

# Large PBMs Transform Old Business Models

**Urged on by employers, the Big 3 are going beyond traditional pharmacy benefit management, stressing consumer interactions and disease outcomes and threatening the existence of captive PBMs**

By Thomas Reinke

**W**hile the 14–15 percent annual increases in drug expenditures of the early 2000s have settled down to around 5 percent, there are unsettling forces at work within the PBM industry: Three giant pharmacy business managers have disrupted the basic PBM business model, there is increased pressure from employers for benefit managers to perform and to deliver more services, and there is a growing chance that most health insurers will get rid of their in-house PBMs.

Disease management companies might also find they are subject to competition from PBMs with overlapping services.

Some good is coming out of the commotion: Services to consumers have expanded, and attention has switched from dispensing prescriptions to improving medication outcomes.

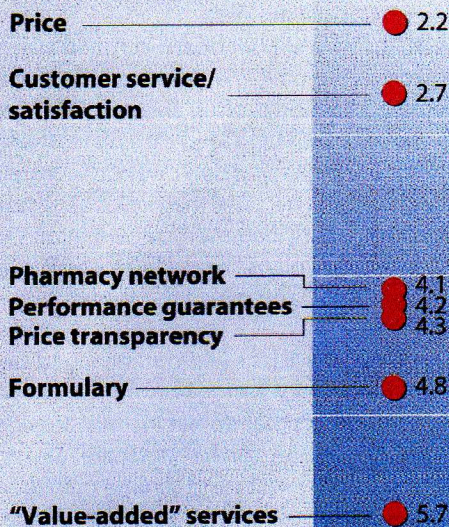
## Differentiating the PBM Market

The Big 3 — CVS/Caremark, Express Scripts, and Medco Health Solutions — aren't just sitting back and enjoying their dominance. They are throwing their weight (almost half of all prescriptions) around by pursuing business strategies that differentiate them from each and from the rest of their industry.

"Clearly, different models are emerging," says Steve Miller, MD, who is Express Scripts' chief medical officer. "The path we are taking is based on our behavior-centric approach," he says. Express Scripts is developing a niche by becoming expert in consumer behavior related to medications. The goal is to find ways to change behavior that promote optimal use of medications from the point of view of quality and cost.

## What HR looks for in a PBM

(1=Most important)



SOURCE: J.P. Morgan Securities Inc., May 2009

One approach the company uses is segmenting consumers into categories and using different methods to change each group's behavior. It has touted a program involving Lowe's, the home improvement store, where mail service was made standard with an opt-out option. Most mail programs are opt-in, so this approach reversed consumer choice, but Express Scripts says it has been well received, has cut costs, and has improved compliance.

"Benefit designs that eliminate copays increase compliance by 1 to 5 percent, but a company takes

