



America's Independent Pharmacies: Profitable, Stable, and Resilient

Independent pharmacies generate billions in profit, and owners often own multiple outlets.

Independent pharmacies rank among America's most profitable small businesses. With more than 23,000 stores nationwide,¹ the independent pharmacy industry generates **\$80 billion in sales** and more than **\$17 billion in gross profits** annually.²

Over the past 15 years, the number of independent pharmacies has remained relatively stable, despite significant economic headwinds in the broader economy and in health care specifically.³ Many independent pharmacy owners operate multiple pharmacies: 29 percent of independent pharmacy owners have ownership in two or more pharmacies, and the average number of pharmacies in which each independent owner has ownership is 1.96.⁴

Decade-long trend points to stable, double-digit independent pharmacy margins.

According to the National Community Pharmacists Association (NCPA), the trade group representing independent pharmacies, **"For the last 10 years, gross margins as a percentage of sales have remained in the 22 to 24 percent range."**⁵

On par with independent pharmacies, drug manufacturers' average profit as a percentage of revenues was 23.4 percent in 2016.⁶ By comparison, pharmacy benefit managers (PBMs) had net profit margins of 2.3 percent in 2015.⁷

Do policymakers need to rescue the independent pharmacy?

NCPA has said that **"[i]ndependent community pharmacists have proven throughout the years that they are resilient and will modify and reinvent their practices to adapt to economic challenges."**⁸ We agree—state legislatures do not need to create an unlevel playing field in the market for independent pharmacists, especially as prescription drug costs are increasing.

PBMs, hospitals, insurers, providers, and other parts of the health care system have evolved in response to changes in patient care, developments of new technologies, the advent of generic drugs, and the rise of pay-for-performance and value-based purchasing. So too must pharmacies, especially independent pharmacies, adapt to a changing marketplace and meet the needs of the 21st century patient and payer.

¹ Quest Analytics analysis of NCPDP data, January 2018.

² NCPA 2017 Digest.

³ Adam J. Fein. *The 2018 Economic Report on U.S. Pharmacies and Pharmacy Benefit Managers*, Drug Channels Institute, 2018.

⁴ NCPA 2017 Digest.

⁵ *Id.*

⁶ Adam J. Fein, "Profits in the 2017 Fortune 500: Manufacturers vs. Wholesalers, PBMs, and Pharmacies," available at: <http://www.drugchannels.net/2017/06/profits-in-2017-fortune-500.html>.

⁷ Neeraj Sood et al. "The Flow of Money Through the Pharmaceutical Distribution System," available at: <https://healthpolicy.usc.edu/research/flow-of-money-through-the-pharmaceutical-distribution-system/>.

⁸ NCPA 2017 Digest.