Winning With Consumers Post COVID-19

February 8, 2021

KEARNEY

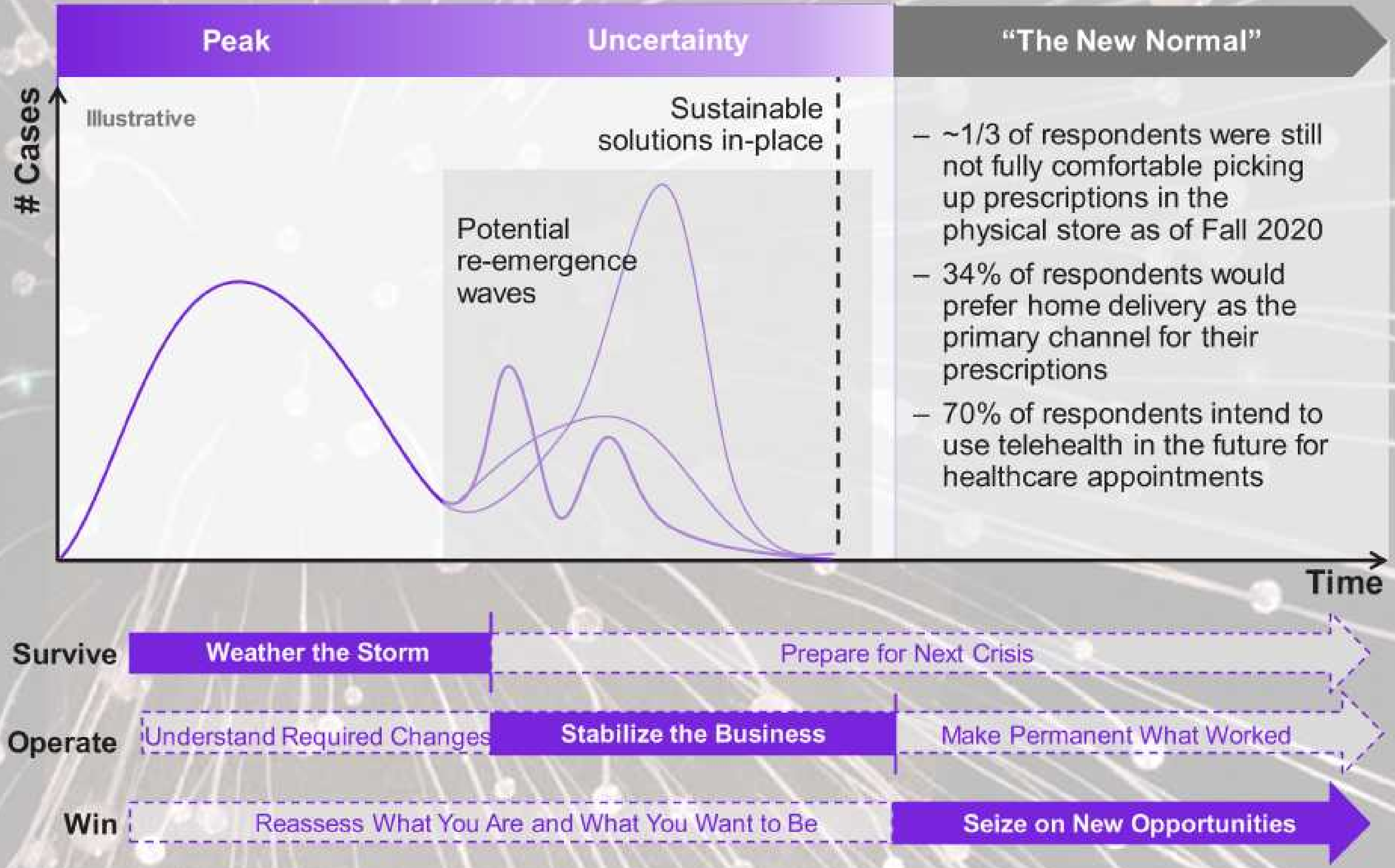
As pharmacies prepare to manage stages of Uncertainty, shifts in consumer behavior are expected to define a "New Normal"

"The extraordinary range that this disease has makes it very confusing"

Anthony Fauci, Oct. 8th 2020

Source: Kearney 2020 Pharmacy Survey

The crisis timeframes



The drastic change COVID has had on customers’ lives has led to shifting expectations in their pharmacy experience that are likely to stick

***Note**: Self-reported data*

Source: Kearney 2020 Pharmacy Survey, Kearney Consumer Institute

In-store Customer Expectations

- **~49%** of respondents feel having a relationship with their pharmacist is important
- **~20%** of those respondents do not currently have a strong relationship

New Customer Opportunities

- **~45%** of respondents today use omnichannel, up from **31%** pre-March 2020
- In the future, **~55%** of respondents would prefer omnichannel to in-store pickup

Supply Chain Readiness

- Supply chain capabilities need to enable **wider product selection** through **multiple channels**
- Manufacturers need to focus on heavy hitter SKUs as customers seek **comfort** and **consistency**

Expanded Role of the Pharmacist

- Over **40%** of respondents are comfortable receiving vaccinations or health tests at the pharmacy
- Over **30%** of respondents are comfortable being assessed and prescribed medication for common condition by a pharmacist

Pharmacy has seen more disruption in the past 10 months than in the past few years due to COVID-19

eCommerce Trends

Consumer **demand for Rx eCommerce** has increased; in-person retail experience – especially post-COVID – can be seen as a burden, not a benefit

Online pharmacies saw **accelerated growth** during COVID – Capsule saw a **5x weekly increase** in new consumers in March

Amazon Pharmacy is positioned to offer a highly transparent and convenient Pharmacy option with strong technology

Expectation that DTC / ecommerce channel will accelerate and gain **increased share of revenue** in the next 4 years

Notable eCommerce Pharmacies / Rx Delivery

CAPSULE

LEMONAID

PillPack by amazon pharmacy

ro

alto

MEDLY

UBER Health

Nimble

Uber Health and NimbleRx launched a Rx delivery service in August 2020

Source: Wall Street Journal

eCommerce growth will be catalyzed by consumer demand and intensifying competition from direct-to-consumer players

Consumer Sentiments

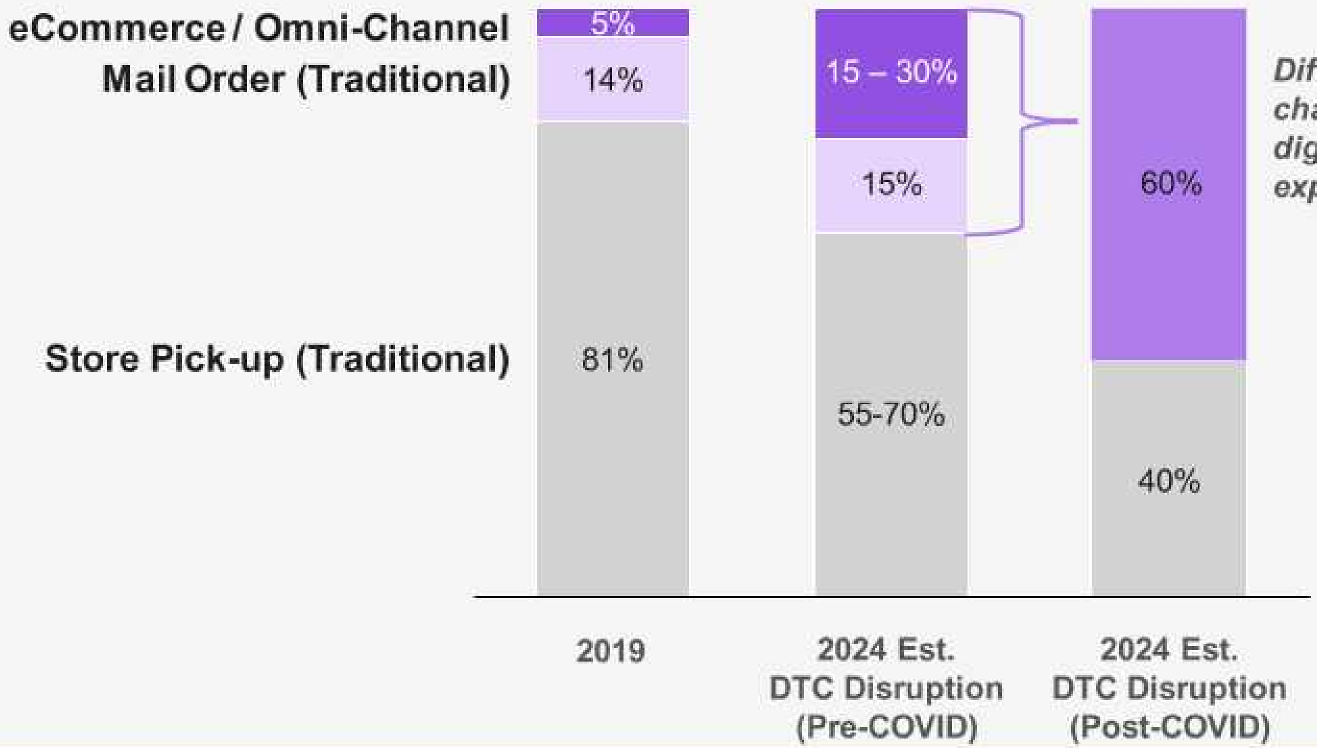
- Of consumers surveyed, **55%** would prefer eCommerce / omni-channel as their primary channel if prices were the same (DTC driven by younger males)
- Of those that pickup in-store but would prefer to use another channel, discomfort shopping in-store was **not significantly higher** than the average respondent

Disruption Variables

- Extent of Amazon expansion
- Consumer preference for in-store interactions vs. DTC convenience
- Brick and mortar players' ability to build DTC capabilities

Prescription Revenues – Traditional Rx, excl. Specialty & LTC
by Dispensing Format

Directional Estimates



Differentiation between channels will blur as one digital and frictionless experience is created

The question is to what extent consumers are willing to forego in-store interaction for a digital experience

 Source: Kearney analysis

Pressure on profitability will be further accelerated as pharmacies invest to meet new customer needs

Rx profits are narrowing…

Estimated profitability of U.S. pharmacy market
Projected 2023

Directional Estimates

…and may narrow further as pharmacies adapt post-COVID

New Operating Costs
- Home delivery can cost an additional **$9 to $12 per script** (same day orders)
- Expansion of clinical services requires more pharmacist labor

Technology & Infrastructure Requirements
- Significant OpEx and CapEx investments
- CVS Health estimated they invested an incremental **$325-350M in technology & store design** in 2019

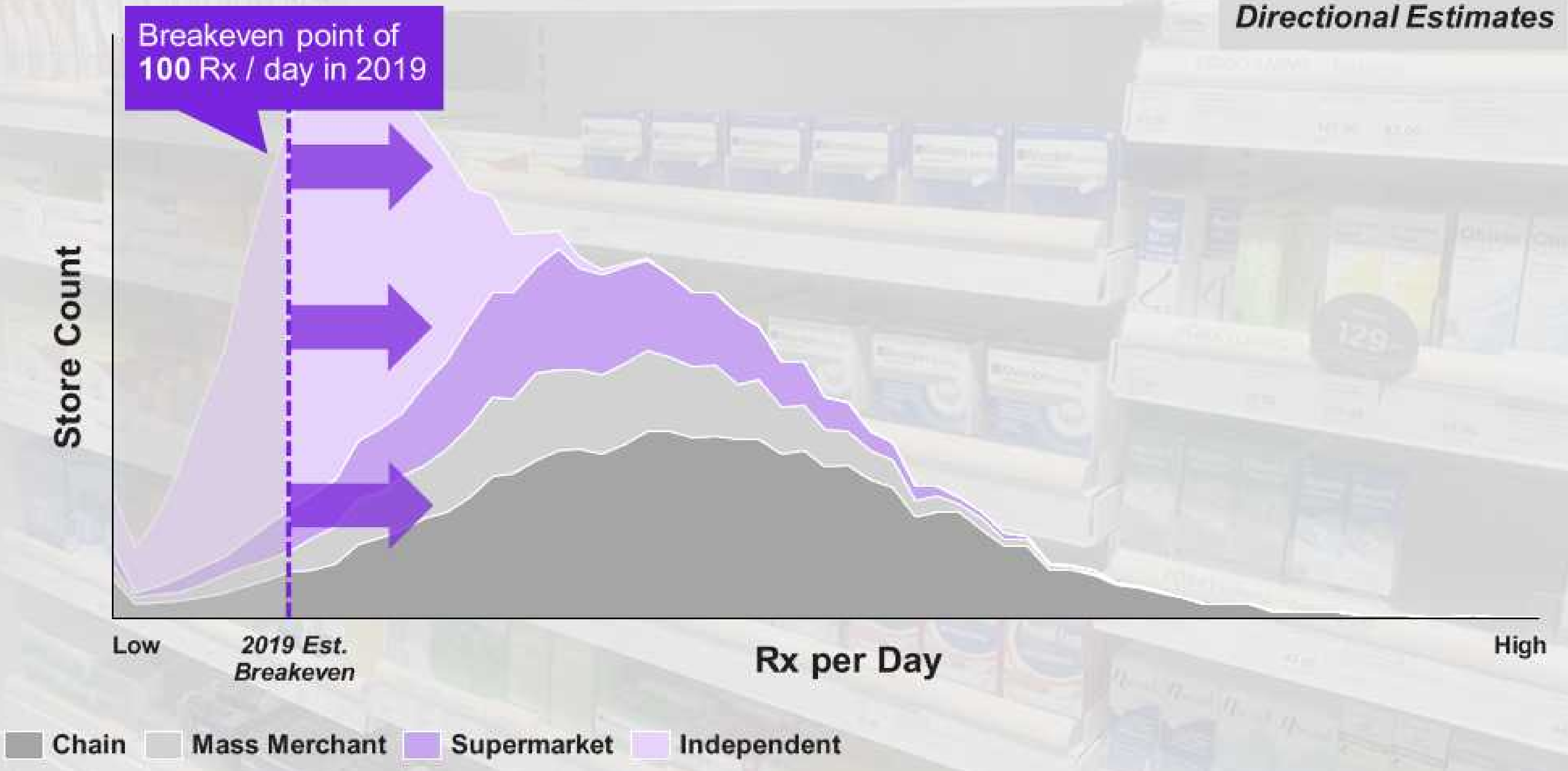
Continued Reimbursement Pressure
- Retail Rx gross margins have declined by **~ 2-3% CAGR over past 5 yrs**
- DIR fees have grown to **$2 – $7 per Rx claim** for retail pharmacy with outcomes-focus expected to continue

Source: Digital Commerce 360, CVS Health, IQVIA, Statista, NCPA Digest 2019, Drug Channels Institute, Competitor Research, Kearney analysis, Chain Drug Review

Profit pressures will challenge lower volume pharmacies … but there are new opportunities for those that remain

Many lower volume stores could fall below the Rx breakeven point and may be faced with a choice to adapt or exit

Daily Rx volume for pharmacy stores 2019 Estimates



Source: IQVIA, Statista, NCPA Digest 2019, Drug Channels, Competitor Research, Kearney analysis

Three key priorities

Improve In-Store Experience

Expand Omnichannel Offerings

Streamline Operations

Customers can be of two different mindsets during the in-store shopping experience

Transactional Experience 1

Consumer

- Want to get **in and out quickly**, grabbing what they always buy and know they need
- Front-end items are **easy to find and in-stock and can be picked up with Rx**
- Checking off a list with **minimal "thinking"**

Retailer

- Consumer **reaction to friction is higher risk**
- Consumers **don't have the previous patience** to wait
- There's a **price to pay for bad execution and limited availability**

Emotional Experience 2

Consumer

- Coming into the store with **heightened anxiety and stress**, often unrelated to shopping
- Seeking a sense of **well-being and affirmation** as a "whole" person
- Seeking **strong relationship with pharmacist**

Retailer

- Consumers want to **ease distress** through a personal, pleasant shopping experience but may have **short fuses**
- Providing **clinical services and personalized offers** to increase touchpoints and engagement with consumer
- Engage consumers and **meet them where they are**

Improve In-Store Experience

Depending on the type of shopping experience they want, customers will seek new features

Future In-Store Experience – Sample Elements

Not Exhaustive

Transactional Experience

Emotional Experience

Advanced Digital Ordering
Ease of reordering was top customer priority for those who use DTC channels

Self-Serve
Integrated Rx and Front Store purchases and 'touchless experience'

Expanded Care Offerings
~73% of respondents are comfortable with using a service at pharmacy (e.g., nutrition, travel consults, screening tests or chronic condition mgmt programs)

Clinical Environment
Partnerships with care providers, such as primary care clinics, can enhance the in-store experience and increase foot traffic

Personalization
Targeted OTC, retail, and service offerings based on patient history

Improve In-Store Experience

Omnichannel capabilities are essential for a cohesive and flexible experience

Pharmacies must invest in building new capabilities...

- **Virtual care platforms** that integrate Rx care with other healthcare providers
- **Digital capabilities** to communicate, **monitor health and meds,** and **socially engage with a community**
- **Home delivery** and expanded **buy-online-pickup-in-store** capabilities
- **Integrated Front Store and Rx ordering**

…to create experiences that meet customer demands

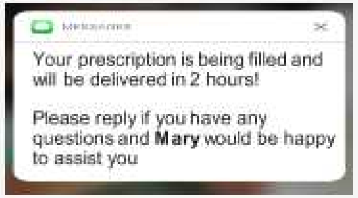
Price Transparency: Up-front transparency of Rx pricing, payment options, and alternatives

Initial prescribing → Upfront pricing & substitution options → eRx sent to pharmacy →

Cross-Channel Access: Flexibility for customer to interact with pharmacy through preferred channel

Pharmacy receives Rx → Text confirmation with patient → Online payment through app

Pickup Alternatives: Ability to choose preferred method to receive order



Order Lifecycle Visibility: Track prescription in process

Delivery ← Rx Tracking ← Fulfillment ←

Expand Omnichannel Offerings

New operating models will require significant investment and will defend profitability

Streamline Operations

New Operating Models

- Partnerships
- Workload Distribution
- Virtual Pharmacy
- Central Fill

Enhanced Data & Technology

- Inventory Management
- Rx Automation
- Robotic Process Automation
- Autonomous Delivery
- Predictive Analytics

Pricing & Reimbursement

- Discount Cards
- Savings Clubs
- Specialty Patient Support Programs

Source: Kearney

Thank you

Laura Bowen
Principal

Laura.Bowen@kearney.com
linkedin.com/in/lbowen1

Emily Rowe
Manager

Emily.Rowe@kearney.com
linkedin.com/in/emily-a-rowe

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