Is e-commerce the prescription for the future of pharmacies?

Trends, challenges and opportunities in a changing pharmacy landscape

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Introduction

While e-commerce is nothing new, the COVID-19 pandemic spurred a massive shift in consumer behavior when traditionally in-person health care services became virtual and online prescription purchasing moved from simple convenience to crucial lifeline. Pharmaceutical e-commerce shows no signs of waning in a post-pandemic world, as many consumers are now accustomed to the convenience, and often lower costs of remote prescriptions.

Government and consumer demands for lower prescription costs, industry and regulatory efforts to loosen telepharmacy restrictions, and consumer expectations for more convenience and personalization are among the factors driving the growth of pharmacy e-commerce.

Recognizing the opportunities, e-commerce giants and tele-health startups put down stakes in the online pharmacy market, spurring competition for established pharmacies and other health care providers.

To compete successfully in this growing market, pharmacy leaders must understand the challenges and opportunities inherent in shifting to an e-commerce model and then determine a path forward to launch a successful pharmacy e-commerce platform.

Source: https://www.fortunebusinessinsights.com/industry-reports/epharmacy-market-10023
Now
Top three challenges

1

Increased service expectations

Evolving consumer needs and preferences due to COVID-19 made pharmacy e-commerce integral to health care delivery. A year after the pandemic took hold, consumers now expect all retail businesses — including pharmacies — to provide online conveniences with fast (and generally free) shipping.

Consumers are not just expecting lower costs; they’re demanding a higher level of service, convenience, innovation and personalization. They want the ability to choose when and where to receive service — which is increasingly online. When it comes to customer experience, consumers compare pharmacies with every other company regardless of industry. This challenges pharmacists to not only provide a positive customer experience in person, but through digital channels as well.

Patients expect engagement on their terms

- 40% of customers won’t do business with a company if they can’t do it via their preferred channel.
- 58% of consumers expect to do more business online after the pandemic than before.
- 88% of customers expect companies to accelerate digital initiatives because of COVID-19.

Service expectations for pharmacies are increasing

- 73% said an extraordinary experience with one company raises the bar for other companies.
- 75% of respondents expect the same level of service from health care providers that they receive from other businesses.
- 84% said experience with a company was as important as the company’s products and services.

Consumers are not just expecting lower costs; they’re demanding a higher level of service, convenience, innovation and personalization.

Industry competition and consolidation

Even before the pandemic, pharmacies were facing challenges. Although prescription sales were steadily increasing, reimbursements were shrinking. Add in below-cost prescription rates and rising direct and indirect remuneration (DIR) fees, and many independent pharmacies find it increasingly difficult to stay afloat.

When the pandemic hit, pharmacies saw reduced foot traffic due to stay-at-home orders and the delay of elective procedures, as well as from COVID-19-related job losses that caused millions to lose health insurance.

Then there are the competitive threats: a US e-commerce giant entering the pharmacy business; a large warehouse club retailer offering same-day pharmacy delivery; and large chain pharmacies consolidating, increasing their footprint and market power. When it comes to e-commerce, these big players already have the logistics, IT and marketing capabilities.

Faced with all these challenges, many community pharmacy owners looked for exit strategies, leading to more consolidation.

Regulatory restrictions and pricing proposals

Geographic restrictions on providing telehealth services as well as federal proposals for lowering prices are squeezing the margins of many pharmacies.

- *Geographic regulations.* COVID-19 spurred the loosening of some digital pharmacy regulations, and telehealth itself is permitted in some form in all 50 states. Despite this, 32 states are still considered “restrictive” when it comes to pharmacy e-commerce services, with 26 states not allowing the practice at all.

- *Allowability of 90-day refills.* Ninety-day refills provide a valuable convenience for consumers, but they can affect the bottom line for pharmacies, since an important monthly customer touchpoint is eliminated. More consumers gained access to this option through the Coronavirus Aid, Relief, and Economic Security Act, which allowed certain Medicare plans to provide 90-day refills to those who request them.

- *Potential pricing proposals.* Consumer demand for lower prescription costs and disparities in pricing between the US and other industrialized countries have spurred regulatory interest in price controls. Among the potential proposals are allowing Medicaid to negotiate with drug makers, limiting the initial prices of new drugs, allowing consumers to import certain drugs from outside the US, and limiting price increases to below the general inflation rate. However, low prices for consumers don’t necessarily translate to lower costs for pharmacies.
1

Growing consumer acceptance of e-services

E-services are not just being embraced by the young. Contrary to what many believe, baby boomers are fueling the e-pharmacy market as Americans age 50 and older are now adopting consumer technology at rates close to those ages 18-49, according to a 2020 AARP report.

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Technology advancements

By investing in better technologies, pharmacies can benefit from a variety of services and tools that add value for both pharmacists and consumers. Among them:

- **Telehealth.** Technology advancements have allowed pharmacists working remotely to handle many of the tasks in-house pharmacists perform. While the adoption of digital pharmacy services was gradually increasing prior to 2020, both adoption and usage soared with the outbreak of the virus. Loosened restrictions due to the pandemic allowed pharmacists in many states to process prescriptions and medication orders remotely, enabling community pharmacies to stay open and maintain customer contact when in-person traffic plummeted. Pharmacy e-commerce is now expected to be a mainstay in health care delivery as consumers – and pharmacists – experience its benefits.
The changing role of the pharmacist

At the core, the role of a pharmacist is to provide care for the patient by creating a sense of personal connection between the patient and the care provider. This personal connection can have a significant effect on the health of a patient, as measured by medication adherence. A study by Langer Research Associates maintains that connectedness with a pharmacist is “the single strongest individual predictor of prescription medication adherence.” (Source: National Consumer Pharmacists Association, “Medication Adherence in America: A National Report Card,” Langer Research Associates, March 2013, accessed July 2021 via ncpa.co.)

The focus on patient care is particularly important as pharmacists do more than fill prescriptions, including patient education, medication therapy management, medication reviews and monitoring, disease management, vaccine administration and wellness services. In fact, various lobbying efforts by health care and pharmacy associations – and more than 40 pending pieces of legislation – have pushed for pharmacists to achieve provider-level status on a nationwide basis since their legal abilities vary from state to state.

Vaccine delivery. Immunization services represent a financial opportunity for pharmacists, generating revenue from both the service and the resulting foot traffic. Retail pharmacies are playing a significant role in administering COVID-19 vaccines, leveraging technology that allows an end-to-end digital experience.

Remote monitoring services. Remote patient monitoring (RPM) uses technology to collect health data from individuals and transmit it to health care providers to assess patient health outside of a clinical setting. RPM is especially valuable for keeping tabs on COVID-19 patients isolating at home, monitoring their health while reducing the risk of transmission. Through RPM, community pharmacists can play a key role in patient care as they’re already trained in biologic data interpretation, medication management and patient counseling for various chronic conditions. In addition to monitoring the data, pharmacies are well positioned to distribute these devices, providing an additional revenue stream.

Data-enabled customer experience. As in any industry, data analytics can help pharmacies deliver a better customer experience. Online channels provide a wealth of relevant customer data that can be used to understand and engage with customers, personalize communication and offers, build loyalty and even predict customer needs.
Gaining a better understanding of a customer and their health and wellness journey is the first step to creating this positive customer experience.

Focus on the “pharmacy of the future” by utilizing digital tools to enhance the customer experience

Consider a direct-to-patient model

Develop strategy for stronger pharmacist-caregiver relationships

Modernize digital marketing

Investigate future capabilities to keep up with rapid industry movement

A highly personalized experience is at the forefront of the “pharmacy of the future.” Gaining a better understanding of a customer and their health and wellness journey is the first step to creating this positive customer experience. In order for pharmacies to provide a true personalized experience, there needs to be a way to track a customer’s activity across multiple platforms. Digital tools are integral to this process and can help determine customer preferences, pain points and values, develop data-driven actionable goals and enhance the customer experience through a variety of additional services.
Consider a direct-to-patient model

Many of the trends and market forces cited earlier (e.g., telepharmacy regulation improvements, customer demands for convenience) have triggered some manufacturers to introduce a complementary direct-to-patient channel that reduces the cost of delivery and the number of transactions required to serve a customer. For many companies, this endeavor will require new capabilities including prescription processing, third-party adjudication and a direct to consumer shipping channel, and pharmacists will need to assess whether to build, buy or partner to make this new channel successful.

Develop strategy for stronger pharmacist-caregiver relationships

As the generation of baby boomers age, caregivers are needed to help them with daily functions. Many family caregivers are performing medical tasks, such as administering injections and multiple drugs, which can be overwhelming and lead to errors. Pharmacists must develop relationships with caregivers to educate and improve their willingness to use pharmacy services for medication management and other health-related assistance.

Modernize digital marketing

Using social media tracking and insights to monitor online activity could unleash data to better predict trends and help pharmacies prepare for the future — and the impact of these algorithms could reveal new findings. Having a targeted online web experience, personalizing notifications, and implementing and refining existing loyalty programs are all ways to influence the shopping experience and tailor care to each individual. Modernizing this e-commerce experience may reveal insights and further strategies on how to increase a pharmacy’s ROI. For example, customers may prefer bundling both medications and complementary over-the-counter (OTC) products to solve a specific issue. Taking a solution-oriented approach to providing product recommendations that address a patient’s health concerns may not only increase average order size (AOS), but also disclose some of the efficiencies that can result from facilitating personalized interactions.

Investigate future capabilities to keep up with rapid industry movement

Investigate additional capabilities to prioritize or develop in the future given the rapid movement of industry by identifying the gaps between expectation and implementation to date and determine why these gaps exist. For example, with the elimination of third-party tracking cookies, privacy regulations will evolve, and success in the e-commerce landscape will be dependent on careful planning to create a new system within these constraints. Pharmacies should focus on leveraging their first-party data to engage effectively with their brand and increase the amount of customer transactions. To learn more, see another EY Consulting article titled, “How marketers can be ready for a cookie-less world.”
To successfully compete in this growing market, pharmacy leaders must understand the challenges and opportunities inherent in shifting to an e-commerce model and then determine a path forward to launch a successful e-commerce platform.
Conclusion

The pharmacy landscape is changing due to consolidation within the industry, competition outside the industry and evolving customer expectations regardless of industry. As a post-pandemic world nears, an e-commerce platform is no longer a nice-to-have convenience; it’s an essential tool for doing business in today’s increasingly online economy. As the role of pharmacist continues to expand into more patient-focused care, the need for better technologies to assist in that care – including telehealth capabilities – is vital to the health of a pharmacy and its patients.

EY team

Our experienced Health Sciences and Wellness professionals are poised to support clients with the decision-making, management, marketing and technology tools necessary for adopting a pharmacy e-commerce model. To learn more, contact the health transformation team.

Scott Schaftlein
Principal, Technology Transformation
Ernst & Young LLP
scott.schaftlein@ey.com

Reem Hanna, PharmD
Senior Manager, Health Transformation
Ernst & Young LLP
reem.hanna@ey.com

Thank you to the following contributors:
Devon Weiss, Jacqueline Tilden, Alexandra Mulconnery, Ankit Goel and Prabuddha Mathur
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