

Digital pharmacies face disruption themselves

Article

The news: Digital pharmacy startup **Medly** is on [the brink of closure](#), per Insider. **NowRx** was just acquired by local rival **Alto Pharmacy**. And **Mark Cuban Cost Plus Drugs** has teamed up with **EmsanaRx**, a pharmacy benefit manager (PBM) for large, self-insured employers.

What's going on? Macroeconomic trends have battered digital health startups this year—digital pharmacies are no exception. Some have fared better than others.

- **Alto, Capsule, Cerebral, Truepill, and Medly** have all experienced rounds of staff cuts—multiple ones, in some cases—in 2022.

- Mark Cuban Cost Plus Drugs, which launched in January 2022, has avoided layoffs so far as it partnered with PBMs **Rightway** and now EmsanaRx this year.

Consumers haven't caught up to the digital pharmacy race: The rise of digital pharmacies was mostly based on the perceived need to offer consumers convenience with at-home delivery and access to lower-cost prescription medications, chiefly through cash-only transactions. Consumers haven't responded as enthusiastically as some investors hoped.

- Even online behemoth **Amazon Pharmacy**, which launched in November 2020, hasn't made huge inroads in consumers' prescription purchasing behavior.
- Some **34% of US adults say they buy prescriptions online**, but most are shopping on Amazon or the pharmacy site of a national retailer like CVS or Sam's Club, according to Kantar. **Just 5.4%** of those shoppers purchased from a digital-only pharmacy.

Employers, not consumers, will make the difference in 2023: Although Cost Plus Drugs launched with a direct-to-consumer, cash-only model, the company has quickly pivoted to work with PBMs and insurers such as **Capital Blue Cross**, a Pennsylvania health plan.

The EmsanaRx deal is significant because its list of nearly 40 employer members includes major corporations like **Boeing, Chevron, Cisco, Microsoft, Tesla, and Walmart**, who collectively spend \$350 billion annually on healthcare for their employees. That's 21 million covered lives.

Other employers may follow as a means to lower their healthcare costs but also to keep employees' health data in-house. When employee members use prescription discount cards like GoodRx or Amazon PrimeRx, they pay out of pocket rather than apply those costs to their deductibles, and employers lose access to information that could help them choose other benefits and plans to help employees.

Our take: Digital pharmacy services like same-day delivery are a boon to certain segments of consumers, like those with mobility or transportation issues. But delivery services are costly for the companies themselves.

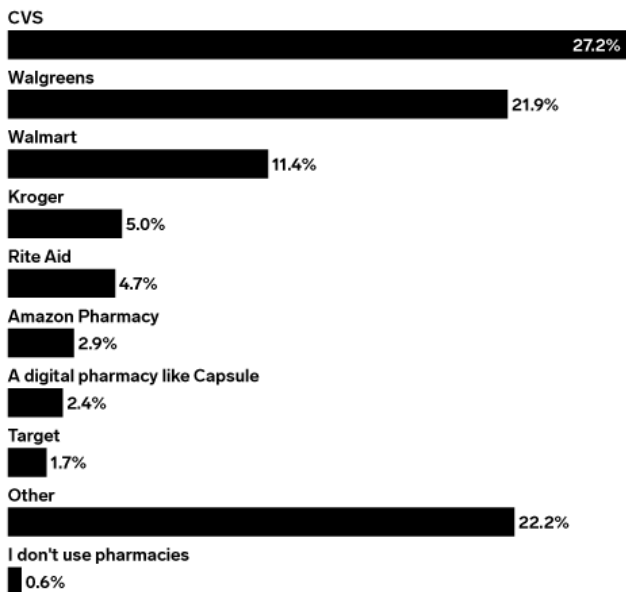
Likewise, the convenience of "saving time" to obtain prescriptions cuts both ways. In some surveys, respondents say a local pharmacy saves time. Other research shows they want drugs delivered to their front door.

Meanwhile, large chains like [CVS Health and Walgreens](#) are enabling their pharmacists to spend more time with customers by automating some pharmacy processes.

2023 could be a watershed year for the digital pharmacy market, as smaller players are squeezed by rising labor and customer acquisition costs and larger ones shift their business models toward employers. Stay tuned.

Pharmacy Used Most Often According to US Telehealth Users, by Brand, Dec 2020

% of respondents



Note: n=1,188 ages 18-74

Source: Insider Intelligence, "2020 US Telehealth Competitive Edge Survey," March 1, 2021

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