THE STATE OF SPECIALTY PHARMACY IN 2018

By Adam J Fein, PhD, CEO of the Drug Channels Institute (DCI).

US drug channels continue to evolve rapidly. In this preview of his presentation on Tuesday, Adam Fein highlights four crucial trends affecting the specialty pharmacy marketplace.


Adam J Fein, PhD

1. The specialty boom continues to drive the industry's revenue growth, but the specialty market is showing signs of a slowdown.

Total prescription dispensing revenues from specialty drugs at retail, mail, long-term care, and specialty pharmacies reached $138 billion in 2017. Though pharmacy revenues from specialty drugs grew by nearly 9%, this growth rate was a historical low. Factors behind this slowdown include much lower spending for drugs that treat hepatitis C, the launch of generic specialty drugs, slower growth in list prices for some specialty drugs, and the launch of specialty products with list prices far below those of competitive products.

We estimate that specialty drugs accounted for one-third of the US pharmacy industry's total prescription dispensing revenues in 2017. Note that specialty drugs' share of plan sponsor pharmacy benefits costs is higher than their share of prescription revenues. That's because traditional drugs have larger rebates than specialty drugs, though these rebates do not impact prescription dispensing revenues.

Specialty Pharmacy Industry Outlook

Speakers: Adam Fein, PhD; Lisa Gill; and Doug Long, MBA

When: Tuesday, May 1 @ 9:00 AM

Where: Encore Ballroom

2. The battle for control of the specialty market is accelerating, though pharmacy benefit managers (PBMs) continue to dominate the market as channels narrow.

Pharmacies that compete to dispense specialty therapies are owned by a diverse set of organizations. These pharmacies are operated by PBMs, retail chains, health plans, pharmaceutical wholesalers, physician practices, and hospital systems. There are also many independent specialty pharmacies.

The number of specialty pharmacies with accreditation expanded in 2017. Accreditation helps define specialty pharmacy services and enables a pharmacy to demonstrate specialty pharmacy capabilities to manufacturers and third-party payers. We identified about 730 unique pharmacy locations that by the end of 2017 had achieved accreditation from the 3 major independent accreditation organizations. The 2017 figure is almost double the 2015 figure. For the second consecutive year, pharmacy locations owned by health care providers were the fastest-growing category of accredited specialty pharmacies.

Despite the diversity of industry participants, the top 4 specialty pharmacies are all owned or co-owned by a PBM. They accounted for about two-thirds of prescription revenues from pharmacy-dispensed specialty drugs. Consequently, the integration of PBMs and specialty pharmacies has already happened.

This concentration results largely from strategies used by payers and manufacturers to narrow specialty drug channels. For most recently launched specialty drugs, manufacturers limit and manage the specialty pharmacies eligible to dispense these expensive medications. To manage costs and improve patient management, PBMs and health plans typically further limit the number of specialty pharmacies selected by the manufacturer. Health plans and plan sponsors typically require patients to use the specialty pharmacy that the plan or PBM owns and operates.

3. Specialty drugs are driving the integration of pharmacy and medical benefits, which will further strengthen the role of insurers and PBMs in the specialty market.

Today, about 9 out of 10 prescriptions are for a generic drug. For PBMs, the days of managing primary care blockbusters are almost over.

Instead, the next-generation pharmaceutical therapies will primarily be specialty products aimed at smaller patient populations. Consequently, we project that by 2022, specialty drugs will account for a projected 47% of the pharmacy industry's revenues.

Total specialty drug spending is split between medical and pharmacy benefits. Patients on specialty drugs also tend to have higher medical expenses, so integrated medical-pharmacy management is crucial. This integration is a crucial factor behind 2 significant transactions: CVS Health's acquisition of health insurer Aetna, and health insurer Cigna's acquisition of Express Scripts.

> **"Change is inevitable. Growth is optional."**

4. Specialty pharmacies are entering a period of intense competition that will reduce prescription profits.

The forces of changes outlined above will be challenging for many specialty pharmacies. Today, smaller specialty pharmacies, physician offices, and health systems often struggle to access specialty medications within payer and PBM networks. They are accepting lower reimbursements to participate in payers' networks and paying per-prescription direct and indirect remuneration (DIR) fees. Slowing industry growth is accelerating the competitive pressure.

Specialty pharmacy industry participants therefore face 3 core strategic options: ***Get big, get focused, or get out.*** This means that if you are a smaller pharmacy and want to win in today's consolidating drug channel, you need scale or differentiation. Otherwise, cash out gracefully.

Successful specialty pharmacies are differentiating themselves by:

- Emphasizing a geographic niche by partnering with local prescribers and regional insurers
- Building disease-state expertise for open-distribution specialty products treating such diseases as HIV and hepatitis C
- Demonstrating the requisite capabilities for inclusion in manufacturer- and payer-defined specialty dispensing networks
- Marketing their businesses' capabilities and services to prescribers, payers, and manufacturers
- Developing unique services or technologies

Specialty pharmacies should recognize the truth behind John Maxwell's famous aphorism: "Change is inevitable. Growth is optional."

This article was adapted from The 2018 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers, which is available at http://www.drugch.nl/pharmacy.