

Wal-Mart's Drug Deal

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When Wal-Mart recently issued a press release announcing discounts on some generic drugs at Tampa area stores, its executives probably hoped for some favorable publicity in Florida media. So Bentonville surely was festive the next day when sweeping headlines like "Wal-Mart to sell generic drugs for \$4 a month" ran nationwide—often on page one of newspapers.

After getting better advertising than even a multi-billion dollar corporation can buy, Wal-Mart naturally pumped out another press release [last week](#), announcing drug discounts in 14 other states. The company enjoyed another PR bonanza via national headlines promoting \$4 generics at Wal-Mart, but the media did consumers a great disservice.

First, there still are no price cuts whatsoever for Wal-Mart customers in 35 states.

Next, Wal-Mart is not discounting generic drugs in general—it offered the \$4 price on 291 of the several thousand generic drugs commonly available.

Further, even a casual look at Wal-Mart's [initial list](#) revealed just 124 different drugs (later increased to 143).

So where did the 291 come from? One needn't have looked past the letter "A" to see: 12 different variations of the common antibiotic amoxicillin. Many other common drugs appear in multiple dosages, including some already available at other stores for less than \$4.

In the end, a global corporation made a business decision to discount a small portion of one product line (even Wal-Mart says the discounts apply to less than one quarter of their generics), and received priceless publicity promoting its "low price" image.

The benefit to Wal-Mart (and harm to competitors) was huge and immediate. A poll by the *Wall Street Journal* found just 13 percent of respondents indicated Wal-Mart, Target or other mass merchants were their usual destination for filling drug prescriptions. That was before Wal-Mart's PR stunt. After the media barrage and matching offers by Target and other mass merchants, a stunning 50 percent of those respondents said they would be likely, very likely or "absolutely certain" to fill prescriptions at these stores.

They should think twice.

True, some people who need one of the chosen drugs and lack insurance will save money. But unless shoppers check in advance to see if their needed medication is among the select few they're likely to become victims of what the National Community Pharmacists Association calls "a classic bait-and-switch."

Unfortunately, the relative costs and benefits of buying drugs from various sources remain largely unknown to most

people. Contrary to common perception, the evidence overwhelmingly indicates independent pharmacies, not Wal-Mart or other chains, offer the greatest value.

In 2003, the [state of Maine researched](#) prices of 15 common prescription drugs at independent and chain pharmacies of all kinds statewide. The 10 lowest-priced pharmacies all were independents, beating all five Wal-Marts in the study.

Around the same time, studies by New York City and by [Senior Action Council](#) in Albany, NY, also affirmed lower overall drug pricing at independent pharmacies than chain competitors.

While it's natural to assume the buying power of drug chains or mass merchants translates into lower prices, independent pharmacies now compete quite well through group purchasing efforts and, in many cases, much lower markups.

And independents not only compete on price, they do it while offering more than just pills. In 2003, the venerable [Consumer Reports magazine](#) surveyed 32,000 readers about their experiences at thousands of pharmacies, including independents, chains and those within supermarkets and mass merchants.

Though mass merchants had a small edge on price alone, independents trounced the chains in overall value by "an eye-popping margin."

The survey found independents were more likely than all chain stores to have a needed medication, got out-of-stock drugs faster, and provided more personal attention.

And personal service from your neighborhood drugstore means more than asking "how's the family?" For anyone taking multiple medications, their pharmacist's attention can be crucial to avoiding dangerous drug combinations.

Unfortunately, the credulous coverage of Wal-Mart's drug promotion is typical, not exceptional.

Last November, Wal-Mart released a study it commissioned from the consulting firm Global Insight, asserting that Wal-Mart saved \$2,329 for an "average" household. That's a remarkable claim, and, as with Wal-Mart's press release on drug discounts, hundreds of media outlets promptly trumpeted the results (and still cite them today).

One problem with the study would be obvious to any economist: the firm applied its savings rate to the average household income of \$61,000, not the median (\$43,000), grossly overstating savings for most Americans. And the study itself found that Wal-Mart's depressing effect on wages lowers household incomes, thus eliminating more than two-thirds of the supposed savings.

Moreover, when the Economic Policy Institute—a think tank partly funded by unions—analyzed Global Insight's methodology, it found fatal flaws, including major internal inconsistencies and an approach that "fails the most rudimentary sensitivity checks." But [EPI's analysis](#) has received scant attention.

Admittedly, Wal-Mart's act had one positive impact—increasing awareness of generic drugs. But the massive promotion budgets of national chains can lead even critical thinkers to perceive, often wrongly, that chains provide greater value than our neighborhood businesses. Reporters and editors should help their readers make fully-informed choices by providing independent analysis, not just a pro forma quote from a critic, when Wal-Mart issues its next press release.

Americans should know they don't have to choose between competitive prices and quality service—they likely can receive both at local businesses that invest more in their products and services than public relations.