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CVS Caremark Drug-Benefit Pitches Missed The Mark For Some

By **Dinah Wisenberg Brin**
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CVS Caremark Corp.'s (CVS) effort to sell potential **clients** on the advantages of using a pharmacy benefits manager linked to a retail drug-store chain apparently missed the mark in several cases this year.

This may help explain why rival Medco Health Solutions Inc. (MHS) has collected far more new business for 2010 as of midyear - $2.8 billion gross compared with $1.1 billion for CVS - and why **CVS Caremark**'s chief executive last month acknowledged disappointments in the competition for contracts.

A number of companies choosing among finalists this year for their upcoming pharmacy-benefit contracts felt **CVS Caremark** representatives at the bid presentations talked too much about the CVS drug-store chain and not enough about the Caremark PBM offering, according to two benefits consultants, who said they relayed the criticism to **CVS Caremark**. One consultant said **CVS Caremark** later revised its presentation.

John Malley, national practice leader, pharmacy benefits consulting, at Watson Wyatt Worldwide Inc. (WW), estimated CVS won only 10% of his roughly 30 **clients** with new PBM business up for bid, even though CVS typically offered the best pricing. He noted that Medco won the bulk of the accounts.

He said that CVS asked him a few months ago why it wasn't winning more business from his **clients**. The gist of the client feedback was, "You didn't utilize your time properly...to talk about anything you do as a PBM. We are not hiring a retail pharmacy to manage our drug benefits, we're looking for a pharmacy benefits manager," Malley said.

This isn't to say Caremark isn't a strong PBM, he said. "There's a disconnect between what they offer, what they're capable of, and what they're communicating to the marketplace," Malley said. He noted that "I have some very, very large **clients** that have **CVS Caremark**, always have had **CVS Caremark**, and they love them." Watson Wyatt has no financial relationships with the PBMs, is paid on a fee basis by **clients** and has no stake in bid outcomes, he said.

CVS Caremark plans to update investors on its 2010 selling season during its next earnings conference call and has no comment beyond remarks on the second-quarter call last month, said spokeswoman Carolyn Castel on Thursday.

CVS Caremark, Medco and Express Scripts Inc. (ESRX) are the three largest PBMs. PBMs handle prescription-drug benefits for employers and other groups, selling their ability to reduce health-care costs through discounts and programs to help patients adhere to treatments. They also operate large mail-order pharmacies.

David Dross, national managed pharmacy practice leader at Marsh & McLennan Cos. (MMC) consulting business Mercer, said that this year "Medco and Express Scripts, among others, had very good years from the standpoint of picking up new business. **CVS Caremark** won some new business, but from a relative increase in new **clients** perspective, they did not do as well as Medco or Express Scripts."

Dross said it's difficult to pin down one reason for **clients**' contract decisions. He did share client feedback with **CVS Caremark** about the presentations' emphasis on retail stores and said the company has revised its message.

Benefits consultants say employers now are looking beyond deal price and weighing PBMs' programs and performance guarantees to help lasso medical costs, in large part by keeping patients with chronic conditions on track with their treatments.

A perception by some employers that **CVS Caremark** overemphasized its retail pharmacies could be a problem, considering the company's promise that the 2007 landmark merger of the CVS pharmacy chain and the Caremark Rx PBM would provide industry-changing advantages for customers and shareholders. Some industry watchers say the jury is out, even though the deal gave CVS enormous buying and pricing power, the retail business is doing very well and CVS recently raised guidance.

Analysts point out, though, that **CVS Caremark**'s PBM contract losses for 2010 have been outstripping new-business wins, and Chief Executive Thomas Ryan, noting successes and disappointments during the company's earnings conference call last month, said that "the remaining opportunities are probably not sizable enough to offset the losses." CVS is retaining about 96% of its renewing **clients** for 2010, while Medco is keeping more than 98%.

Jefferies & Co. analyst Scott Mushkin, who considers CVS one of the world's best retailers, said he doesn't understand why the PBM is having trouble winning accounts without offering pricing discounts. "I search...for a smoking gun and I don't have one," he said.

CVS this year lost its $1 billion Coventry Health Care Inc. (CVH) account to Medco, and recently New Jersey awarded a state employee and retiree contract to Medco, which also won the Chrysler-UAW union retiree account that Caremark had served.

Medco Chief Financial Officer Richard Rubino said Thursday, "We're winning significantly and we're retaining the material amount of our accounts...From a pricing perspective all the players out there in our space are rational, so I don't see pricing as a differentiator."

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Dow Jones Business News

CVS Caremark: FTC Investigating Company's Business Practices

By **Dinah Wisenberg Brin**
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The Federal Trade Commission notified **CVS Caremark** Corp. (CVS) in August that it is conducting a nonpublic investigation into some of the company's business practices, the pharmacy concern disclosed Thursday.

CVS Caremark has come under criticism from various groups and lawmakers who have asked the FTC to review the nearly $27 billion merger of a major drug-store chain and large pharmacy benefits manager that formed the company in March 2007.

"The company is cooperating in the FTC's investigation and is voluntarily producing documents and other information on a rolling basis as requested by the FTC," **CVS Caremark** said in a filing with the Securities and Exchange Commission.

The company "remains confident that its business practices and service offerings, which are designed to reduce health-care costs and expand consumer choice, are being conducted in compliance with the antitrust laws," the filing said.

CVS Caremark didn't elaborate on which practices are under review and had no comment beyond the filing.

An FTC spokesman said he could only confirm what CVS disclosed.

In June, the FTC said it was referring to its Bureau of Competition a national independent pharmacists group's concerns that **CVS Caremark**'s pharmacy-benefits-management operation, or PBM, had improperly shared patient information with the company's retail side to steer customers to CVS stores, to the detriment of competitors and customers.

The National Community Pharmacists Association called on the FTC to reopen the **CVS Caremark** merger, claiming the company engaged in anticompetitive behavior. State legislators and members of Congress this year also asked the FTC for a review.

In May, the National Legislative Association on Prescription Drug Prices, a nonprofit directed by state legislators, encouraged the FTC to open an investigation into CVS's acquisition of Caremark Rx "and the activities and conduct of the firm since the merger." The legislative group said **CVS Caremark**'s conduct threatens to harm consumers by increasing prices and decreasing service and convenience.

While community pharmacists and lawmakers voice concerns that **CVS Caremark** has improperly wielded its power as a combined drug retailer and PBM, the company has had trouble keeping and winning PBM **clients**, a situation made clear Thursday as Chief Executive Tom Ryan said the company had some "big client losses" for 2010.

The client news sent CVS shares down nearly 21%, or $7.50, to $28.65, and left some Wall Street analysts questioning the company's retail-PBM business model.

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(Kelly Nolan contributed to this report.) [11-05-09 1544ET]

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THE WALL STREET JOURNAL.

CVS Caremark: Fixing Drug-Benefit Arm --- CEO Acknowledges Marketing, Service Issues, Defends Pairing Store Chain With Management Business

By **Dinah Wisenberg Brin**
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CVS Caremark Corp.'s pharmacy benefit management business isn't broken, and the company is correcting problems that recently caused it to lose existing and potential accounts, Chief Executive Thomas Ryan said Tuesday.

"This is not a structural issue, these are issues that can be fixed," Mr. Ryan said at a Lazard Capital Markets investor conference. **CVS Caremark**'s PBM operation both lost and won billions of dollars in business over the past two years, Mr. Ryan said, acknowledging marketing and "isolated" service problems while defending the company structure that pairs a major drugstore chain with a PBM.

Some analysts renewed questions about the plausibility of the **CVS Caremark** business model -- forged in a 2007 merger -- after the company this month outlined a net $4.8 billion in client losses for 2010 contracts. That news sent the stock down 20%, and the company conceded that problems with its marketing message had contributed to its sales problem.

"This notion that the model doesn't work is baloney, that's not the issue," Mr. Ryan said, adding that the retail side of the business is doing well. There is "a lot going well in the total enterprise."

The PBM, he said, offers strong clinical programs to help **clients** control health costs -- something that salespeople now will emphasize in meetings with potential **clients**. CVS executives acknowledge that their marketing message this year missed the mark with some potential **clients** by focusing too heavily on CVS stores and not enough on the pharmacy-benefit offerings. The company, aiming to fix the problem, last week dispatched several senior executives to meet with the consultants who guide employers in choosing a drug-benefit vendor and preview their updated client presentation.

One of those consultants, David Dross, national managed pharmacy practice leader at Marsh &McLennan Cos. consulting business Mercer, said Tuesday that while the new Caremark presentation was "a step in the right direction," it wasn't there yet, as the message wasn't crisp enough. Mercer consultants offered that feedback and told Caremark executives that the business also needs to address some service issues to both retain and attract new **clients**, he said.

Caremark executives, Mr. Dross said, "need to focus on doing the basic blocking and tackling around client management as well as crystallize a more succinct marketing message," so that they can sell prospective customers on top-level service and access to an innovative model that fuses retail and PBM operations.

In this year's sales cycle for 2010, the consultant said, "their pricing and so forth was competitive, but they weren't as persuasive as other firms in really outlining the specific value [proposition] of the **CVS Caremark**" operation.

As far as account management is concerned, Caremark staff seemed to be stretched too thin, he said. That's a message that the company seems to have heard and says it is fixing.

Mr. Ryan, at the investor conference, said that while Caremark doesn't have an overall service problem, given a 97% favorable rating from **clients**, there have been isolated instances where perhaps account management staff was too stretched.

While the 2010 selling season has fallen short, Mr. Ryan said there's about $1.5 billion in business remaining that's up for renewal. "We're fighting the fight," he said. "We feel directionally pretty good about the rest of the season."

A good portion of the business that left Caremark for 2010 related to a few large accounts, including Medicare prescription-drug **clients**, Mr. Ryan said, explaining that not all is wrong in a business with more than 3,000 customers.

Pricing is not the major issue, he said, and "there's not going to be any nuclear blast on pricing here." Mr. Ryan again dismissed the claims from critics that CVS acquired Caremark to drive more business into its stores. CVS thought the cost synergies would be enormous and the combination would make it easier for people using the Caremark PBM, he said.

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