

Healthcare Practice

# Meeting changing consumer needs: The US retail pharmacy of the future

In the face of industry headwinds, pharmacies can work to make the most of their distinct advantages to meet shifting consumer needs.

*This article is a collaborative effort by Alok Ladsariya, Alec McLeod, Garam Noh, Nikhil Sahni, and BJ Tevelow, representing views from McKinsey's Healthcare Practice.*



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**The US retail pharmacy landscape** faces saturated retail locations, ongoing labor shortages, inflationary pressure, and a leveling-off of generic drug penetration. To effectively compete in this environment, all types of retail pharmacies can strive to better understand and adapt to changing consumer preferences. McKinsey conducted a consumer survey of more than 1,000 people in the United States to gain insight into these preferences.<sup>1</sup> This article lays out how the retail pharmacy landscape has changed over the years, how consumer preferences have evolved, and how different types of retail pharmacies may respond as a result.

## How the US retail pharmacy landscape has evolved

Over the past two decades, the retail pharmacy landscape—defined as pharmacies that dispense prescription medication—has evolved substantially. We break down the sector into four types of retail pharmacies: retail chains, regional pharmacies such as mass retail and grocers, independent pharmacies, and mail-order and online pharmacies (Exhibit 1).

Retail chains are the largest and most prevalent of the four pharmacy types, representing a third of stores and about a third of prescription revenues in 2021. On a per-store basis, retail chains dispense approximately 138,000 prescriptions annually—about 50 percent more than grocers, the next largest prescription dispensers per retail location.<sup>2</sup> Industry consolidation and gains in efficiency through economies of scale help account for this difference. For example, from 2010 to 2021, CVS and Walgreens acquired a total of nearly 5,000

pharmacy locations, including CVS acquisitions of 1,700 Target pharmacies and Walgreens acquisitions of 1,900 Rite Aid pharmacies.<sup>3</sup> However, the consolidation wave may have already peaked; these organizations are now shifting their focus to improving operating margins. To that end, the companies have announced plans to reduce their footprint. For example, in 2019, Walgreens said it would close 200 US stores; in late 2021, CVS announced that it would “reduce store density in certain locations” and close 900 stores by 2024.<sup>4</sup> As part of this strategic shift, national chains have also begun to explore growth opportunities in adjacencies such as healthcare services, primary care, and vaccinations.

The evolution of national chains has, in turn, put pressure on other retail pharmacy types such as regional pharmacies. This group can be further segmented into two types: grocers (supermarkets that also have a pharmacy) and mass retail (large consumer goods retailers that also have a pharmacy). In 2021, regional pharmacies represented around 30 percent of stores and 15 percent of prescription revenue.<sup>5</sup> On a per-store basis, mass retail and grocers fill 91,000 prescriptions per pharmacy per year on average.

Grocers have experienced variable performance over the past few years. Larger grocers have grown through acquisition, and smaller ones have increasingly been acquired by national chains or larger grocers. For mass retail pharmacies, economies of scale based on brand name and size have enabled them to negotiate incentive-based networks and narrow networks with health plans, pharmacy benefit managers (PBMs), and independent employers, increasing traffic to their stores.<sup>6</sup>

<sup>1</sup> McKinsey surveyed 1,004 US adults from November 19 to December 12, 2021, to better understand consumer preferences and expectations of retail pharmacies; these preferences are expected to be relatively consistent in 2022 and 2023.

<sup>2</sup> Adam J. Fein, *The 2022 economic report on U.S. pharmacies and pharmacy benefit managers*, Drug Channels Institute, March 2022. Note: Mail order is not included in retail chain prescription revenue figures although some chains own mail-order facilities; these estimates account for the number of days of medication supply.

<sup>3</sup> *Ibid.*

<sup>4</sup> Michael Dabaie and Sharon Terlep, “CVS to close 900 stores over three years,” *Wall Street Journal*, November 18, 2021.

<sup>5</sup> Total prescription revenues include specialty revenues; *The 2022 economic report*, March 2022.

<sup>6</sup> Adam J. Fein, “Walmart’s booming preferred network models,” Drug Channels, August 25, 2011.

Exhibit 1

The US pharmacy landscape has evolved over the past decade.

Pharmacy type	Annual prescription revenues, <sup>1</sup> \$ billions	Annual total prescriptions (Rx), <sup>2</sup> billions	# of locations	Annual Rx per location <sup>2</sup>	Key historical evolution
<b>Retail chains</b>	163	2.9	21,000	~138,000	<p>From 2010 to 2020, there was an industry-wide focus on consolidation: eg, CVS acquisition of 1,700 Target retail pharmacies in 2015 and Walgreens acquisition of 1,900 Rite Aid pharmacies in 2018</p> <p>We now see the industry entering a phase of rationalization: eg, Walgreens plans to close 200 stores, which was announced in 2019; CVS plans to close 900 stores by 2024, which was announced in 2021</p>
<b>Regional pharmacies</b> (eg, mass retail, grocers)	75	1.5	16,500	~91,000	<p>Large grocers have grown through acquisition, while smaller grocers have been acquired by larger grocers or national chains</p> <p>Mass retail pharmacies have used brand name and size to attract pharmacy customers</p>
<b>Independent pharmacies</b>	60	0.9	19,500	~48,000	<p>The number of independent pharmacies has decreased by nearly 50 percent since 1980, leveling off at about 20,000 locations since 2000</p> <p>Independents that stayed open have remained competitive through collaboration with other independents and wholesalers (eg, admin support from wholesalers, PSAOs,<sup>3</sup> GPOs<sup>4</sup>)</p>
<b>Mail-order and online pharmacies</b>	187	0.6	500	N/A	<p>Mail-order pharmacies have historically been defined as PBM<sup>5</sup>-owned processing facilities that fill maintenance and specialty Rx medications</p> <p>In the past 15 years, many direct-to-consumer online pharmacies have been established, receiving more than \$3 billion in venture capital funding</p>

<sup>1</sup>Mail-order pharmacies' revenue is heavily concentrated in specialty Rx, with a smaller number locations, given that they are centrally dispensing.

<sup>2</sup>30-day equivalents.

<sup>3</sup>Pharmacy service administrative organizations, which negotiate with pharmacy benefit managers on behalf of independents.

<sup>4</sup>Group-purchasing organizations, which negotiate with wholesalers on behalf of independents.

<sup>5</sup>Pharmacy benefit managers.

Source: 2022 Drug Channels Institute Economic Report on US Pharmacies and Pharmacy Benefit Managers

In contrast to the growth in national chains, the number of independent pharmacies has decreased by nearly 50 percent since 1980, leveling off at about 20,000 locations since 2000.<sup>7</sup> Independent pharmacies fill about 48,000 prescriptions per pharmacy per year.<sup>8</sup> Those that remain have stayed viable through effective collaboration with other independents and wholesalers. This cooperation has taken the form of administrative, operational, and other business management support from wholesalers, pharmacy service administrative organizations, and group-purchasing organizations.

For the fourth type of retail pharmacy, mail-order and online pharmacies, overall penetration for nonspecialty drugs is low compared with penetration for specialty drugs. In 2021, these organizations accounted for less than 10 percent of total US prescriptions,<sup>9</sup> but they are gaining traction. Historically, mail-order pharmacies were defined as PBM-owned processing facilities that filled maintenance medications centrally. In the

past 15 years, a number of direct-to-consumer online pharmacies unaffiliated with PBMs have been established, with this segment receiving more than \$3 billion in funding to date.<sup>10</sup> In parallel, traditional players such as retail chains have also moved to more omnichannel—physical, online, and mail—options. For example, Walgreens has its own mail-order pharmacy, offers same-day delivery from 8,000 stores, and provides prescription fulfillment through its phone app.<sup>11</sup>

### **Shifting consumer preferences will shape the next era of growth**

In this evolving environment, retail pharmacies can work to ensure they understand and meet consumers' needs so they are a preferred destination. The McKinsey survey of more than 1,000 US consumers can help us understand current consumer needs and what may be changing. Four key insights emerged (Table 1).<sup>12</sup>

## **In this evolving environment, retail pharmacies can work to ensure they understand and meet consumers' needs so they are a preferred destination.**

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<sup>7</sup> *The 2022 economic report*, March 2022; "NCPA releases 2021 digest report," National Community Pharmacists Association (NCPA), October 11, 2021.

<sup>8</sup> *The 2022 economic report*, March 2022.

<sup>9</sup> However, because a substantial portion of the prescriptions are specialty, mail-order and online pharmacies represent 37 percent of overall prescription revenues.

<sup>10</sup> *The 2022 economic report*, March 2022.

<sup>11</sup> "Walgreens launches nationwide rollout of same-day delivery with Instacart," Walgreens, February 23, 2021.

<sup>12</sup> These insights are generalized, and we recognize they may differ when cut by different segments, such as geographic location, number of prescriptions, and insurance.

Table 1. Shifting consumer preferences will shape the next era of retail pharmacy growth.

Key insight into consumer preferences	Supporting survey findings
1 <b>Current pharmacies have high consumer satisfaction</b>	— <b>70–80%</b> of consumers are satisfied with their primary retail pharmacy; primary driver for switching pharmacies is insurance or residence change
2 <b>Retail chains remain most common primary pharmacy type</b>	— <b>47%</b> of respondents report retail chains as their primary pharmacy type, with most other respondents spread across supermarket (20%), mail order or online (13%), independent (11%), and hospital (6%)  — <b>53%</b> of respondents with 1 prescription (Rx) selected an in-person retail chain as their primary pharmacy vs 36% of respondents with more than 9 Rx, suggesting polypharmacy patients are exploring alternative pharmacy options
3 <b>Use of alternative channels is small, but awareness is growing</b>	— <b>45%</b> of respondents have never used a mail-order or online pharmacy, and only 13% consider it to be their primary pharmacy  — <b>44%</b> of consumers who use these services use them more often than they did ~3 years ago
4 <b>Consumers welcome the expanding role of retail pharmacies</b>	— <b>48%</b> of consumers purchase over-the-counter products from their preferred pharmacy, and many are also expanding into purchasing food and grocery (36%), beauty products (32%), and household items (30%)  — <b>More than 40%</b> of consumers express interest in common-illness treatment, whole-health fusion, and other health services such as primary care, dental care, lab work, and X-rays

Source: McKinsey Pharmacy Consumer Survey, Nov–Dec 2021

### 1. Current pharmacies have high consumer satisfaction

More than two-thirds of survey respondents report satisfaction with their primary retail pharmacy and would recommend it to a friend or colleague. Respondents selected insurance coverage and proximity to home as the top two criteria when selecting a retail pharmacy (Exhibit 2). At the same time, nearly a third of respondents have switched their preferred retail pharmacy in the past five years for one of two reasons: changing insurance coverage or a changing place of residence.

### 2. Retail chains remain most common primary pharmacy type

According to the survey, retail chains remain the most popular type of primary retail pharmacy, with 47 percent of respondents selecting it. However, the likelihood of respondents reporting a retail chain as

their primary pharmacy decreased as the number of monthly medications increased (Exhibit 3).

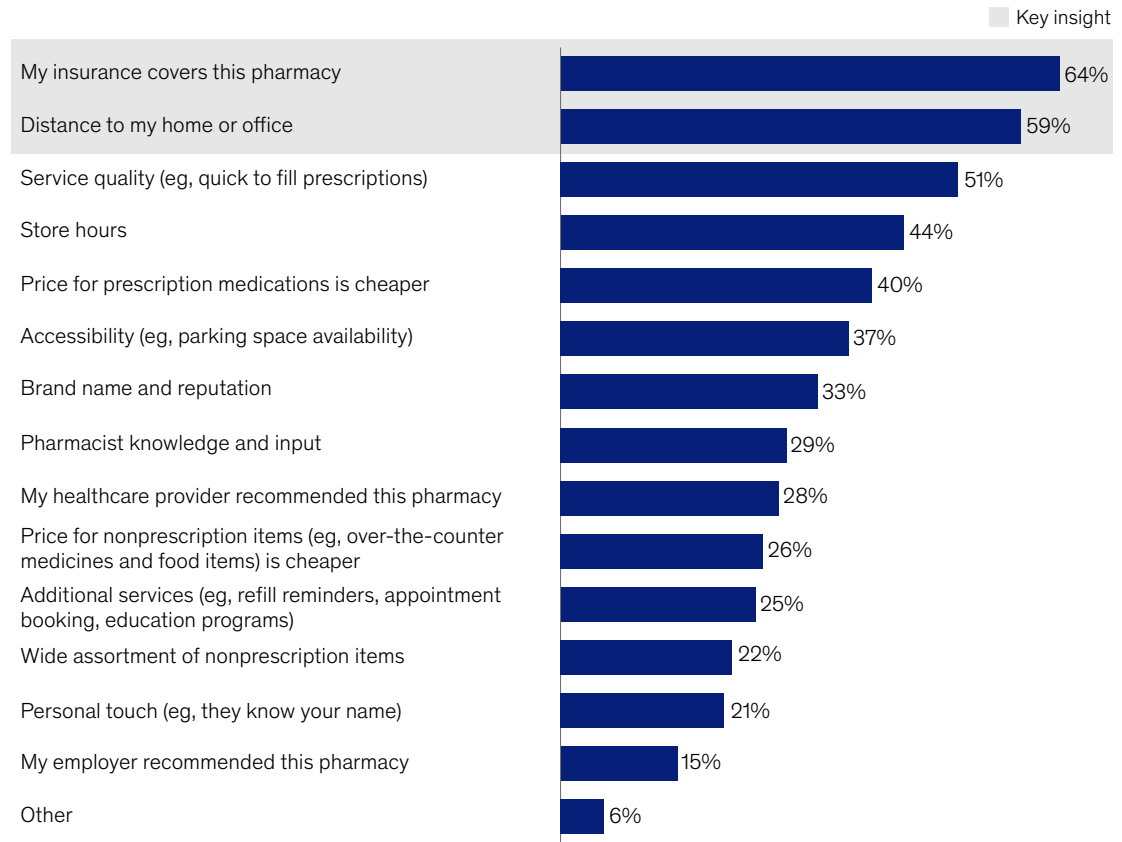
### 3. Use of alternative channels is small, but awareness is growing

Despite longstanding PBM mail-order, local-delivery, and (more recently) online options, these alternatives to visiting a brick-and-mortar pharmacy to pick up prescriptions still have relatively low market penetration. Forty-five percent of respondents have never used a mail-order or online pharmacy, and only 13 percent consider a mail-order or online pharmacy to be their primary pharmacy. However, the survey results suggest growing awareness and acceptance of these alternative channels. Forty-four percent of consumers who use a mail-order or home delivery service reported choosing these services over other delivery options more often than they did two or three years ago. Among respondents who are

Exhibit 2

**Insurance coverage and travel time stood out as the top two primary decision factors for pharmacy selection.**

**What were the main factors in how you selected your primary pharmacy? Please rank the top 5 reasons<sup>1</sup>**



<sup>1</sup>Percentage of respondents (n = 1,004). Source: McKinsey Pharmacy Consumer Survey, Nov–Dec 2021

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not currently using these services but are willing to consider switching, convenience and price are reported as the top motivating factors.

**4. Consumers welcome the expanding role of retail pharmacies**

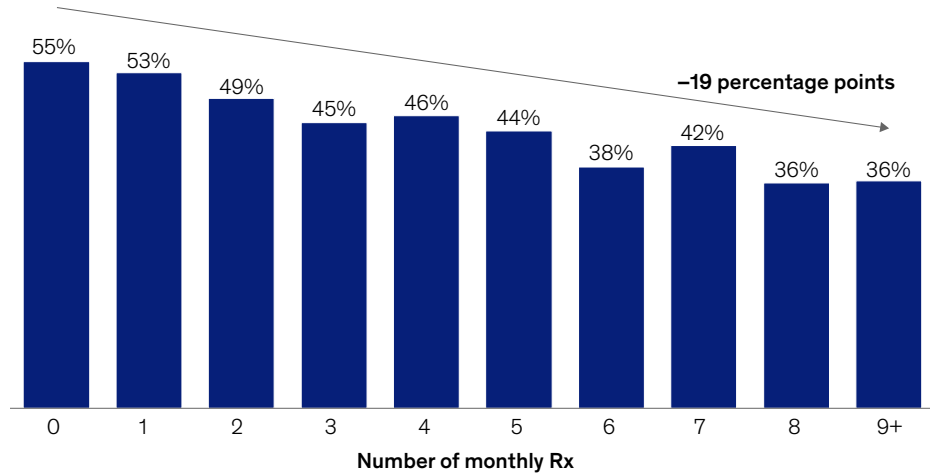
Consumers of all backgrounds appear to welcome all types of retail pharmacies taking on a broader role that encompasses more than prescription dispensing, a trend that is reflected in their spending patterns. At their primary retail

pharmacies, consumers reported purchasing a variety of non-prescription-medication products beyond over-the-counter products (48 percent), including food and grocery (36 percent), beauty products (32 percent), and household items (30 percent). Consumers also said they were interested in accessing a broader range of healthcare service offerings in their retail pharmacies, with about four in ten expressing interest in common-illness treatment, whole-health fusion,<sup>13</sup> and other health services, including primary care, dental, lab work, and X-rays.

Exhibit 3

**The more prescriptions a patient has, the less likely they are to choose retail chains as their primary pharmacy.**

**Respondents that selected in-person retail chains as primary pharmacy by number of prescriptions (Rx)<sup>1</sup>**



<sup>1</sup>Percentage of respondents (n = 1,004).  
Source: McKinsey Pharmacy Consumer Survey, Nov–Dec 2021

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**The implications of evolving consumer preferences**

At its most basic level, drug dispensing—filling a prescription accurately and on time—could be considered a commodity service. But given evolving consumer preferences, each type of pharmacy—retail chains, regional pharmacies such as mass retail and grocers, independent pharmacies, and mail-order and online pharmacies—can seek to meet these needs through different methods. Long-term success can be achieved in one of two ways: creating a differentiated experience for the consumer or offering a differentiated set of products and services. This section explores some key questions and opportunities tailored to the unique strengths of each type of retail pharmacy (Table 2).

**Retail chains**

Retail chains can consider creating more-personalized experiences to attract high-touch consumers with whom independent pharmacies have traditionally held an advantage. Additionally, retail chains can consider new ways to use their scale to offer a differentiated set of services. Two opportunities—omnichannel engagement and healthcare services—show particular promise.

First, as behavior changes sparked by COVID-19 continue beyond the pandemic, consumers will continue to demand digital and omnichannel solutions that allow them to receive pharmacy care when and where they need it most (for example, home delivery, same-day delivery, and on-demand

<sup>13</sup> “Whole-health fusion” refers to services in which pharmacists who are educated in both traditional medicine and alternative remedies are available in stores to advise customers.

Table 2. Pharmacy types can remain differentiated by seizing key opportunities based on evolving consumer preferences.

Pharmacy type	Key strength	Example strategies for creating a differentiated consumer experience
<b>Retail chains</b>	<b>Geographic scale and resources</b>	<ul style="list-style-type: none"> <li>— Invest in delivering pharmacy care when and where consumers need it most (eg, home delivery, same-day delivery, and on-demand pharmacist support)</li> <li>— Deliver a broad set of healthcare services by building in-house capabilities or forging at-scale partnerships (eg, primary care to treat common illnesses)</li> </ul>
<b>Regional pharmacies</b> (eg, mass retail, grocers)	<b>Integration into the consumer's daily life</b>	<ul style="list-style-type: none"> <li>— Become a one-stop shop for all things related to health by creating front- and back-of-store synergies for certain treatment categories (eg, diabetic-patient care, prescription drugs, tailored diet, glucose meters, test strips, eye vitamins, dry-mouth treatments, and skin care)</li> </ul>
<b>Independent pharmacies</b>	<b>Personalized care</b>	<ul style="list-style-type: none"> <li>— Continue to personalize care for high-touch consumers (eg, deepen pharmacist relationship with patients who have complex, chronic conditions)</li> <li>— Satisfy unmet needs in geographic areas with more limited presence of pharmacies</li> </ul>
<b>Mail-order and online pharmacies</b>	<b>Speed and convenience</b>	<ul style="list-style-type: none"> <li>— Continue to invest in convenience-seeking demographic</li> <li>— Create a more personalized experience that preserves some of the benefits of an in-person experience (eg, video telehealth visits with remote pharmacists)</li> </ul>

pharmacist support). Retail chains, given their geographical reach and ability to invest in these capabilities, are well positioned to satisfy this demand.

Second, retail chains can best respond to consumer interest in accessing a broad set of healthcare services in the retail pharmacy setting. Retail chains have the balance sheet to build in-house capabilities (for example, to provide primary care and treat common illnesses) or forge at-scale partnerships with external vendors to provide those services.

#### **Regional pharmacies**

Regional pharmacies such as mass retail and grocers can consider ways to differentiate themselves based on another factor: integration into daily life. Because they are already embedded into the flow of consumers' daily lives, these pharmacies can seek to satisfy consumer wellness needs (for example, for healthy foods and over-the-counter supplements) in an integrated way with pharmacy services.

More specifically, mass retail and grocers could be well positioned to become a one-stop shop for all things related to health, creating front- and back-of-store synergies for certain treatment categories. For example, a diabetic consumer may need a full spectrum of products, including prescription drugs, a tailored diet, glucose meters, glucose test strips, eye vitamins, dry-mouth treatments, and skin care products. The mass retail or grocer that can seamlessly fulfill these needs in one location could deliver outsize value to the consumer.

#### **Independent pharmacies**

In contrast to the national chains and regional pharmacies, independent pharmacies can bolster their position by further personalizing care, especially for high-touch consumers. They can consider, for example, approaches to satisfy the particular needs of patients with complex chronic conditions or deepen the relationship between pharmacist and patient with personalized services.



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While their smaller scale may have traditionally been seen as a challenge, independent pharmacies can also consider satisfying unmet needs in rural or other areas where there is lower penetration by national chains.

### **Mail-order and online pharmacies**

Online pharmacies seeking to disrupt the market can pursue strategies that reinforce their natural benefits (speed and convenience) with their corresponding target demographic (convenience seekers). But they can also work to bridge some of the potential gaps in consumer experience caused by their lower-touch approach. Mail-order and online pharmacies may consider ways to create a more personalized experience that preserves some of the benefits of an in-person experience. For example, video

telehealth visits with remote pharmacists could help establish a personal connection to complement the benefits of convenience in the absence of face-to-face consultations.

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As the retail pharmacy landscape evolves, different types of pharmacies must seek new ways to meet consumer needs to remain differentiated and relevant. While certain overall trends, including the demand for convenience and the benefits of personalization, are relevant to all types of retail pharmacies, the specific strategy to become a “pharmacy of the future” will vary for each type. There is no one-size-fits-all approach.

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