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Are we in 2002 or 2012? A word of caution about mail-order pharmacies



[Mike Sullivan](#) | November 16, 2011



From a distance, it may look as though the drug plan benefits space has matured greatly over the past 10 years. However, as you get closer and examine what is happening today—and looking ahead to 2012—it can be frustrating to see how little the needle has moved in some areas. Today's announcement from ESI Canada about its intent to open a mail-order pharmacy in January reminded me of how slow the pace of this industry is

in Canada. It also reminded me of the pitfalls plan sponsors face in trying to take advantage of solutions that exist within the marketplace if they aren't properly equipped to do so.

On one hand, you have to give credit to a company that isn't afraid of doing something its competitors aren't doing—so full marks to ESI Canada on that front. That being said, the buzz swirling around today about mail-order pharmacy borderlines on comical, given that mail order has been around for more than a decade in Canada. What's even more interesting is that ESI Canada is a subsidiary of St. Louis-based Express Scripts.

Express Scripts has been in business since the 1980s and is No. 55 on the Fortune 500 list. It is a Goliath pharmacy benefits manager that distributes tens of millions of prescriptions by mail order every year south of the border. However, up until this point, none of what Express Scripts has done to manage drug plans (outside of processing a claim and having formularies) has been made available in Canada. It's hard to believe it has taken so long for Goliath to even get on board with mail order in the Great White North.

However, herein lies the pitfall for plan sponsors: what now? ESI Canada has decided to open up a mail-order pharmacy. So what? If your plan design doesn't support a preferred provider arrangement and/or a mail-order offering, where is the value? Again, full credit to ESI Canada for committing to something like this. But it will be the first to tell you that plan sponsors haven't even begun to scratch the surface of managing their plans properly, and that a shocking proportion of its plan sponsor clients remain without a managed drug plan design and do not have basic cost management tools such as mandatory generic substitution in place.

If members are not given a significant incentive to use a preferred network and/or mail-order offering, ESI Canada's initiative is of absolutely no benefit. To read the press release, you might think the advent of managed care is among us here in Canada, but, in reality, if plan designs are not modified to support these kinds of initiatives, nothing is gained. Consider the following examples that came to mind as I read the ESI Canada press release:

An Ontario-based plan sponsor adopted a mail-order provider into its plan years ago. It must have been sold on the fact it would save the sponsor money. The problem is, the plan members pay

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absolutely nothing for drugs. There was no incentive to use a preferred supplier. The result? In the most recent year we examined, a whopping 0.03% of all claims went through mail order.

A plan sponsor with national operations adopted mail order into its plan and offered to waive the co-payment on each claim if members used either the mail-order offering or the other preferred vendors. In the first year, the preferred pharmacies combined had only 11% of the market share. Mail order made up 1.5% of all claims despite the initial financial incentive.

If a plan design does not support mail order (or any other preferred pharmacy arrangement) in a meaningful way, it will be useless. The promises of cost containment and returns to the plan sponsor don't mean anything if there is no uptake of the offering.

Furthermore, it is absolutely critical for plan sponsors to determine the value proposition of the ESI Canada mail order (or any other vendor's) offering. How will the pricing and medication management services that are to be offered (according to today's press release) differ from those of existing brick-and-mortar pharmacies and other mail-order and central-fill pharmacies? Is the value to plan sponsors going to come from the best pricing in the market? Will it come instead from clinical services such as disease state management and medication management? Or will it come from both sides? The press release didn't give us great depth into those specifics.

A word of warning for anyone who likes headlines and perceived easy fixes without doing the appropriate due diligence. Take the case of a plan sponsor with operations in two different provinces that brought in mail order and provided a significant incentive to use it (and achieved nearly 30% market penetration of mail order in the plan):

For claims in Province A, mail order saved the sponsor, on average, 4% on drug ingredient costs when compared with all other vendors. The savings on dispensing fees was less than 70 cents per claim.

Conversely, for claims in Province B, **mail order cost the plan, on average, 13% more on brand drug ingredient costs and, on average, 18% more on generic drug ingredient costs per claim.**

It looks as if someone didn't do his homework and cut a deal that could not be more ridiculous.

I don't fault ESI Canada for its attempt to enhance its solution offerings, and for making a splash with its investment into mail order. As I mentioned, I'm shocked that with a Fortune 55 parent company that has been doing this for years, it has taken this long. What makes me uncomfortable is that plan sponsors and advisors that don't consider how incredibly important plan design is to the success of any solution of this type are going to be underwhelmed.

It's disappointing enough that solutions that were introduced years ago into this space weren't done so properly, and here they are getting recycled a decade or more later with great fanfare. I just hope we don't wake up in 2022 and talk about how wonderful mail-order pharmacy could be or discuss a new twist on mandatory generic substitution.

What I do hope for in the years ahead, rather, is that we are well on our way to realizing meaningful cost containment in drug plans, supported by appropriate plan designs and excellent product and service offering; that the buzz in the future is being created by innovative medication and chronic disease management programs, integrated drug plan and disability program offerings, and evidence-based prior authorization tools that protect plan sustainability fairly and responsibly; and that all are being funded by the cost containment being realized from plans partnering with the right vendors with the plan designs.

Mike Sullivan is president of Cubic Health Inc., a Toronto-based drug plan management company.

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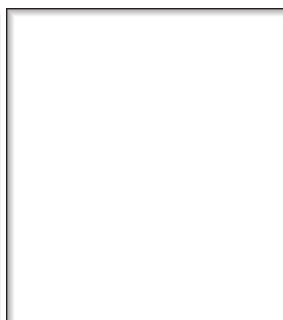
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Seems I was not the only person who thought the ESI announcement was a snoozer ... it didn't seem new or much of a business "model" to me, unless this is Kansas ?

Wednesday, November 16 at 3:51 pm | [Reply](#)

Steven Semelman:

Mike has hit the nail on the head with his comments on mail pharmacy. It has not been successful in Canada thus far because it has not differentiated itself from community pharmacy home delivery. The dispensing fees are similar to some existing big box store pharmacies and their buying power has been too small to afford savings on drug costs to plan sponsors or members. One aspect that mail delivery may be able to offer savings is by acting as a distribution channel for biological drugs and collapsing the vertical pricing structure from pharmaceutical companies to wholesales to pharmacies by acting as the main source of these drugs purchased directly from the pharmaceutical companies. This will save some distribution costs that can be passed onto plan sponsors. Mail delivery pharmacies have not shown significant advantages in the past and will not project in the future if current practices are maintained. Beware of old ideas that keep coming around again in a different form.

Wednesday, November 16 at 4:09 pm | [Reply](#)

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