

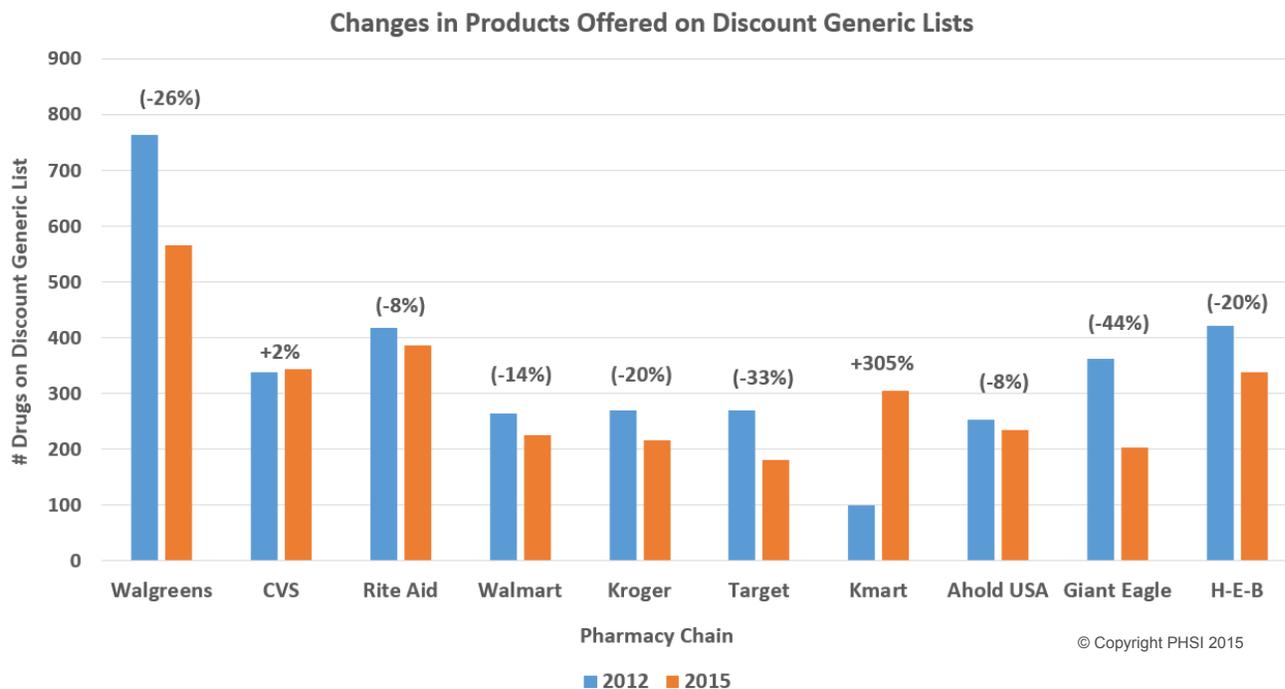
The Changing Landscape of Discount Generic Programs

Kmart launched the first discount generic drug program in 2006, with Walmart introducing their \$4 generic list only months later¹. Discount generic lists are now commonplace, and are almost required to compete in the retail pharmacy business. National and regional chains, as well as some independent pharmacies, have implemented discount generic lists to attract and retain customers.

Pharmacies have seen the costs of many generic drugs increase due to supply issues and aggressive pricing strategies by generic manufacturers. These increasing costs make the generic drug programs less profitable for pharmacies. While these programs were traditionally thought of as loss leaders, the increasing generic costs make the inclusion of many products on discount generics lists unsustainable.

For example, in July of 2012, prior to peak of the doxycycline drug shortage, doxycycline hyclate 100mg capsules were available on almost every chain's discount generic list, including Walgreens, Rite Aid, and Walmart. Doxycycline was even available at certain supermarket pharmacies free of charge with a valid prescription. Now, two and half years later, it is difficult to find doxycycline listed on any discount lists, and when it is listed, it is no longer free or \$4. Rite Aid's discount generic list includes doxycycline hyclate 100mg, 20 capsules for \$29.99.

While just one example, the theme remains common in the last year. Evaluating the discount generic lists of ten major pharmacy chains, PHSI found that 80% have decreased the number of products on their discount generic lists. The chart below illustrates the change in the number of products offered on discount generic lists from 2012 until today.



PHSI has been monitoring retail discount generic lists since their inception nearly nine years ago, including specific product additions and deletions. If you would like to receive a free listing of products available on all monitored chains' discount generic lists or information on fees for a full report or subscription service, please contact Fred Hamlin at fhamlin@phsirx.com.

1. "\$4 and Free Drug Promotions by Large Chains Affected by State Laws." *National Conference of State Legislatures*, Sept. 2009. Web. Accessed 05 Jan. 2015.

PHSI Client Services

Manufacturers

Marketing Strategy
Market Research
Drug Database Compendia Research
Brand/Generic Classification
Advisory Board Meetings
Payer and Pharmacy Surveys
Product Formulary Coverage
Pull-Through Programs
Trade Insights
Training Programs

Payers

Operational Performance Optimization
MAC List Development & Maintenance
MAC Rate Establishment/Review
Claims Processing System Conversion
Acquisition Due Diligence of PBMs/PBAs
Benefit Component Review: In-source or Out-source
Network Contracting

Pharmacy

Dispensing System Implementation
Wholesaler RFP Support
Generic Product Warehousing
RX Price File Setup/Support



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New Specialty Deals and Biosimilar Implications

Gilead's recent agreement with CVS Health concerning rebate contracting with *Solaldi* and *Harvoni* as preferred products and Abbvie's deal with Express Scripts Inc. (ESI) regarding *Viekira Pak* as a preferred product may have come as a surprise to many. For those not familiar, Gilead has stated that *Solvaldi* and *Harvoni* will receive exclusive placement as hepatitis C (HCV) therapies on CVS's preferred formulary. Abbvie's *Viekira Pak* will be the preferred HCV therapy for ESI. Interestingly, just days after these two deals were announced, Prime Therapeutics negotiated deep discounts with both Abbvie and Gilead, and both of these therapies will be preferred on the Prime formulary. Meanwhile, Gilead's *Harvoni* will be the preferred product for Anthem, while Abbvie's *Viekira Pak* will be preferred on Humana and Harvard Pilgrim plans.

While specialty drugs have historically not been managed as aggressively by payers as small molecule drugs, an increase in the number of specialty products has created a more competitive landscape. The introduction of biosimilars will soon create even fiercer competition in the specialty space. Whereas many PBMs and health plans placed new products on a non-preferred tier initially after launch, more insurers are now excluding coverage for newly launched products. Managed care has traditionally taken up to six months for a clinical review and formulary placement. Abbvie likely began discussions with ESI months before the launch of *Viekira Pak*, in order to secure its preferred formulary position. Since the initial ESI and CVS Health agreements, the competition has grown fierce, with both Gilead and Abbvie contracting with smaller health plans and PBMs. These HCV deals will likely set the stage for future pre-launch negotiations between manufacturers and managed care.

When many specialty drugs first launched, they were the first in their therapeutic class, or at the very least, had a unique mechanism of action. As more specialty products are entering the market, these categories are becoming crowded, leading to more competition for formulary placement, which is especially apparent in the rheumatoid arthritis space. As biosimilars begin to enter the market, competition will increase, as will negotiations taking place between specialty/ biosimilar manufacturers and managed care. This development will lead to an increase in rebate contracts and preferred product deals. As the Abbvie and Gilead arrangements indicate, as few as two or three products in a class will create competition in the specialty space.

Managed care will benefit from deeper rebates in exchange for preferred formulary status. At over \$80,000 for a 12-week course of *Sovaldi* therapy, even smaller health plans and PBMs can benefit from working with manufacturers to improve rebate yields. Manufacturers can benefit by locking in a percentage of the market share with a managed care deal, and while patient choice is reduced initially, in the long run, these agreements help keep the rising specialty costs at bay. With all stakeholders having something to gain from these discussions, expect to see these deals become more commonplace, especially with the introduction of biosimilars.

PHSI to Attend PBMI Conference

PHSI consultant Melissa Sherer Krause, Pharm.D will be presenting at the 2015 PBMI Annual Drug Benefit Conference in San Antonio, Texas on March 2-4, 2015. If you would like to schedule a meeting with Melissa during the conference, please email PHSI at bmattiko@phsirx.com.

PHSI Single Source Generic File Update Service

PHSI has had several client inquiries regarding our Single Source Generic File update service as a result of a mention in our last interim newsletter. PHSI maintains and updates a list of generic products only available from one labeler. To learn more about how this could benefit you, please contact Don Dietz at ddietz@phsirx.com.