he says.

Other technology that we may see, says McGillivray, is a robot, which would be used to fill prescriptions and ease the staffing problems. But with the expense these are likely to incur, it's doubtful any independent pharmacies will be able to afford them for a long time.

The future is also likely to bring legislation to bring about changes in the pharmacy industry, believes McCoy. "We have gained the attention of legislative efforts to change things because so many people are affected. There's federal and local legislation we're hoping will go through because right now, it's all about

money and not about the patient. But I think this is coming more and more under the microscope and more people are sitting up and taking notice, I just hope the momentum keeps up.”

Still room for independents – for now

But it’s not all good news.

There will be fewer independent pharmacies in the future, predicts Mitchell, and there are a lot fewer now than when he entered the profession more than 25 years ago. “Sooner or later most will convert to chains, but the little towns can still have the independent pharmacies; I think we provide a service in this town that’s pretty vital. I think we’ll make it.”

It’s unlikely a chain would offer the level of service Mitchell offers. “People can come in and request things, and if we can get it, we do.”

McCoy also tries to fill customers’ requests for products as much as possible.

“We try to differentiate ourselves from other businesses (on the island),” he says.

“If you’re in a restricted area, you’ve got to sell a different kind of pie because there are only so many dollars to buy pies on an island.”

Johansen, too, offers as much as he can to his customers, including a vaccination clinic, that’s run under a doctor’s protocol. “A lot of people really appreciate this. I give [the vaccinations] any time I can while I’m working, with no appointment needed.”

At the end of the day, despite the challenges, Mitchell enjoys what he does.

“You’re your own boss and you’re involved in the community. I go to church with my customers and I see them in the grocery store.”

Johansen agrees. He has been a pharmacist since 1970 and has owned Fairhaven Pharmacy since 1991. “I know most of my customers, many are friends, and they trust me.”

Fairhaven Pharmacy originally opened in 1890 and moved to its current Harris Avenue location in 1929, so has had two and three generations of some families as its customers. “They may move to other areas of the city, but they come back for prescriptions,” he says.

However, he points out: “People are now more impatient, on-edge, ruder and everybody has time constraints. People don’t like it if a prescription isn’t ready because I’m still waiting to hear from a doctor.”

An advantage of being an independent pharmacist, says McCoy, is that you can react quickly and make decisions based on what’s best for your business and patients. “We can implement changes immediately; a chain may take months.”

Willins points out that one of the things independents can do to help boost business is to move into homeopathic/naturopathic medicines or into compounding medicines (making customized drugs from combinations of chemical substances in the pharmacy), although this may be hit by federal regulations in coming years. Location is also important, he explains, and near a hospital is ideal, or even within a hospital as a partnership.

But Willins doesn’t see much of a future for independent pharmacies, believing they’ll be priced out of existence. In the 1970s, when he opened his store, the difficulty was establishing a presence. Back then, he explains, his prices were very important and his margins were very competitive. “I don’t know why anyone would start a pharmacy these days.”

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