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Rajiv Leventhal

Cost Plus Drugs Co. veers on pharmacy benefit manager strategy, secures first payer partner

Article

The news: Mark Cuban's drug business, **Cost Plus Drugs Co.,** inked two recent partnerships that signal a shift from the company's original business model.

The two tie-ups:

1. Cost Plus Drugs announced a partnership with **Rightway,** a pharmacy benefit manager (PBM) startup. The collaboration marks the first time a PBM has added Cost Plus Drugs to its network.
2. In another first for Cuban's drug company, its medicines will be covered by **Capital Blue Cross**, a Pennsylvania health plan, starting next year.

How we got here: Cost Plus Drugs launched earlier this year as an online pharmacy promising affordable medications with transparent pricing for consumers.

- The company lists medication prices and costs on its website. It charges consumers **15% more than it pays** manufacturers, along with **$8** for fulfillment and shipping fees.
- It has around **1,000 prescription products**—all generic drugs—with plans to keep expanding, including into brand-name drugs. This will be the key to truly bringing costs down for consumers as brand-name drugs account for **80%** of prescription drug spending.
- Cost Plus Drugs has **more than a million customers** and claims it's **growing at a rate of about 10%** each week. It's on track to be profitable in 2023, Cuban said in a recent interview with Forbes.

The PBM problem: Cost Plus Drugs has expressed disdain for PBMs, the middlemen between drugmakers, insurers, and pharmacies. Its original plan was to sidestep PBMs and health plans, making it a cash-only pharmacy.

Critics say that PBMs lack pricing transparency and yield too much power behind the scenes, leading to higher prescription drugs costs for consumers**.**

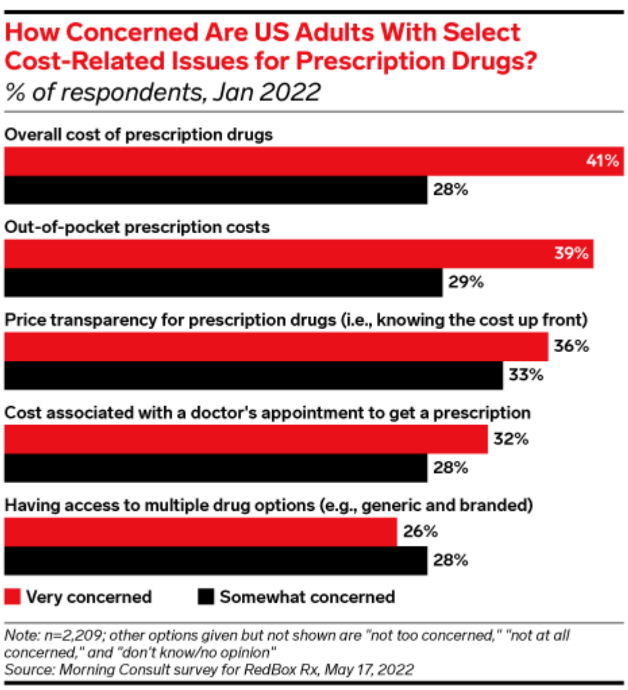
Three dominant players—**CVS Caremark**, **Cigna's Express Scripts** and **UnitedHealth's OptumRx**—control **80% of the US PBM market**. These pharmacy benefit managers are part of for-profit vertically integrated conglomerates that exert influence over drug pricing since they combine payers, pharmacies, providers, and PBMs.

So instead of haggling over medication prices with PBMs, Cost Plus Drugs said last year it would build its own. That means it **wouldn't take insurance** since payers don't usually work with pharmacies that eschew PBMs. (The company boasts that even though it doesn't accept insurance, its prices are still less than what prescription medications typically cost with insurance.)

2 reasons why Cost Plus Drug's sudden shift makes sense: While the company's recent tie-ups signal a diversion from its initial strategy, we think they make sense for a few reasons.

1. Rightway isn't your typical PBM. It's not one of the aforementioned Big 3 and operates distinctly from them—chiefly by charging employer customers a monthly fee rather than relying on spread pricing, a tactic in which PBMs charge insurers one price for a prescription drug, reimburse the pharmacy at a lower rate, and then pocket the difference. Plus, Rightway says its pharmacists can pinpoint members who may benefit from the online pharmacy's low prices, such as chronic condition patients, and help them transfer their medications.

2. Collaborating with Capital Blue Cross will slash medication costs for consumers even further. Health plan members will be able to use their insurance to cover the cost of their prescriptions. This means medicines that were already inexpensive at this pharmacy could be even cheaper.



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