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Struggles at CVS, Rite Aid, and Walgreens call into question retail pharmacy's future

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The Buzz This Week

Last week, Walgreens announced it would close 1,200 locations over the next 3 years. That's a 14% reduction in its portfolio of 8,700 stores nationwide and a significant bump in the 300 planned closures announced last year.

Competitors CVS Health (CVS) and Rite Aid aren't faring much better. CVS recently laid off 2,900 employees as part of a broader cost-cutting effort after cutting 5,000 non-customer facing jobs in 2023. Chief Executive Officer (CEO) Karen Lynch announced she will be stepping down. Rite Aid filed for Chapter 11 bankruptcy a year ago and is moving forward as a private company.

All three retail pharmacy chains have had poor financial performance in recent years. CVS's stock dropped 26% this year, and Rite Aid's stock plunged 80% in the year leading to its bankruptcy filing. A company spokesman for CVS stated, "Our industry faces continued disruption, regulatory pressures, and evolving consumer needs and expectations."

Among these disruptions are prescription delivery services, such as Amazon Pharmacy (including PillPack, which Amazon acquired in 2018) and venture capital-backed Capsule. Consumers are also obtaining prescriptions and health/beauty products at big box stores such as Walmart and Costco, where they already purchase groceries and other household items. These larger stores typically are located away from the centers of towns and cities, where leases are typically more expensive and crime can be worse. Many stores have had to lock up items in places like New York City and Los Angeles, creating sales "friction" and frustrating consumers.

Prescription revenue comprises most of a retail pharmacy store's sales, but those margins have shrunk as reimbursement rates for prescription drugs have been cut. This is in large part due to the rise of pharmacy benefit managers (PBMs), which negotiate rebates from drug manufacturers and have an incentive to cut reimbursement rates to boost their own profits.

In addition, each of the three big retail pharmacy chains has experienced its unique woes. CVS Health acquired health insurer Aetna in 2018, and the two company cultures reportedly didn't merge well. In addition, Aetna's Medicare Advantage business has been losing money. According to murmurings, the company may split into two entities. As one industry analyst commented, that would be "an extraordinary move in an era where vertical integration is all the rage."

Walgreens acquired VillageMD in 2021 but found that care delivery was challenging and expensive. Escalating operating costs and capital requirements led to billions of dollars in losses, prompting the company to consider selling its entire stake in VillageMD.

Meanwhile, Rite Aid was hit with more than 1,000 lawsuits for its alleged role in the opioid crisis.

Why It Matters

Many would contend that online shopping and big box stores are more convenient and often less expensive. But not everyone has access to online shopping (or knows how to use the platforms). And people who don't live near big box stores like Costco (and can't access transportation to get there) are left with fewer options when retail pharmacy locations are shuttered.

In fact, a study in JAMA found that retail pharmacy closures disproportionately affected low-income neighborhoods and rural communities. Health disparities could worsen as consumers don't obtain medications on time (or at all) or have access to pharmacy staff when they have questions.

Another downside is the loss of community-based pharmacists, who play an important role in advancing public health. In addition to dispensing prescription drugs and helping consumers understand how to use them, they offer vaccination services (as was critical during the pandemic).

A 2023 editorial in the journal *Pharmacy* outlines how pharmacists are increasingly screening for social drivers of health. Because they often see their customers at least once a month, they can pick up on subtle changes that might be indicative of a concerning medical or social issue. Physicians might miss those issues since they only see that person once a year.

Consumers can discuss a growing range of medical issues and questions with community pharmacists without an appointment or a fee. And pharmacists can refer patients to other healthcare professionals if they think they need additional assistance or treatment. As the industry is giving renewed attention to accountable care, pharmacists would be an important part in managing and improving population health.

The three large retail pharmacy chains may revive their businesses after repositioning their strategies, sluffing off unprofitable locations, or restructuring parts of their business. However, the industry dynamic may have gone past a tipping point, rendering the traditional business model unsustainable. In that case, lower-income and/or remote communities may need new public health efforts to ensure access to prescription drugs and trained pharmacists.

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