

An Iffy Prognosis for Online Pharmacies

Greying baby boomers guarantee that the industry will take off. Trouble is, legal issues and questionable sites make it tough to pick winners

Vibrant Internet marketplaces are developing for a myriad of products and services, ranging from DVD rentals to groceries, flowers, and personal computers. Prescription drugs, too, will likely become one of the biggest sellers on the Web. Jupiter Research figures that online prescription-drug sales will grow from \$3.2 billion in 2003 to \$13.8 billion in 2007. It predicts that the online share of the overall drug market will rise from 2% now to about 4% in 2007.

Purchasing drugs online isn't a perfect digital experience by any means, but it is a dynamic one. Anyone with an e-mail address has been pelted with enough pharmaceutical spam -- laced with misspellings and exaggerated claims -- to view such purchases as a Wild West gamble. In addition to these rogue "pharmacies," there are upwards of 100 sites that sell medications from foreign pharmacies. But there are also plenty of safe places to buy online -- including the sites of established pharmacy-benefit managers (PBMs) such as Medco Health Solutions (MHS) and Express Scripts (ESRX). Online pharmacies such as Drugstore.com (DSCM), plus the Web sites of retail pharmacy chains such as Walgreen (WAG) and CVS (CVS), are also working out their online strategies.

Despite the chaos the spammers currently create, the economic advantages of selling prescription meds online will keep driving sales toward the Web. "The Internet is the most efficient channel for processing transactions," says Tom Feitel, senior vice-president of e-commerce at Medco, who adds that the difference in margins between online and offline transactions is "significant."

CREAKING BOOMERS. Feitel's company has a "real mandate to encourage migration to the Web," he says. The motivation is especially high for PBMs, which specialize in bulk orders of chronic-use drugs (such as cholesterol treatments and oral contraceptives) that have razor-thin margins.

That's underscored by the rise of the PBMs' online business -- the fastest-growing component of drug sales online. Medco, with \$33 billion in annual revenue, provides pharmacy benefits to 60 million people, or one-quarter of the U.S. population. It says the number of individuals who use its Web site has risen 29% in just one year, to 3.8 million.

And that's just the beginning. Aging baby boomers' increasing need for medications, combined with their Web savvy, will be "real positives for online pharmacies," Feitel says. Especially since the country's population of seniors, the biggest users of pharmaceuticals, will rise from 26 million to 56 million over the next five years. Adds Feitel: "We're pretty confident about continued growth."

INSTANT GRATIFICATION. Both Medco and Express Scripts point to the increased complexity of health plans as another reason their online businesses should thrive. The two provide personalized drug-pricing information to members, based on their individual insurance plans. This makes it easy for customers to weigh the cost of generics against name-brand drugs.

Express Scripts' site is also adding a function that will let customers with multiple insurance plans compare coverage levels. Moreover, Guy Jacobs, director of Web offerings for Express Scripts, says that online refills already account for 17% to 20% of the PBMs' mail-order business.

Online sales may come harder for the likes of CVS and Walgreen, which are big players in acute-use drugs (cough remedies, antibiotics, and so on) that don't lend themselves to Web sales as easily, if only because customers usually can't wait to start taking them. So far, these retailers mainly use their sites to dispense information and market themselves, says Jim Crawford, vice president of e-commerce at consultancy Retail Forward. Many allow customers to refill existing prescriptions online -- but require that they be picked up at the store. "The retailers want consumers to come in so they'll buy other, higher-margin items," Crawford says.

NORTHERN EXPOSURE. Some of the most pronounced growth in the near future will come from pharmacies that buy and resell drugs from Canada and other countries, where prices are significantly lower than in the U.S. Sales through sites using Canadian pharmacies will double from \$700 million last year to \$1.4 billion this year, figures Jupiter.

In fact, a cottage industry based on Canadian pharmacies is thriving. For instance, Discountrixmart in Queens, N.Y., which does storefront, phone, and Web sales, has signed up 2,000 customers since starting up last April. John Robinson, vice-president and co-founder, says that a licensed Canadian pharmacist at a Winnipeg, Manitoba, pharmacy called Canamerica checks and fills his customers' faxed-in prescriptions. He's quick to add that his outfit sells only sealed products from manufacturers and doesn't deal with any controlled drugs, which are the mainstay of rogue operators.

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