

# Chain Drug Review

Reporter for the Chain Drug Store Industry

## Longs Takes Steps to Improve Profitability of Its Pharmacies

WALNUT CREEK, Calif.—Longs Drug Stores has been on the cutting edge of pharmacy initiatives this year with the rollout of in-store clinics and a prescription pickup kiosk.

The moves are part of the chain's efforts to boost its pharmacies' bottom line.

"We continue to make progress on improving our pharmacy profitability through better buying, generic utilization and work flow efficiencies," chairman, president and chief executive officer Warren Bry-

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ant said during a conference call in which he disclosed financial results.

He also noted that the company was building the infrastructure and expanding the capabilities of RxAmerica, Longs' pharmacy benefits management subsidiary.

"Today Longs is a much stronger competitor and a more profitable company," Bryant noted. "Our core categories focused on health, wellness and beauty are strong."

Same-store pharmacy sales in the first quarter ended April 29 rose 2.5%, and Longs' script count was up, in part because of a late onset of the cough, cold and flu season. The season, which typically runs from November 1 through April 1, had been less severe than usual in the Pacific region in 2004/05.

Bryant noted: "We thought the flu season had ended, and then we saw it pick up in April"—typically the start of the allergy season. He forecast the chain's script count and same-store pharmacy sales to be softer in the second quarter, with the degree of weakness depending on the mildness

of the allergy season.

Also, generic utilization again accelerated during the first quarter, a trend Longs expected to continue. Bryant estimated that generic utilization hurt same-store pharmacy sales 300 to 350 basis points in the first quarter.

Longs this summer introduced the prescription pickup kiosk, Asteres Inc.'s ScriptCenter, in its store on South California Boulevard in Walnut Creek, Calif. (It had tested the device in San Diego, where it now has three in operation.) The 1,300-pound machine can hold up to 500 prescriptions.

Longs executives believe the kiosks will give pharmacists more time to counsel patients, but still considers their use to be experimental. Kiosks are for refills only.

The chain has an obligation to ensure the technology is secure and reliable, says a company spokeswoman.

The kiosk is being tested despite a lawsuit from independent pharmacists against the California Board of Pharmacy, accusing it of insufficiently assessing the technology before waiving rules requiring a pharmacist be present while drugs are dispensed.

The board's executive director, Patricia Harris, expresses confidence in the regulations that the board has set for kiosks. These include limiting their use to refills and requiring them to be in close proximity to a pharmacy. Researchers at the University of California at San Diego are planning to study the apparatus' impact on consumers and pharmacies, Harris notes.

Longs executives stress that kiosks will not lead to cuts in the chain's number of pharmacists or technicians. The company views the kiosks as a way to provide greater convenience, says the spokeswoman.

Kiosk manufacturers empha-

size that the devices do not fill prescriptions, but hold them for pickup after they have been filled by pharmacists.

Kiosk users must be registered. After logging on with a password and user name, a patient pays with a credit or debit card and receives his or her prescription from the machine.

In April Longs helped pioneer in-store clinics in the chain drug industry with the debut of a health center in a store in Davis, Calif. Two other WellnessExpress Clinics opened later in Sonoma and Salinas, Calif. Walk-in clinics had been operated in Target Corp. and Kroger Co. units, but these were among the first at a drug chain.

"The clinics emphasize our focus on health and wellness as well as our desire to make convenient services available to our customers," said Bryant. "More importantly, this is a great example of how the size of our stores represents a competitive advantage and a point of differentiation."

The clinics complement the extensive wellness services of Longs' remodeled stores, including computer stations for patients and a testing area operated by Quest Diagnostics. Units that have sufficient room also feature a classroom for educational programs. In addition, the chain offers osteoporosis, stroke, thyroid and cholesterol screenings and issues health newsletters.

As of this month Longs had Quest testing centers in eight stores and classrooms in seven. At the end of the second quarter 96 outlets, or 20% of the chain's store base, were new or remodeled. Renovated stores have continued to outperform the overall chain, according to Bryant.

"We're excited about the future prospects of making more productive use of the square footage we have available throughout the

chain," said Bryant. "We will continue to enhance and expand our core category assortments in health, wellness, beauty and convenience."

He added that a number of marketing programs in the pipeline should generate second-half sales growth.

In late April Longs announced that it would voluntarily place certain over-the-counter medications containing pseudoephedrine, the key ingredient in the illegal drug methamphetamine, behind the pharmacy counter chainwide. Longs made the decision after discussions with Sen. Dianne Feinstein (D., Calif.) about the growing methamphetamine problem.

"Hearing Senator Feinstein describe the dramatic scope of this problem in California and nationally convinced me that Longs should not wait for a federal law directing us to move these products behind the counter," said Bryant. The chain had the ability to tackle the issue right away and perhaps prevent further abuse, he added.

About 160 items would be moved behind the pharmacy counter, Bryant noted.

"This number should shrink as pharmaceutical companies reformulate their cold medications," he said.

On the management front, Bruce Schwallie, who had been Longs' executive vice president and chief merchandising officer, this year was named executive vice president of business development and managed care. He now focuses on business development opportunities for managed care, mail-order prescriptions and RxAmerica.

Todd Vasos, who was senior vice president of marketing, was named chief merchandising officer, with responsibility for pharmacy marketing as well as front end merchandising and marketing.